LEGISLATING ACCESS AND REDRESSING INEQUALITY?
THE COMMUNITY REINVESTMENT ACT AND MORTGAGE LENDING
IN POST-APARTHEID SOUTH AFRICA

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South Africa's brutal apartheid system came to an official end in 1994, when the African National Congress (ANC) won the majority of seats in the country's first democratic elections. Since that time, the ANC-led government has struggled with the challenge of redressing the inequitable access to resources and opportunity resulting from South Africa's history. Community reinvestment legislation is one tool in this effort, and the dissertation considers the following question: is a Community Reinvestment Act (CRA) an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa.

The study sheds light on three broader questions. First, can legislative efforts be as effective when used to promote access to resources and opportunity as they are when used to bar access to resources and opportunity? Second, what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? Third, can the tools of capitalism be used to correct the inequitable distribution of resources created by apartheid's racist form of capitalism?

The study concludes that the answer to the question regarding the effectiveness of a CRA is "no." Through analysis of 30 interviews with bankers, government officials, housing and lending specialists, and community activists and through regression analysis of the geographic distribution of bank

loans throughout South Africa's Gauteng Province, it is determined that the provisions in South Africa's draft Community Reinvestment Bill would neither have broadened access to the country's banks nor increased the flow of funds into previously marginalized communities.

The study moves from examination of the draft legislation's structural failures to consider its procedural failures, providing a detailed examination of the political and economic factors that led to CRA's withdrawal from the legislative agenda. Following this, the study explains why, given the inappropriate structure of the proposed CRA and the limited likelihood that it would be accepted by the necessary range of actors in South Africa, the Department of Housing nevertheless attempted its passage.

BIOGRAPHICAL SKETCH

Allison Tucker Freeman grew up in Bedford, New York. She holds a Bachelor of Arts in English from Mount Holyoke College, a Master of Science in Development Studies from the London School of Economics, and a Master of Regional Planning from the University of North Carolina, Chapel Hill. She lives in Chapel Hill with her husband and infant daughter. She works as a Senior Research Associate in Housing and Asset-Building at the Center for Community Capitalism in the Kenan Institute of Private Enterprise within the University of North Carolina, Chapel Hill.

This work is dedicated with love and gratitude to Timothy and Cailin.

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I had the great fortune at Cornell to work with three committee members with plentiful and complementary talents. William Goldsmith, the chair, is one of the most careful readers I have had the privilege to work with. Bill proved tireless in his efforts to strengthen both the structure and content of this work, and I am grateful to him. Rolf Pendall provided both moral and intellectual support during the dissertation process. He had faith in this work when my own faith waned and he brought his impressive skills to bear in helping me improve the organization of the piece and the analysis therein. Sandra Greene deserves credit and thanks for taking on another doctoral student when she didn’t have the time to do so, and then for giving my work her undivided attention. I am grateful for her detailed and learned comments on chapters and papers and for her insightful suggestions as to how to broaden the reach of the work.

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I wish I could thank individually each of the 26 South Africans who gave their valuable time to participate in lengthy interviews regarding the topic of community reinvestment legislation, but doing so would violate my promise of anonymity. I am grateful to each of these people, and especially to those who went above and beyond the requirements of an interview and took me into the townships so that I might meet those most in need of progressive policies. The dedication of those who are determined to broaden access to resources in the new South Africa is truly inspiring.

Two additional South Africans were extremely helpful in the course of my producing this work, and they deserve mention and thanks. Kevin Parry of

Statistics South Africa responded with patience and thoroughness to countless questions about census data and also replaced at no cost a large portion of census data lost on a corrupted disk. Bob Thorsen of Property24 provided me with deed transfer data and then responded with kindness and patience to the numerous questions that followed.

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1.1 The Real Background to the Study

We approach Soweto's Meshenguville informal settlement in our guide's silver Range Rover, and I am shocked to see between twenty and thirty children ranging from toddlers to pre-teens streaming toward the vehicle. Newspaper reports concerning Johannesburg's informal settlements mention men from Zimbabwe and Mozambique, men who live temporarily in South Africa while they work to send money home to the conflict ridden regions from which they come. An informal settlement would be a harsh environment for grown men to live in, even on a temporary basis, but Meshenguville is the permanent home of people of all ages: boys, girls, men, and women, from infants to pensioners. Those who run toward us are hungry South African children, children who recognize the guide's vehicle and know that he has likely brought them oranges to eat.

It is not surprising that as an American visitor I would have an inaccurate image of South Africa's informal settlements. Most white and wealthier South Africans hold distorted ideas about these areas, viewing them as dangerous and crime-infested. It is easy for whites to maintain this image since, in a society that remains highly segregated in terms of income and race, it is easy for whites to avoid such places. Of the many white South Africans I've met in the ten years I've been traveling to the country, my guide is one of the few who has traveled into Soweto at all, let alone into one of Soweto's informal settlements.

After we distribute oranges to the children, our guide takes us to meet Sarah and Victor,[1] whom he visits regularly on his trips to Meshenguville.

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[1] Not their real names.

Sarah and Victor live in a two-room shack on the outskirts of the settlement, and have lived in this same dwelling for 15 years. This means the couple moved into their home in 1988, during the National Party government's second State of Emergency. This was a time when thousands of people, including children, were languishing in South Africa's jails as the government sought to crush the last vestiges of resistance to the apartheid regime.

It is now June of 2003 and the African National Congress (ANC) led government has been in power for nine years. During these nine years the ANC-led government has applied itself to building over a million new homes and government figures state that as of September 2003 some 1.5 million homes had either been built or were under construction.[2] Such figures matter little to Sarah and Victor, who have not experienced any discernible change in their living situation since the ANC took control of South Africa's government in the country's first democratic elections in 1994.

From the outside, Sarah and Victor's home has a cobbled-together look. The walls are composed of corrugated iron sheets, cardboard, and poster board, and it is hard to believe that this structure has been standing for 15 years. Sarah invites me inside and it takes a moment for my eyes to adjust from the bright June sunlight to the darkness of the room we enter.

The front room we are standing in is the smaller of the two rooms. It functions as a living space, and I am immediately aware of two things: the dirt floor beneath our feet and the clutter that comes when people don't have sufficient space in which to store their belongings. My eyes alight on the most striking feature of the room, a four foot tall sculpted figure. Sarah explains in

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[2] Mabandla, B. Minister's Opening Address to the National Housing Summit, 19th November 2003. Pretoria: Department of Housing, 2003.

her soft voice that Victor created this in his spare time; he is an artist and musician, she tells me.

We move into the larger of the two rooms, which functions as a bedroom. This room is brighter than the first because of its window and because the walls are plastered with newspaper circular inserts, the type that double the size of a Sunday paper in the United States. The inserts, though faded and torn in parts, function as an affordable form of wallpaper and serve to cheer the space. The room is sparsely furnished, containing a bed, two chairs, and a brazier. There is a fire burning in the brazier and this keeps the room warm for the time being. June is early winter in South Africa, but today the Johannesburg sunshine has pushed the temperature into the mid-60s and the inside of the home is not as cold as it will be tonight when the temperature drops back into the 30s. Holes have rusted through the metal ceiling (the roof of the home, like so many in South Africa's informal settlements, is composed of corrugated iron sheets) so that silver-dollar size patches of blue sky are visible. On less congenial days, water will pour through these holes and dampen the inside of the carefully kept room.

Sarah and I head outside and join Victor and our guide in conversation. I learn that both Victor and Sarah are unemployed, and that they have been for longer than they care to discuss. The fact that they are unable to find work is not surprising. The official unemployment rate[3] in South Africa is quoted at

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[3] The "economically active population" (EAP) in South Africa is all persons between the ages of 15 and 65 who are working or who are unemployed; this includes formal sector workers and the self-employed, but excludes those who are unable to work (students, full-time homemakers, etc.). The strict definition of the unemployed includes those in the EAP who have not worked in the seven days prior to being interviewed, want to work and are available to start work in the week following the interview, and have taken active steps to look for work or to become self-employed in the four weeks preceding the interview. The expanded definition of the unemployed includes those who have not taken active steps to look for work or to become self-employed in the four weeks preceding the interview. (South African Institute

26-percent, but this figure excludes "discouraged workers" who have given up searching for jobs; when discouraged workers are included in the count, South Africa's unemployment rate jumps to 37-percent.[4] Naturally the rate of unemployment will be higher in the country's informal settlements, a fact confirmed by the number of adults we can see in Meshenguville at midday.

These days Sarah and Victor live on the money Victor earns by performing his music in public. Victor plays for the foreign tourists who are beginning to come to Soweto as the township redefines itself as a tourist destination. Some days Victor fares better than others, his earnings depending on how many foreigners are eager to step off the beaten path in order to visit an informal settlement. If tourists come to Soweto at all, they come in order to visit Nelson Mandela's former home, now a museum, or the Hector Petersen Museum, dedicated to the Sowetan children who were massacred by the apartheid government in 1976.

I raise the topic of housing, asking Sarah and Victor about government housing, about whether or not they've applied for an RDP[5] home from the government. Sarah tells me that she and Victor are on a list to obtain a government home; however, she is not sure where they are on the list. I push the topic a bit further, trying to discover how long it might be before the couple receives their RDP home. Sarah is evasive in response to my questions; it is

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of Race Relations. South Africa Survey 2001/02. Johannesburg: South African Institute of Race Relations, 2002.)

[4] Source for unemployment statistics: South African Institute of Race Relations, Survey 2001/02.

[5] The South African Government runs a housing subsidy scheme under which the poorest South Africans receive an amount that covers almost the entire cost of a government built home. These homes are called "RDP houses," their name taken from the primary program of the Mandela government, the Reconstruction and Development Programme.

clear that she isn't sure how the government housing process works nor how she might learn more and facilitate their obtaining an RDP home.

We leave the topic of housing behind and discuss the government's policies more generally. At this point, one of Sarah and Victor's neighbors, a man in his sixties who has been hovering at the edge of our conversation, joins in. He wrinkles his nose in disgust as we discuss the ANC-led government and its economic policies. "It was better in the old days," he says, referring to the years under the National Party government, years in which black[6] South Africans, including himself, had no political rights and exceedingly limited economic opportunities. "At least you could find a job then."

1.2 The Questions

It is against the background of the Meshenguville settlement that the central question of this study must be considered: is a Community Reinvestment Act (CRA) an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa? As the dissertation weaves together the context within which this question is to be considered, Sarah and Victor must be kept in mind. Lose track of the residents of Meshenguville and you've lost track of the fact that behind the myriad debates over the use of reinvestment legislation in South Africa are low-income people waiting for an opportunity to live better lives. Lose track of Sarah and Victor and you can easily forget that behind census statistics, legislative efforts, and political rhetoric there are real people with pressing needs.

[6] When the term "black" is used in this study, it is used as preferred by South Africa's Black Consciousness Movement, to refer to all but South Africa's white population.

The story of South Africa's reinvestment legislation process is not a simple story of a government attempting to use planning tools in an effort to address a shortage of affordable housing. The South African case provides an example of a country in transition. Not only is South Africa engaged in a transition to democracy, but the South African government is simultaneously attempting to transform the country's economic system from a racialized form of capitalism to a non-racialized form of capitalism.

"Racial capitalism," as the apartheid economic system is sometimes called,[7] involved the concentration of property and the means of wealth-creation in the hands of South Africa's white minority. This concentration of property and wealth came about through legislation that restricted, among other things, black South Africans' freedom of movement,[8] ability to own property,[9] and access to well-paying jobs.[10] As will be described in Chapter

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[7] African National Congress. "SA is still suffering inequalities from racial capitalism." Parliamentary Bulletin, April 14. Johannesburg: African National Congress, 1998; Legassick, M. and D. Hemson. Foreign Investment and the Reproduction of Racial Capitalism in South Africa. London: Anti-Apartheid Movement, 1976; Wolpe, H. "Capitalism and Cheap Labour Power in South Africa: From Segregation to Apartheid." Segregation and Apartheid in Twentieth-Century South Africa. Eds. W. Beinart and S. Dubow. London: Routledge, 1995. 60-91.

[8] Although segregation had been practiced in South Africa before the twentieth-century, the Land Act of 1913 was the first of several sweeping pieces of legislation that carved South Africa into regions to be owned and/or occupied only by members of specific racial groups. The Land Act prevented Africans from acquiring rural land outside of the territories delineated as "scheduled areas," eventually called "homelands." The nationwide segregation of Africans into "townships" within urban areas came about through the Urban Areas Act of 1923. Between these Acts, full control over the movement and residential rights of Africans was ensured. Over time a system came into being whereby Africans were allowed to reside in urban areas only as their labor was needed by the white minority. Various pass laws were put into place to enable white authorities to monitor the movement of Africans between country and town.

[9] It was not until 1950, with the passage of the Group Areas Act that full state intervention in property rights was achieved. With the passage of this piece of legislation the South African government established a system under which one's ability to hold immovable property in, reside in, or trade in certain areas was contingent on one's being a member of the racial group allowed access to that area. The Act pertained to all regions outside of the rural areas set aside for African occupation in the Land Acts. The Group Areas Act allowed South Africa to be carved into various types of areas, the ownership and use of which was confined to

Two, for years South Africans like Victor and Sarah were restricted from availing themselves of the opportunities afforded to whites by South Africa's political and economic systems.

Despite the hopes of some on the left in South Africa, the ANC-led government has not attempted to shift South Africa to a socialist economic system since it won the majority in the democratic elections of 1994.[11] Instead, the new government retained the basic capitalist economic structure it inherited during the political transition and has focused on making the economy more inclusive. The ANC-led government's imperative, therefore, is to broaden access to the country's economic resources and opportunities. A number of complex considerations arise from study of this situation, issues that extend beyond the discipline of city and regional planning and beyond the boundaries of South Africa.

First, examination of community reinvestment initiatives in the South African context provides an entry point through which to consider the efficacy of using legislation to promote access to resources, and particularly the usefulness of such legislation as a means for overcoming the effects of prior restrictive legislation. The apartheid government deployed massive repressive force to undergird its legislative agenda, detailed in Chapter Two, in the

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members of certain racial groups. Maintenance of racially-distinct areas was enforced by the disallowance of inter-racial property transactions.

[10] In pre-apartheid and apartheid South Africa, certain members of the population were legislated to receive low wages. An example of this type of legislation is the Mine and Works Act of 1911, which gave the South African government the power to limit non-whites' access to a range of well-paid occupations. As concerns job security, Africans were not guaranteed job security in pre- and apartheid South Africa, but rather labored under a contract system in which there was no guarantee of continued employment at the contract's end.

[11] The African National Congress's Freedom Charter of 1955 asserted that "the mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole." (As quoted in Thompson, L. <u>A History of South Africa (Revised Edition)</u>. New Haven: Yale University Press, 1995, p. 209.) When the ANC took over the government of South Africa in 1994, however, such changes were not made.

process of reserving access to resources and opportunities for South Africa's white citizens. The post-apartheid government is now using legislation in an effort to broaden access to resources and opportunities. Toward this end, the ANC-led government has enacted a number of pieces of legislation intended to promote equality of opportunity in South Africa.[12] The country's draft Community Reinvestment Bill is part of this effort; it is intended to promote equality of access to housing finance from South Africa's banks.

Of course, access defined in terms of legislation and access in fact are separate and distinct. The first type of access, which might be termed "formal access," is access as it is elaborated in and protected by a society's legal system. Possessing the legal right to vote is an example of formal access to political institutions; having the legal right to take out a mortgage loan provides an example of formal access to financial institutions. The second type of access, which might be called "effective access," refers to people's actual ability to make use of their legal rights by participating in the relevant institutions; the actual ability to get to a polling station, cast a vote, and have that vote counted would provide an example of effective access to political institutions, whereas the ability to enter a bank, apply for finance, and use that finance for one's housing needs would provide an example of effective access to financial institutions.

Figure 1.1 provides a visual depiction of the shift CRA might enable in post-apartheid South Africa. Under the apartheid regime, black South Africans

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[12] For example, the post-apartheid Bill of Rights of the Constitution of South Africa of 1996 confers the right to a basic education, the right of access to the courts, and, for adult citizens, the right to vote. The Promotion of Equality and Prevention of Unfair Discrimination Act of 2000 seeks to remove barriers to access to resources by prohibiting discrimination on a number of grounds where such discrimination would cause or perpetuate disadvantage, undermine human dignity, or adversely affect the equal enjoyment of rights and freedoms.

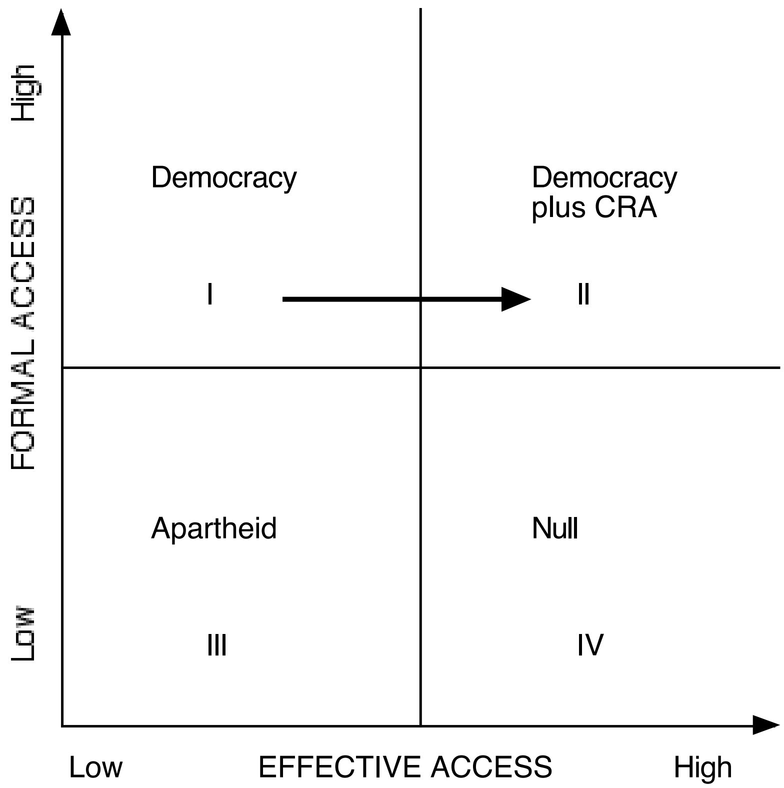

Figure 1.1: The Goal of Increased Access to Mortgage Finance in Post-Apartheid South Africa

found themselves in Quadrant III, without access to mortgage finance from banks. As will be shown in Chapter Two, under apartheid black South Africans were denied formal, legal access to mortgage finance; their effective access to such finance was, as a result, non-existent.

In post-apartheid South Africa, black South Africans are situated in Quadrant I; although the legal barriers to their use of formal financial services have been removed, the majority of black South Africans still have no real possibility of obtaining mortgage finance. The South African government hopes that the passage of a Community Reinvestment Act will push black South Africans from Quadrant I to Quadrant II, as the arrow depicts, and equalize opportunity by promoting black South Africans' actual access to housing finance. The danger, of course, is that black South Africans might remain in Quadrant I, with increased legal access to housing finance but with no enhancement of their actual ability to obtain and make use of that finance. Examination of South Africa's reinvestment legislation process allows for consideration of whether or not legislative efforts are as effective when used to promote access to resources and opportunity as when used to bar access to resources and opportunity. If they are not, what does this tell us about the use of legislation as a means to promote access?

A second consideration arises when one reflects on South Africa's reinvestment legislation process: what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? One way to examine South Africa's situation is through the lens of dependency theory. Dependency theorists divide the world into two camps: poorer nations whose economic well-being relies heavily on the export of primary commodities, and industrialized, wealthy nations that extract resources from poorer nations and market the resulting goods back to those nations. These two groups of states have been commonly referred to as the "periphery" and "center" of the global economic system, respectively. Under this schema, peripheral countries are subordinate to central ones, and the unequal power relations between the two are reinforced over time by the many means through which the center advances its economic interests: tariffs on imports, foreign aid and the resultant debt burden peripheral countries bear, international institutions (the World Bank and IMF) whose decisions and decision making processes favor wealthy nations, the mobility of capital, and the global reach of multinational corporations. Although South Africa is an economic powerhouse when seen in the context of the African continent, in the global economic context it is very much a peripheral player. This is evidenced by the fact that the country's economic well being relies in good part on the export of mineral commodities (South Africa is the world's largest producer of platinum, gold, and chromium[13]) and by the fact that the South African government is determined to attract foreign investment as a crucial means toward facilitating the nation's economic growth.

The situation in South Africa is somewhat more complicated than a straightforward analysis of international center/periphery relations can capture, however. This is due to South Africa's having been divided internally into a center and periphery during the years leading up to and including apartheid rule, a situation sometimes referred to as "internal colonialism."[14] Internal colonialism comes about through use of the same mechanisms of cultural domination, political oppression, and economic exploitation that at the international level result in the development of industrialized capitalist states and an underdeveloped colonial periphery. When employed within one territory, these techniques lead to the creation of racially- and geographically-linked disparities in access to resources and opportunities. This is certainly true of South Africa, where destitute townships and homelands were created to house Africans, who were granted access to South Africa's developed areas only as their labor was needed to promote economic growth in these

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[13] Central Intelligence Agency. The World Factbook. Washington, DC: Central Intelligence Agency, 2005.

[14] "Internal colonialism" is said to differ from international colonialism in one crucial respect: in a situation of internal colonialism, the colonizing race or nation occupies the same territory as the colonized people, which means that a post-colonial break via expulsion of the colonizers is impossible. See Wolpe, H. "The Theory of Internal Colonialism: The South African Case." Beyond the Sociology of Development: Economy and Society in Latin America and Africa. Eds. I. Oxaal, T. Barnett, and D. Booth. London: Routledge & Kegan Paul Ltd., 1975. 229-252.

regions.

The ANC-led government now faces a complicated task: the government is attempting to correct an extreme, racially-biased distribution of resources within the country while simultaneously grappling with South Africa's subordinate role in the global economic system. Hence the second question: what are the possibilities of effecting a redistribution of resources within South Africa given the country's peripheral placement in a global environment that is hostile to such initiatives?

The third consideration raised by examination of South Africa's reinvestment legislation efforts concerns an ongoing debate in economic development theory, one raised by David Harvey in his book Social Justice and the City. Harvey states that: "programmes which seek to alter distribution without altering the capitalist market structure within which income and wealth are generated and distributed are doomed to failure."[15] Examination of South Africa's community reinvestment legislation helps shed light on this issue. Can capitalist tools be used to correct the inequitable distribution of resources that apartheid's form of racial capitalism resulted in?

South Africa's draft Community Reinvestment Bill is a form of market intervention intended to affect the current distribution of mortgage credit in South Africa. The government's goal is to expand banks' mortgage lending beyond the 17-percent of the population that currently has access to mortgage finance. To achieve this, South Africa's CRA would require banks to lend to low- and medium-income borrowers; in order to do so, the country's banks

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[15] Harvey, D. Social Justice and the City. Baltimore: Johns Hopkins University Press, 1973, p. 110.

would have to develop new products that target those who are unable to afford traditional mortgage finance.

South Africa's draft Community Reinvestment Bill aims to effect this redistribution of economic opportunity without changing the actual market structures through which housing and credit are distributed. The Bill does not demolish the mortgage finance system in South Africa nor does it create a centralized public bank through which all mortgage finance will be distributed in the future. Rather, the draft CRA is intended to expand and broaden access to the mortgage markets operated by South Africa's commercial banks. The third question stems from examination of this initiative: can an effort to bring more people into the market system help redistribute resources and opportunity in South Africa, or are contentions by critical political economists correct, that without an alteration of the underlying capitalist market structure, such an effort is doomed to failure?

1.3 Structure of the Study

The study contains five chapters in all, four beyond this introduction. A summary of the remaining chapters is provided here.

Chapter Two tells the story of how access to housing and housing finance came to be so skewed in South Africa and of what the ANC-led government is doing to try to promote equality of access to these resources. The chapter is broken into three sections. The first offers a history of access to housing and housing finance in pre-apartheid and apartheid South Africa and culminates in an assessment of the legacy of poverty and inequality resulting from this history. The second section provides a consideration of the ANC-led government's efforts to promote the banking sector's involvement in lending for affordable housing in post-apartheid South Africa up to the proposal for reinvestment legislation. The third section of Chapter Two provides a thorough introduction to South Africa's draft Community Reinvestment Bill. It is argued in this section that the South African Department of Housing has two main motivations for attempting to enact community reinvestment legislation: the Department hopes that CRA will broaden access to South Africa's banks and it intends CRA to increase the flow of funds into previously marginalized communities.

Chapter Three is devoted to an analysis of whether or not South Africa's draft Community Reinvestment Bill is likely to achieve either of the Department of Housing's goals. The chapter is broken into two sections. The first section relies upon analysis of thirty stakeholder interviews to determine whether or not CRA would result in broadened access to South Africa's banks. The second section of Chapter Three combines deed transfer and census data for use in OLS multiple regression and binary logistic regression models. These models are used to assess whether or not geographic discrimination in lending is a primary cause of communities' having insufficient funds for their housing needs; this analysis helps determine whether or not CRA is structured to result in an increased flow of funds into previously marginalized communities.

Chapter Four steps back from the content and potential effect of the draft Community Reinvestment Bill and examines the processes surrounding efforts to enact reinvestment legislation in South Africa. This chapter is broken into two main sections. The first provides a thorough assessment of the political and economic factors that have thwarted the passage of the draft Community Reinvestment Bill. The second section takes up the following question: given the inappropriate structure of the draft Community

Reinvestment Bill and the limited likelihood that the Bill would be accepted by a broad range of political and economic actors in South Africa, why did the Department of Housing attempt the passage of a Community Reinvestment Act at this particular point in time? The study employs "multiple streams theory," a theory of agenda setting developed by John Kingdon, to assist in answering this question. Multiple streams theory provides a framework for considering the confluence of problems, politics, and policies that led the Department of Housing to embark on its community reinvestment legislation process and also provides insight into what factors contributed to the draft Community Reinvestment Bill's withdrawal from the legislative agenda.

Chapter Five provides a conclusion to the study. It begins with an overview of the main findings from the research. Following this overview, Chapter Five considers the three broader questions raised by South Africa's community reinvestment legislation process. First, can legislative efforts be as effective when used to promote access to resources and opportunity as they are when used to bar access to resources and opportunity? Second, what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? Third, can the tools of capitalism be used to correct the inequitable distribution of resources that resulted from apartheid's form of racial capitalism? The dissertation concludes by considering whether or not South Africa's reinvestment legislation process can be considered a success in any sense.

Chapter Two: Access to Housing and Finance – the Apartheid Construction of Inequality and the Post-Apartheid Struggle for Equity

2.1 Overview of Chapter Two

Housing is a key component in the bundle of goods required for individual well-being. Where housing is exchanged via a market system, housing finance becomes a fundamental constituent in the bundle of services that promote individual and, ultimately, national welfare. The maldistribution of housing and housing finance will ultimately lead to gross inequalities, a fact evidenced by the situation in South Africa, where the construction of inequitable access to housing and finance is just one illustration of the carefully calculated horror of apartheid.

Chapter Two tells the story of how access to housing and housing finance came to be so skewed in South Africa. The chapter is structured as follows. The first section provides a detailed examination of how the combined effect of legislative restrictions and private institutions' practices so severely curtailed blacks' access to housing and housing finance in pre- and apartheid South Africa; this section ends with an assessment of inequality as it stood at apartheid's end. The second section of this chapter presents an overview of the ANC-led government's efforts to promote banks' involvement in lending for affordable housing in post-apartheid South Africa. The third and final section of this chapter focuses on community reinvestment legislation as part of the government's effort to involve South Africa's banks in affordable lending; this section offers a thorough introduction to South Africa's reinvestment legislation and summarizes the goals of South Africa's Department of Housing in creating such legislation.

2.2 History of Access to Housing and Housing Finance in Pre-Apartheid and Apartheid South Africa

The current distribution of property and resources in South Africa was by no means determined through a free-market system. Rather, access to resources before the 1990s was constrained by a myriad of legislation designed by South Africa's white government to channel resources to the country's white minority. The interaction of South Africa's national policies and banking laws served to exclude black South Africans from access to the means of wealth accumulation (freehold tenure, property finance, financial services generally). This section will describe how the interaction between legislative restrictions and private institutions' practices led to the race-based disparate access to wealth that exists in the country today. In particular, this section will focus on access to housing and housing finance.

2.2.1 Access to Housing

Access to housing in pre-apartheid and apartheid South Africa was contingent on numerous laws that would enable or restrict property ownership throughout the country. This section considers how the property rights of white South Africans were enhanced using legislative means while the property rights of black South Africans were correspondingly curtailed. The section focuses in particular on access to land, access to urban housing, and access to rural housing.

2.2.1.1 Access to Land

Access to land in South Africa was regulated by three main pieces of legislation: the Natives Land Act of 1913, the Natives (Urban Areas) Act of 1923, and the Group Areas Act of 1950. Each piece of legislation will be introduced here.

The Natives Land Act, No 27 of 1913[16] was the first of several sweeping pieces of legislation that carved South Africa into regions to be owned and/or occupied only by members of specific racial groups. The Natives Land Act prevented Africans from legally acquiring rural land outside of ten million morgen[17] of land delineated as "scheduled areas" (later called "homelands," and later still "black states"). The Act was developed in response to increasing pressure from landless whites and from white commercial farmers to exclude Africans from productive cultivation. Under the Natives Land Act, Africans were forbidden from purchasing or leasing land outside of those areas designated for African occupation.

The land allotted for African occupation was increased by 7.25 million morgen under the Development Trust and Land Act of 1936. The combined 17.25 million morgen set aside for African occupation was equal to about 13-percent of South Africa's total land area, and was designated as the permanent home of all Africans. When the Land Acts were instituted, Africans constituted nearly 70-percent of South Africa's total population.[18]

The 1936 Development Trust and Land Act created the South African Development Trust, into which was placed all state-owned land that had been reserved for occupation by Africans. Land in these regions, which later became known by the more familiar term "homelands," was distributed to Africans through a trust tenure system. This system involved the allocation of

[16] Racial nomenclature has changed over time in South Africa. This section uses the most recent titles for both legislation and for the bodies resulting from that legislation (for example, "Natives Land Act" rather than "Black Land Act," "South African Development Trust" rather than "South African Bantu Trust," etc.).
[17] A morgen is a unit of land measurement that is slightly over two acres. This measurement is used in the Netherlands, South Africa, and parts of the United States.
[18] South African Institute of Race Relations. <u>South Africa Survey 2000/01</u>. Johannesburg, South African Institute of Race Relations, 2001.

defined lots by the state, acting through its officials or through willing chiefs.[19] The one-person-one-lot distribution system used throughout the homelands had a crushing effect on farming in these regions as it divided the land into plots too small to support commercial ventures. In addition, the insecurity of tenure under this system would eventually come to have serious consequences for homeland residents who sought to finance housing or businesses, as residents held no property to pledge for loan collateral.

While the segregation of rural Africans was accomplished by the Natives Land Act and the Development Trust and Land Act, the segregation of Africans in urban areas was enforced through the Natives (Urban Areas) Act of 1923 (which was later consolidated into the Blacks (Urban Areas) Consolidation Act of 1945). The early twentieth century saw an influx of Africans into urban areas in response to the growth of South Africa's manufacturing industries. As increasing numbers of Africans moved into towns as permanent residents, white South Africans, concerned about the development of slums, competition for jobs, the depression of their own wages through an excess number of unemployed workers, and competition from black hawkers and small-scale retailers, pressured the government to protect their interests. The Stallard Commission was established to look into urban whites' concerns, and the findings of this committee resulted in the creation of the Natives (Urban Areas) Act. The Act empowered municipalities to enforce residential segregation, and it forbade the granting of freehold property rights to Africans.

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[19] See Robertson, M. K. "Black Land Tenure: Disabilities and Some Rights." Race and the Law in South Africa. Ed. A. Rycroft. Cape Town: Juta & Co. Ltd., 1987. 119-138.

The Natives (Urban Areas) Act of 1923 (as consolidated) resulted in the exercise of full control over the movement and residential rights of Africans. The 1923 Act aimed to clear Africans out of mixed-race urban residential areas and move them to "locations" (later called "townships") within urban areas. The Act provided for a system of segregated local government under which black advisory boards were set up by administrators of the white municipalities within which these locations were established. A 1955 amendment to the Act limited the right to reside in urban locations to Africans who were born there or who had worked there for ten or more years. Africans who did not meet these criteria would need a permit to stay in an urban area for longer than three days.

As Africans' rights-in-property were being curtailed through various pieces of legislation passed by the white-dominated legislature, what was happening to the property rights of other racial groups? It was not until the National Party's system of apartheid was developed in the 1950s that the South African government enacted national laws curtailing the property rights of Indian and coloured South Africans[20] as well as Africans. The Group Areas Act of 1950 allowed for full state intervention in property rights. With the passage of this piece of legislation the national government established a system under which one's ability to hold immovable property[21] in, reside in, or trade in certain areas was contingent on one's being a member of the racial group allowed access to that area. The Act pertained to all regions outside of the areas set aside for African occupation in the Natives Land Act of 1913.

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[20] In fact, there were regional variations in the extent of these groups' rights before the 1950s.

[21] "Immovable property" included: any right in immovable property; any right which would on registration become a real right; and any lease or sub-lease of immovable property. See Festenstein, M. and C. Pickard-Cambridge. Land and Race: South Africa's Group Areas and Land Acts. Johannesburg: South African Institute of Race Relations, 1987.

Essentially, the Group Areas Act concentrated on the legislation of land rights rather than the legislation of people's rights. For example, the Act did not state that Indians had a certain set of rights throughout the country and that this set of rights was different from the set of rights accorded to white people. Rather, the Act carved South Africa into various types of areas, the ownership and use of which was confined to members of certain racial groups. Members of racial groups who were not allowed to own or use property in an area became known as "disqualified persons" in relation to the property in that area. Maintenance of racially-distinct areas was enforced by the disallowance of inter-racial property transactions, that is, in each area a disqualified person was not allowed to purchase property from a qualified person.

To be fully operative, the Group Areas Act necessitated that the population of South Africa be divided into different racial groups. This was accomplished by the passage of the Population Registration Act of 1950, which introduced compulsory race classification. Four racial groups were designated: white, Indian, coloured, and African. As a result of this Act, all South Africans were required to carry identity documents which included their racial classification.

Of course, South Africa's urban areas were somewhat integrated at the time the Group Areas Act was instituted. Enforcement of the Group Areas Act would mean that individuals, families, and in some cases entire communities would have to be relocated once people came to be considered "disqualified" in relation to the property they held. The Community Development Act of 1966 set up the procedures by which the new group areas would be established and maintained. The Act followed on the heels of the Group Areas Development Act of 1955, under which a Group Areas Development Board was established. The Board was given the practical task of helping disqualified persons dispose of property and re-establish themselves elsewhere. The Board valuated affected properties, and took over property ownership in some cases. It also worked with local authorities to help develop new townships for displaced persons. Under the 1966 Community Development Act, the Board became responsible for: slum clearance, providing housing for disqualified people, urban renewal, and the construction of trading centers. By the mid-1980s, many of the Board's functions had been taken over by local authorities.

Through the Natives Land Act of 1913 (and 1936) and the Group Areas Act of 1950, South Africa was divided into segments for ownership and occupation by the four population groups distinguished under the Population Registration Act of 1950. The rights accorded and restrictions imposed by these pieces of legislation were to remain in place until the apartheid state began to fall apart in the 1980s. It is now important to stop and consider the combined effect of these pieces of legislation on access to housing in South Africa's urban and rural areas.

2.2.1.2 Access to Urban Housing

The Natives Land Act, the Natives (Urban Areas) Act, and the Group Areas Act divided South Africa into regions for possession and use by different racial groups. In urban areas the Acts resulted in the creation of group areas and townships within these areas. This section will consider access to housing in urban South Africa following the imposition of these racist pieces of legislation.

The Group Areas Act had a terrific impact on South Africa's urban areas, and more specifically on South Africa's housing supply. The Act resulted in the creation of 918 distinct group areas by the end of 1985. While the status of various areas was being determined, property-holders within these areas lived with enormous uncertainty. In some instances it took more than ten years for the government to decide which group would be allowed access to an area. Such prolonged processes had a devastating effect on property upkeep, as people were unwilling to invest in housing that they might lose. Where newly disqualified people remained in possession of their property in defiance of the law, these people were unable to obtain the necessary permits for property improvement, extensions, or alterations. It is certain that the Group Areas Act led to the deterioration of certain urban areas.

The Group Areas Act also led to the destruction of quality housing. Slum clearance moved black South Africans from good to poorer-quality housing in new townships. The Act led to the demolition of entire urban areas at a time when South Africa's need for housing was on the increase. It has been asserted that the Act aggravated the housing shortage in newly declared group areas, as a high percentage (between 25- and 70-percent) of new housing would have to be allocated to resettled families. The Act consumed a large proportion of the state's housing funds; for example, of the R261 million spent on housing for coloured and Indian families between 1960 and 1975, over 75-percent was spend on re-housing newly disqualified families.[22] The Group Areas Act has been blamed for overcrowding (which resulted in higher rents and property values), for destroying the social fabric of entire communities, and for increasing the expenses incurred by non-whites, who now had to travel vast distances to work.

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[22] Estimates on the impact of the Act are from Festenstein and Pickard-Cambridge.

While South Africa's white, coloured, and Indian populations were eligible for property ownership within urban areas, what exactly were Africans eligible for? In keeping with its practice of skewing the distribution of resources in favor of whites, the apartheid government determined that Africans in urban areas were not allowed to buy land, but were allowed to lease township property providing that they had a valid reason to reside in an urban area. Until 1968, South Africa's government allowed African men to obtain a 30-year leasehold on township property. These leaseholds enabled African men to buy houses situated on land that belonged to administration boards or urban local authorities; alternatively, Africans could lease vacant urban plots upon which they could construct their own homes. At the end of the 30-year leasehold, the control of the property reverted to local authorities.

The 30-year leasehold program was suspended between 1968 and 1975, and after 1975 was only available to township residents who possessed homeland citizenship. In 1977 the program was expanded to allow leasehold access for African women with dependents, and in 1978 a 99-year leasehold program was introduced for township residents. Under the 99-year leasehold, Africans were allowed to buy, sell, improve upon, and inherit leasehold properties in the townships, but still did not own their homes outright.

2.2.1.3 Access to Rural Housing

The Natives Land Act of 1913 began a process through which rural South Africa would become divided between the poor-quality land set aside as reserves for Africans and large tracts of quality farmland reserved for white farmers. As has been mentioned, the reserves comprised 13-percent of South Africa's total land area and were designated as the permanent home of all Africans (approximately 70-percent of South Africa's total population). This section will consider how the housing needs of rural Africans were provided for in South Africa before 1994. For an intelligible description of these processes, an explanation of the development of South Africa's homelands is required.

The transition of South Africa's reserves into homelands, some of which eventually came to be considered independent countries by the government of South Africa, was a gradual process, and like most of South Africa's segregated development, the creation of the homelands relied upon numerous laws. The Native Affairs Act of 1920 set up separate tribal councils to administer the reserves and advisory councils to administer urban locations. Both tribal councils and advisory councils were under the direction of the Native Affairs Department which fell under the ultimate authority of South Africa's Prime Minister. As time passed, the practice of delegating responsibility for Africans to tribal leaders became more entrenched. The Native Administration Act of 1927 introduced a more codified single system of 'Native Law' and increased the responsibility of tribal chiefs for the Africans within their jurisdictions. Several authors note that the concept of tribal law was in fact an invention of the South African government, and that this law bore little relation to actual pre-colonial African practices.[23] Tribal law would become of increasing use to the South African government as it refined its policy of "apartheid" or "separate development."

The Bantu Authorities Act of 1951 provided for the creation of tribal, regional, and territorial authorities in the African reserves, and executive and administrative powers were gradually delegated to these authorities. With the implementation of the Promotion of Bantu Self-Government Act of 1959

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[23] Cornevin, M. Apartheid: Power and Historical Falsification. Paris: United Nations Educational, Scientific and Cultural Organization, 1980; Worden, N. The Making of Modern South Africa. Oxford: Blackwell Publishers Ltd., 2000.

Africans came to be identified with specific homelands. Eight African “national units” were recognized in 1959; this number was eventually increased to ten. The means of dividing Africans between the ten homelands was an invention of the South African government, with the distinction between South Africa’s ten “tribes” based on use of a common language. For example, all Africans who spoke Zulu were considered to be of one tribe and were relegated to one homeland. Often the distinction between separate languages was, in fact, minimal; an example of this is that the Nguni group was broken into four tribal groups (the Zulu, Xhosa, Swazi, and Ndebele) even though these “distinct” language groups shared 70-percent of their vocabulary.[24]

Each of South Africa’s homelands had some degree of nominal autonomy from the government of South Africa, and homelands were enabled by law to become fully independent (i.e. considered separate countries), but only if homeland residents voted to become so and the government of South Africa offered its approval.[25] By 1976, seven of the homelands were "self-governing territories" with their own legislative assemblies. Four homelands, Transkei, Ciskei, Venda, and Bophuthatswana, eventually opted to become independent countries, though they were never recognized as such by any country other than South Africa. The independence of these “countries” may be assessed in part by the extent to which they were financially independent from South Africa. In 1984-5, South Africa contributed the following percentage of each homeland’s budget: Transkei, 77-percent; Ciskei, 75-percent; Venda, 71.7-percent; Bophuthatswana, 42.9-percent.[26]

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[24] Cornevin.
[25] For a full explanation, see Horrell, M. Race Relations as Regulated by Law in South Africa: 1948-1979. Johannesburg: South African Institute of Race Relations, 1982.
[26] Omond, R. The Apartheid Handbook (Second Edition). Middlesex: Penguin Books Ltd., 1986.

The Bantu Homelands Citizenship Act of 1970 declared that every African in the Republic of South Africa would become a citizen of one of these territories. With the passage of this piece of legislation and its inevitable amendments, all Africans became citizens of one of South Africa's ten homelands irrespective of whether or not they had ever set foot in that homeland.[27] It may be remembered that the 30-year leasehold mentioned earlier was only available to township residents who possessed homeland citizenship, a requirement intended to ensure that urban Africans were not identified as permanent residents of urban areas. In protest against this, many urban Africans did not avail themselves of the 30-year leasehold.

South Africa's reserves gradually developed into South Africa's homelands and became (in the eyes of the South African government if not in fact) increasingly independent and self-reliant over time. How does the provision of housing fit into this picture?

It is difficult to find literature on individual housing processes within the homelands. This gap in the literature might be related to the structure of tenure in the homelands. As has been mentioned, all land in the homelands was held in the South African Development Trust, which meant that individual title to land was unheard of in these regions. Individual property ownership in the homelands was actively discouraged by the government of South Africa, since "…individual tenure would undermine the whole tribal structure. The entire order and cohesion of the tribe . . . is bound up with the fact that the

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[27] As determined by an amendment in 1974 "those who would be citizens of a particular homeland were Africans born in the area and/or domiciled there; Africans born in the Republic who spoke any Bantu language or dialect used by Africans of the homeland concerned; and Africans born in the Republic who were related to any member of the African population of the homeland area, or who had identified themselves with any part of such population, or were associated with any part of such population by virtue of their cultural or racial background." (Horrell, Race Relations, p. 17.)

community is a communal unit."[28] It is conceivable that the lack of an option for homeownership within the homelands (until very recently) has discouraged much research on the topic. One thing is certain about housing in the homelands: since these areas were the least economically viable regions of the country and therefore contained much poverty,[29] much of the housing was self-constructed.

The property laws described in this section are just one illustration of South Africa's apartheid system. Undergirding apartheid was a complex ideological project in terms of which Afrikaner nationalists sought to portray the Afrikaner people as possessing a divine mandate to exercise authority and stewardship over blacks.[30] The Afrikaner-based National Party explained their rationale for apartheid quite eloquently in official government publications:

> [i]n South Africa the white man has undertaken a task such as history has not known. He is helping the black man to bridge the gap, in one span, between the Stone Age and the atomic era. There are no

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[28] Government White Paper on Tomlinson Report, 1956, as quoted in Evans, I. Bureaucracy and Race: Native Administration in South Africa. Berkeley: University of California Press, 1997, p. 243.

[29] The post-apartheid provinces that contain the country's former homelands contain the country's greatest concentration of Africans living in poverty. It was estimated in 1996 that the regional concentration of Africans living in poverty was: 81-percent in the Eastern Cape (which contains the former homelands of Transkei and Ciskei), 80-percent in the Northern Province (which contains the former homelands of Lebowa, Venda, and Gazankulu), and 74-percent in KwaZulu-Natal (which contains the former homeland of KwaZulu). (Statistics from South African Institute of Race Relations, Survey 2000/01. Inclusion of homelands in provinces derived from maps presented in Thompson.)

[30] For example, the group of settlers who trekked into the African interior during the infamous Great Trek came to see themselves as a chosen people. Unlike their Cape counterparts who were involved in the world outside of South Africa, these Afrikaners were extremely isolated in their frontier livelihood. They grappled with an environment that was rugged, unpredictable in its provision of water, and contained people who were understandably hostile to the newly-arrived white settlers. Cornevin notes that it is from the experiences of this population that Afrikaner ideology developed: the Afrikaner trekkers supported a racially stratified society, craved independence, were land hungry, desired geographical separation from both the metropole and from native populations, and eventually came to see themselves as a chosen people struggling through a hostile environment to a promised land.

> precedents and no precise precepts for this process, but in less than a decade of purposeful planning and resolute action, there are positive results to record. Although variously interpreted with the aid of that much abused term Apartheid, South Africa's formula boils down simply to separate government. The functional pattern of Bantu advancement is in line with the principle of national evolution by which nations of the world have been established. The white man has placed in their hands the tools of his own emancipation, to speed their progression from a primitive existence towards a full future.[31]

As this section has demonstrated, this ideological project served not only the Afrikaners' psychological interests, but their material interests as well.[32]

2.2.2 Access to Housing Finance

The preceding section provided an overview of how legislation was used by South Africa's white government to reserve the best types of property and the most enduring types of tenure for the country's white minority. Of course, where housing is exchanged via a market system (as it has always been in South Africa), housing finance becomes a fundamental constituent in the bundle of services that promote individual and, ultimately, national welfare. This section provides an overview of how a racist distribution of housing finance supported the inequitable access to housing that existed in apartheid

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[31] Department of Information. The Progress of the Bantu Peoples Toward Nationhood. Johannesburg: Dagbreek, circa 1965.

[32] It must be kept in mind that the National Party government inherited a system of racial oppression in South Africa instituted in part by the British. The British system was undergirded less by the conviction of racial superiority than it was by the desire to advance their material interests through the use of cheap labor. Making Africans dependent upon paid employment became a central component of this system, and this dependency developed as South Africa's land was transformed into private property within a capitalist economy. How did this change serve to subjugate Africans? First, as Africans were divested of their land and lost access to independent means of survival, they became increasingly dependent on wage labor for their survival. Second, if Africans were interested in purchasing back the land that had been taken from them and privatized, they required money with which to do so; clearly participation in the paid labor force was the only way to get such funds. Third, Africans who were not forced from their land became subject to taxes as their land was enfolded into the colonial system; wages provided the funds with which to pay these taxes.

South Africa. This section is broken into four parts; the first provides an introduction to the structure of the apartheid-era financial system, the second discusses housing finance for whites, the third considers housing finance for Indians, coloureds, and poor whites, and the final section discusses housing finance for Africans.

2.2.2.1 The Structure of the Apartheid-Era Financial System

The management of the South African apartheid-era financial system was the joint responsibility of the Department of Finance and the Reserve Bank. The Department of Finance consisted of various Offices of Registrar (of pensions and provident funds, building societies, banks, etc.), and these were responsible for registering all private financial institutions and for ensuring that these private institutions managed their funds in accordance with the policies set by the Reserve Bank. The Department of Finance was also responsible for managing the revenue and capital accounts of the government, and in this capacity the Department was responsible for the oversight of the government's financial institutions. South Africa's Reserve Bank, in addition to setting policy, served as the country's sole provider of currency and the lender of last resort.

South Africa's financial system was structured in such a way that its private financial institutions fostered the growth of its public financial institutions. One of the main vehicles through which this occurred was through prescribed investment requirements. All of South Africa's private financial institutions were required to maintain a minimum proportion of their long-term liabilities in prescribed investments. Acceptable investments included government stock, government guaranteed stock, stocks of and loans to local authorities, stocks of government corporations (such as the Electricity Supply Commission or the Rand Water Board), stocks of the Land and Agricultural

Bank (the Land Bank), and stocks of and loans to the Administration Board. It was the job of each institution's registrar to specify acceptable investments, which might change over time at the registrar's discretion.

Many authors argue that apartheid South Africa's National Party government garnered and maintained political support through careful attention to the needs of its white constituents.[33] Morudu argues that South Africa's financial system was structured by the government in such a way as to provide maximal support for its constituencies.[34] According to this author, the state compartmentalized its financial system, delegating different tasks to commercial banks, building societies, general banks, savings banks, people's banks, etc. State policy subsequently focused on

> …the maintenance of artificially low interest rates to achieve conditions of profitability and the continued availability of credit in 'compartments' identified as priority areas for the state's constituencies, particularly those identified as being unable to compete with the major, established, private financial institutions.[35]

The next section, which discusses housing finance for whites, illustrates this point nicely.

2.2.2.2 Finance for Whites

Building societies were the main providers of housing loans to urban white South Africans. As first developed in the United Kingdom in the eighteenth century, building societies were non-profit institutions that promoted savings amongst their members for the purpose of achieving homeownership.

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[33] Du Pre, R. H. The Making of Racial Conflict in South Africa: A Historical Perspective. Braamfontein: Skotaville Publishers, 1992; Thompson; O'Meara, D. Volkskapitalisme: Class, Capital and Ideology in the Development of Afrikaner Nationalism, 1934-48. Cambridge: Cambridge University Press, 1993.
[34] Morudu, M. D. "The Role of Financial Institutions in South Africa: 1946 to Post-Apartheid." Dissertation. University of Notre Dame, 1993.
[35] Morudu, p. 60.

From their inception building societies accepted deposits with the sole purpose of granting loans for housing-related purposes. The British brought the concept of building societies to South Africa in the middle of the nineteenth century, and the first South African building societies were established in Port Elizabeth in 1855 and in Durban in 1857.

South Africa's early building societies were terminating societies, which meant that once all members of a society had been housed, the society ceased to exist. It was not until the late 1800s, with the massive urbanization that attended South Africa's diamond and gold discoveries, that South Africa's permanent building societies developed. The United Building Society and the South African Permanent Building Society were founded in Johannesburg and Kimberly respectively, and were the first societies to accept deposits from individuals other than those to whom they advanced home loans. This meant that the life of these institutions was not tied to the needs of their members, and allowed the institutions to continue to exist irrespective of the members' housing needs.[36]

Although building societies were the major actors involved in housing-related lending in apartheid South Africa, these institutions were certainly not the only place in which South Africans could deposit their savings. For this reason, the South African government implemented policies in order to ensure that building societies collected sufficient funds to provide for white South African's housing needs. South Africa's government chose to protect building societies from competition with commercial banks via direct control of interest

[36] For a fuller treatment, see Falkena, H. B., L. J. Fourie, and W.J. Kok, eds. The Mechanics of the South African Financial System. Johannesburg: Macmillan, 1984.

rates, and by offering building societies tax concessions. This allowed building societies to offer low-cost credit to potential homeowners.

To whom were building societies advancing loans? As quoted by Falkena, et al., the Building Societies Act, 1965 distinguished a building society as

> …an association of persons the principal object of which is the making, out of funds derived from the issue of shares to and the acceptance of deposits from the public or from subscriptions by members, of advances for any purpose upon the security of the mortgage of urban immovable property.[37]

As written, this statement of purpose is racially neutral. However, when one considers South Africa's Land Act and Group Areas Act, one realizes that the Building Societies Act rendered these institutions inaccessible to South Africa's African population. Africans, whose property tenure was confined to the homelands, were not eligible to purchase "urban immovable property," and were therefore ineligible for building society finance.

If building societies were mainly responsible for the finance of urban property for white South Africans, then other institutions were needed to finance the property needs of rural whites. The needs of this groups were met for the most part through the Land and Agricultural Bank of South Africa (the Land Bank).

The Land Bank was established through the Land Bank Act, No 18 of 1912. The Bank was not governed by the same legislation as governed South Africa's private financial institutions, and for this reason it was exempt from prescribed investment requirements. In fact, the Land Bank was a designated

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[37] Falkena, et al., p. 90. The first comprehensive piece of legislation affecting building societies was the Union Building Societies Act of 1934, which was amended 11 times before being rewritten in 1965, after which it was amended a further 15 times.

recipient of prescribed investments in apartheid South Africa, and the majority of the Bank's funds were obtained through the issuance of securities that were bought by private financial institutions.

In apartheid-era South Africa, the Land Bank was the main channel through which white South African farmers obtained necessary and low-cost credit. Only full-time farmers were eligible for Bank funds, the money could be borrowed for any number of reasons.[38] Individuals, cooperatives, and agricultural regulatory boards were eligible for Land Bank loans. Mortgage loans to individuals were a major part of the Bank's business, and might be granted for acquiring premises, constructing houses, or erecting farm buildings.

The Land Bank, like the building societies of apartheid South Africa, catered mainly to white South Africans. There are two reasons for this. First, the restriction on African access to sufficient amounts of arable land as enacted through the Natives Land Act of 1913 meant that Africans had little need for the Bank's services. The Natives Land Act of 1913 prohibited (without approval of the relevant minister) the purchase, hire or acquisition of land (or interest in land) outside of the scheduled black areas by an African person from a person other than an African person. Through this restriction on inter-racial property transactions, it became almost impossible for Africans to purchase land outside of the homelands. Within the homelands, the fragmentation of land under the Trust distribution system meant that large scale farming concerns could not develop. An additional factor restricting

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[38] Loans were granted on the basis of collateral, and were of the following types: mortgage loans, charge loans (long-term advances made to individual farmers), hypothec loans (advanced for the purchase of livestock and implements), and cash credit accounts (to defray the costs of production, cultivation, processing, etc.).

African access to the services of the Land Bank was the mandate of the Bank itself. The Land Bank was established for the sole purpose of serving "full-time farmers." Whether they farmed full-time or part-time, African farmers were classified as "peasants," and were therefore outside the Land Bank's mandated customers.[39]

2.2.2.3 Finance for Indians, Coloureds, and Poor Whites

South Africa's middle and upper-class (mainly white) populations were able to purchase property in the best areas and received their property finance at low rates of interest from either state-subsidized building societies or from the Land Bank. This section will consider how the housing needs of Indians, coloureds, and poor whites were financed in apartheid South Africa.

The Housing Act of 1957 re-established a principal that the provision of housing for South Africa's lower-income white, coloured, and Indian populations in urban areas was the joint responsibility of local authorities and the state. The National Housing Commission's National Housing Fund was established to address the housing needs of these lower-income urban populations.[40] The National Housing Fund was financed from two sources: it was granted money by an annual parliamentary vote and also received loan capital and interest as these were repaid by local authorities. In 1982 the National Housing Commission was granted borrowing powers from parliament so that it could receive funds on the capital market in its own name.

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[39] For a thorough overview, see Horrell, M. Laws Affecting Race Relations in South Africa. Johannesburg: South African Institute of Race Relations, 1978.

[40] The National Housing Commission was legally enabled to: provide housing via housing projects; assist people through direct loans or through loans granted jointly by building societies and local authorities; make loans to local authorities for the purchase of land for housing projects, township establishment, provision of services, or the erection of housing projects; and give funds to local authorities for reissue to utility companies and welfare organizations for the provision of housing.

Eligibility by individual South Africans for National Housing Fund monies was determined by each recipient's need, with income and circumstances (one's age, the presence of children in the home, one's physical and mental abilities, and whether one had been affected by natural disaster, resettlement under the Group Areas Act, or urban renewal) being considered in the disbursal of monies. Assistance was disbursed in several ways. First, long-term loans would be made available to local authorities for housing-related purposes at interest rates as low as one-percent. Second, funds were made available to low-income groups for housing rental. Third, money would be provided for the construction of low-income housing projects; the units created would either be made available for minimal rent or might be sold to low-income people. Fourth, the Fund provided building loans to individuals, either directly or through the local authority, but only when building society loans could not be obtained. Fifth, money was given to local authorities for distribution to utility companies and welfare organizations so that housing for the aged, children, youth, and mentally or physically handicapped might be constructed and serviced. Sixth, combined National Housing Commission and building society loans might be made available to households earning more than R900 per month.[41]

The National Housing Fund would finance two types of housing developments: sub-economic schemes and economic schemes.[42] For sub-economic schemes, which were available to the poorest households, the ceiling for eligibility was the same across races and was set at a monthly household income of up to but no more than R200; this cap was tightened to

[41] Falkena, et al.
[42] The word "scheme" can refer to either a plan for building operations or to the actual buildings that are constructed.

R150 per month in 1977. Economic schemes, which were available to families who were slightly better-off but still ineligible for formal finance, were restricted by differing income ceilings across racial groups as shown in Table 1.

Table 1: Eligibility for Economic Housing Schemes

Type of Family	Monthly Income Cap
White families without children	R380
White families with one or two children	R440
White families with up to four children	R500
White families with more than four children	R540
Coloured and Indian families	R400

(Source: Horrell, Laws Affecting.)

It is clear from this table that eligibility requirements for economic housing schemes were biased in favor of white families. As can be seen above, the income cap for white families took account of the number of dependents in the family, and was relaxed as the number of dependents increased. In contrast, coloured and Indian families qualified for assistance only if their monthly family income did not exceed R400, regardless of the number of dependents in the family. These racially-linked income restrictions were abolished in 1978, when it was decided that all families with incomes of up to R540 per month could qualify for economic housing schemes.[43]

2.2.2.4 Finance for Africans

Having discussed finance for whites, Indians and coloureds, the study will now consider how the housing needs of Africans were financed in apartheid South Africa.

Urban Africans had access to several sources of finance for their housing needs. First, just as the National Housing Commission provided loans for the housing needs of South Africa's Indian, coloured, and poor-white

[43] Horrell, Laws Affecting; Horrell, Race Relations.

populations, a Bantu Housing Board provided for the housing needs of Africans. This board was empowered to provide loans from state funds to administration boards or community councils for the provision of housing for Africans. The Bantu Housing Board was disbanded in 1979, at which point the housing needs of Africans came under the jurisdiction of the National Housing Commission. In April 1979, Africans became eligible for Housing Commission loans on the same basis as members of other racial groups. Restrictions on where Africans might own homes remained in place, however.

A second source of finance for the housing needs of urban Africans derived from the contributions of employers who required the services of Africans in urban areas. The Contributions in Respect of Black Labour Act of 1972 required employers of Africans to pay monthly contributions to Bantu Affairs Administration Boards. The rates paid varied according to type of employer and according to whether or not the employer provided accommodation for his workers. Methods of employer assistance were expanded in the mid-1970s under an amendment to the Black Labour Act. At that point it became legal for employers to provide loans to African workers in order that they might acquire a site or construct or improve a dwelling. In order for such loans to be made, the Director of Bantu Labour had to give written consent for deductions to be made from the worker's salary; these deductions could not exceed 25-percent of the employee's monthly income.[44]

It was only after the introduction of the 99-year leasehold program in 1978 that Africans became eligible for a third source of housing finance, that is, finance from South Africa's building societies. While the 30-year leasehold was not considered adequate security for a formal loan, the 99-year leasehold

[44] Horrell, Race Relations.

was considered sufficiently secure for building societies to begin advancing funds to township residents. The Financial Institutions Amendment Act, No 80 of 1978 empowered building societies to advance loans directly to African leaseholders "in respect of any erf[45] or site situated in an area defined and set apart in terms of the Bantu (Urban Areas) Consolidation Act, 1945 (Act No 25 of 1945) for occupation by Black persons."[46]

How were the property finance needs of Africans confined to South Africa's homelands met under apartheid? Very little has been written on the formal finance of fixed property within the South African homelands. The main reason for this gap in the literature is related to the structure of tenure in the homelands. As has been mentioned, all land in the homelands was held in the South African Development Trust, which meant that individual title to land was unheard of in these regions. It would appear that formal finance for fixed-property is not discussed in the literature because it did not exist in fact. Homeland residents did not own property that they could pledge as collateral; they also did not have the incentive that security of tenure provides to seek funds with which to build upon and improve their allotted land.

Since the literature does discuss the overall finance of homeland development, and within this the finance of housing and services, how exactly was homeland development financed? Funds for homeland development were provided in accordance with the act that established the original South African Development Trust. The Development Trust and Land Act of 1936 created the South African Development Trust Fund, to be administered by

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[45] An erf is a small plot of land.
[46] Financial Institutions Amendment Act, No 80 of 1978, as quoted by Horrell, Race Relations, p. 45.

South Africa's Department of Co-operation and Development.[47] This Department made annual allocations to the homelands and an annual grant-in-aid to the South African Development Trust Fund. In addition to the revenue received from the South African government, the South African Development Trust Fund received monies from prospecting and mining fees, revenue from certain fines, income from development projects, and interest on money invested. The Trust Fund allocated money to a number of development projects, including the purchase of additional land for inclusion in the individual homelands, the development of townships in the homelands, health services, and investment in various state-established corporations. In 1974 the Minister of Bantu Administration and Development announced that the South African government would establish a development corporation for each of the homelands. Some of the functions of these corporations would be to grant housing loans, provide loans for commercial construction, and to provide finance to Africans involved in farming.

2.2.3 The End of Apartheid and the Legacy of Apartheid

This section will provide a brief overview of the gradual breakdown of the apartheid system, focusing in particular on the changes to South Africa's financial system that occurred along the way. It will conclude by examining the legacy of need and deprivation left in apartheid's wake.

2.2.3.1 The End of Apartheid

There were two major phases to the dissolution of the apartheid state. The first of these took place between the mid-1970s and early 1980s and was characterized by the implementation of the National Party's "total strategy." The second phase, which began in the early 1980s, expanded some of the

[47] Again, the most recent names are used for each of these entities.

efforts begun under the total strategy, but was also characterized by the gradual overturn of apartheid-era legislation. Each stage will be considered in turn here.

The mid-1970s to the early 1980s became known as the years that the apartheid government implemented its “total strategy.” This strategy was introduced in an effort to maintain the power of the white National Party government, whose apartheid policies were under increasing attack both from within and outside the country. The total strategy had two elements. The first of these was an effort to pull South Africans together in support of their government. This was undertaken by the government’s asserting (and behaving accordingly) that all South Africans faced a threat from communist elements within and outside of the country and that the government of South Africa was the only institution that could protect South Africa from communist takeover. The second element of the total strategy concentrated on giving those agitating for changes to the apartheid state some stake in maintaining that state; one way the government sought to achieve this goal was by providing black South Africans with a greater role in the country’s economic system. This second element will be discussed briefly here as it applies to housing and housing finance.

Efforts to include black South Africans in the country’s economic system were a significant part of the government’s total strategy. As early as 1977 the government, led by Prime Minister Vorster, gave official recognition to the permanent status of some black township residents. Community councils were introduced in the townships to administer local affairs under the aegis of white government officials. In 1982, then Prime Minister Botha (Vorster’s successor) extended this system by the Black Local Authorities Act, which gave community councils greater powers of administration. Neither the community councils nor the black local authorities were popular with township residents; both were seen as puppets of the apartheid government.[48] It should be emphasized that although Africans were granted official recognition as urban residents, they were still confined to segregated sections of urban areas.

Subsequent to the official recognition of Africans as permanent urban residents, the government passed the Financial Institutions Amendment Act, No 80 of 1978. This Act empowered building societies to advance loans directly to African leaseholders "in respect of any erf or site situated in an area defined and set apart in terms of the Bantu (Urban Areas) Consolidation Act, 1945 (Act No 25 of 1945) for occupation by Black persons."[49] As has been mentioned already, in 1978 the 30-year leasehold was extended to 99 years, after which the Director of the Association of Building Societies announced that building societies were satisfied that loans made to holders of 99-year leaseholds would be adequately secured.[50] These two changes led to the involvement of building societies in lending to township residents.

Another attempt by the government to give previously marginalized populations a greater role in the economy relied on changes to laws and policies concerning business development. In the late 1970s the scope of businesses that might be owned in black communities (both the homelands and the townships) was extended, and ethnically-based financial institutions were created to support business development in the townships and the

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[48] Worden.
[49] Financial Institutions Amendment Act, No 80 of 1978, as quoted by Horrell, Race Relations, p. 45.
[50] Horrell, Race Relations.

homelands. Around the same time, the informal sector was made legal, and in 1980 the Small Business Development Corporation was created to support businesses that were unable to secure formal finance. The Development Bank of Southern Africa, a joint venture between its member states (South Africa, Transkei, Bophuthatswana, Venda, and Ciskei were the original members, but membership is now open to any independent country in southern Africa), was created in 1983 in order to achieve a more equitable distribution of economic activity in southern Africa. The Development Bank would focus on investment in physical and infrastructure projects, primarily in rural areas, at market rates of interest.[51]

The second phase in the dissolution of the apartheid state began in the early- to mid-1980s. This era saw an increase in efforts to include black South Africans in the country's economy, and also saw the gradual dissolution of apartheid legislation. For the purposes of this study, legislative and policy changes that affected access to property and housing will be considered.

In an effort to address some of the concerns of black South Africans who were agitating for change to the apartheid state, the South African government introduced new means for assisting with property finance in black areas. Following changes to the provision of household lease arrangements and homeownership schemes in black areas, the South African Housing Trust was established in 1987 as a joint venture between the state and the private sector for the purpose of developing low-cost housing. The South African government made a R440 million interest-free loan available to the Trust with the understanding that the private sector would match this amount. Khayalethu Home Loans (Pty.) Limited was established as a subsidiary of the

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[51] Falkena, et al.

Trust with the intention of providing end-user finance for affordable housing. Khayalethu loans were granted on a project (as opposed to an individual) basis, and the interest rates charged were set at slightly higher than market rates. By 1994 Khayalethu was serving approximately 26,000 clients and had a portfolio in excess of R500 million ($91 million).[52]

The Independent Development Trust, founded in 1990, was designed to broaden the impact of the state's limited housing funds. This Trust sought to effect large-scale and rapid access to sites for housing. Rather than assist with the provision of completed homes, the Trust relied upon the ability of Africans to provide themselves with quality housing over time. The Trust's goal was to provide 100,000 future homeowners with serviced sites upon which to build. The Trust's sites and services program provided would-be property owners with a once-off capital grant of R7,500 ($1,365) with which to purchase a site.[53]

Another organization that worked to quell the increasingly visible and vocal dissatisfaction of township residents in the 1980s was the Urban Foundation. Founded by members of the business community in the late 1970s, the Urban Foundation was a non-profit organization that worked to "promote improvement of the quality of life in urban (and primarily African urban) communities."[54] The Urban Foundation was at the forefront of

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[52] Zack, T. "Informal Financial Institutions in the Provision of Low-Income Shelter." Selected Studies on the South African Housing Sector. Washington, DC: United States Agency for International Development, 1994. 88-112. The South African rand has fluctuated greatly in value since the political transition in 1994. This dissertation valuates the rand using the average of the exchange rates for every July 1, 1994 through 2004. This comes to R1=USD.182. Exchange rates used for this study are calculated from those at onanda.com, found at www.onanda.com.
[53] Wilkinson, P. "Housing Policy in South Africa." Habitat International 22.3 (1998): 215-229.
[54] Urban Foundation pamphlet as quoted by Wilkinson, p. 222.

promoting a free-market approach to the provision of housing in urban South Africa, with the thought that increased homeownership in the townships would lead to increased stability in these regions. According to Wilkinson, the Urban Foundation promoted two strategies: self-help housing (under which residents were assisted in housing themselves) and the sale of public rental stock.

In the 1980s, the South African government shifted the emphasis of its monetary policies from that of bolstering the apartheid state to that of liberalizing markets. What this involved was removing the "structural impediments" that were hindering the emergence of "correct" prices within the South African economy.[55] The liberalization process affected South Africa's financial sector as well as the country's policies relating to property ownership.

Some of the measures protecting financial institutions were removed in the early 1980s. For example, building societies would no longer receive interest rate subsidies or special tax concessions, but would have to compete for business at market rates of interest. In exchange, building societies were permitted to raise funds through floating securities and selling negotiable certificates of deposit, and their scope of operations was expanded to include lending for industrial and commercial ventures. Eventually building societies either converted into or merged with banks, so that today mortgage lending is just one of a number of functions of retail banks.[56]

Another of South Africa's state-run financial institutions, the Land Bank, also underwent processes of liberalization. The Land Bank Act was amended

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[55] Morudu.

[56] South Africa's retail banking sector is highly concentrated. Four main banks, Standard Bank of South Africa, ABSA, First Rand, and Nedcor, known collectively as the "big four" dominate the country's retail financial market. The big four are responsible for over 90-percent of mortgage lending in South Africa today. (Joffe, H. "Will Rate Hikes End the Good Times?" Business Day, September 16, 2002.)

so that this institution would no longer be the recipient of prescribed investment, but would rather raise funds in the capital market by issuing stock at competitive rates of interest.

Despite the cosmetic changes the South African government made to the apartheid state, the late-1980s were a turbulent time in South Africa as protest against the apartheid regime intensified. A State of Emergency (which greatly extended and enhanced the powers of the security forces) was declared in many regions in 1985, was lifted briefly in 1986, and was then re-enacted and extended throughout the country until 1990. Yet real change would come to South Africa eventually. 1986 saw the repeal of South Africa's pass laws. 1990 saw the unbanning of the African National Congress, the Pan-Africanist Congress, and the South African Communist Party. 1991 saw the repeal of several key pieces of legislation affecting property rights; in that year the Group Areas Act, the Land Act, and the Population Registration Act were all repealed. Also in 1991 the Convention for a Democratic South Africa formed with the purpose of creating a democratic constitution. And finally, in 1994 the Government of National Unity was elected, and with an African National Congress majority, Nelson Mandela became the first president of a democratic South Africa.

2.2.3.2 The Legacy of Apartheid

The Government of National Unity inherited the legacy of need and deprivation left in the wake of the apartheid regime. What were the effects of the unequal and unfair distribution of rights and resources that had existed prior to South Africa's first democratic elections?

The most obvious result of the colonial and apartheid systems is the overwhelming poverty that exists in South Africa today. It has been estimated that during the 1990s, more than half of South Africa's population lived within households that earned on average less than R300 ($55) per month.[57] Poverty is particularly acute in rural areas, where approximately 70-percent of individuals are classified as poor.[58] Because of South Africa's history of migratory labor, in rural areas it is women and children who are the most vulnerable.

Women are particularly susceptible to poverty in South Africa in general, with an estimated 60-percent of female-headed households living in poverty. This is in stark contrast to the approximately 31-percent of male-headed households who live in poverty.[59] Several factors account for this bias: again, female-headed households are concentrated in rural areas where poverty is rampant; female-headed households contain on average fewer adults of working age; female unemployment rates are higher than male unemployment rates; and there is a wage gap between what men and women earn in South Africa.[60]

There is a continued racial bias in the distribution of income in South Africa. It has been estimated that of those classified as poor, 95-percent are

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[57] This estimate is from Bond, P. Elite Transition: From Apartheid to Neoliberalism in South Africa. Pietermaritzburg: University of Natal Press, 2000. There are many ways to measure poverty. The 1999 report Winners and Losers: South Africa's Changing Income Distribution in the 1990s estimated poverty levels using minimum living levels as calculated by the Bureau of Market Research at the University of South Africa. This income measure of poverty calculated the "minimum financial requirements of members of a family if they are to maintain their health and have acceptable standards of hygiene and sufficient clothing for their needs." These levels were set at a minimum monthly income of R431 for a single-person household, and R1,840 per month for an eight-member household. (As presented in South African Institute of Race Relations, Survey 2000/01.)

[58] May, J. Poverty and Inequality in South Africa: Meeting the Challenge. Claremont: David Philip Publishers (Pty.) Ltd., 2000.

[59] May.

[60] May.

African, four-percent are coloured,[61] and less than one-percent are white or Indian.[62] A cursory glance at the distribution of income across races over time in South Africa could lead one to conclude that there has been a substantial improvement in the distribution of wealth throughout the country. For example, the percentage of national income received by Africans increased from 19.8-percent in 1978 to 35.7-percent in 1996, while the percentage of national income accruing to whites fell from 71.2-percent to 51.9-percent over the same period. However, such calculations fail to take into account the changes in the composition of South Africa's population over the same period. When such changes are accounted for, the redistribution of wealth in South Africa is less significant than it might appear to be (Table 2).

Table 2: Ratio of Share of Total Income/Proportion of Total Population[63]

	1970	1980	1991	1996
African	0.28	0.34	0.40	0.47
Coloured	0.71	0.77	0.78	0.92
Indian	0.83	1.07	1.46	1.73
White	4.19	4.19	4.41	4.12

(Source for underlying data: South African Institute of Race Relations, Survey 2000/01.)

Table 2 demonstrates that while the distribution of income has in fact shifted in post-apartheid South Africa, it has not done so dramatically.

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[61] Although it is abhorrent to continue to use apartheid-era classifications for South Africa's population, these terms will be used in order to elucidate the effects of the apartheid system on the groups discriminated against or favored under apartheid.

[62] Bond, Elite Transition.

[63] By presenting a ratio of share of total income to proportion of total population, Table 2 allows for an accurate assessment of the true nature of changes in the distribution of income in post-apartheid South Africa. In a perfectly just world, the ratio of a population's share of income to its share in the population would be equal to 1.0. For example, as Africans constituted 76.2-percent of the population in South Africa in 1996, ideally they would have received 76.2-percent of total income in that year, leading to a ratio of 1.0. A ratio of greater than 1.0 would indicate that African's received more than their population's share of total income, while a ratio of less than 1.0 would indicate that the share of total income Africans received was less than their proportional share.

Although the African share of income in post-apartheid South Africa has improved, it is still far from being equal to the African share of total population. More significantly, the white share of income in South Africa has hardly changed at all since 1970. When controlled for changes in their proportion of population over time, it becomes clear that white South Africans as a group continue to receive more that four times their population's proportional share of income.

What effect has the racist division of resources in pre- and apartheid South Africa had on access to housing in post-apartheid South Africa? The inequitable distribution of resources means that a significant number of South Africans lack adequate shelter in post-apartheid South Africa. In 1994, the year of South Africa's first democratic elections, it was estimated that as many as 1.5 million households lacked adequate shelter.[64] In the same year it was further estimated that 18-percent of households, or approximately 7.4 million people, were living in squatter settlements or backyard shacks, while a further 500,000 people were living in hostels.[65] More recent estimates suggest that at present some 2.5 to 3 million South African households are unhoused or underhoused.[66]

Given these levels of deprivation, if, as the Mandela government promised, one million homes were to be built within five years of South Africa's first democratic elections, and if, as has been estimated, some 350,000 new housing units would be needed annually to meet the demand created by new

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[64] Goodlad, R. "The Housing Challenge in South Africa." Urban Studies 33.9 (1996): 1629-1645.
[65] Jones, G. A. and K. Datta. "Enabling Markets to Work? Housing Policy in the 'New' South Africa." International Planning Studies 5.3 (2000): 393-416.
[66] Porteous, D. and K. Naicker. SA Housing Finance: The Old is Dead But is the New Ready to be Born? Unpublished paper. Johannesburg: Gateway Home Loans (a subsidiary of the National Housing Finance Corporation), 2000.

household formation,[67] the South African government could not address these problems on its own. The next section will consider efforts undertaken by the ANC-led government to induce banks into lending for affordable housing in post-apartheid South Africa.

2.3 The ANC-Led Government's Efforts to Promote Banks' Involvement in Lending for Affordable Housing

The pressing need for affordable housing in post-apartheid South Africa is undeniable, which is why the Mandela government made the provision of such housing one of the top priorities of its Reconstruction and Development Programme. This section will consider different public sector efforts to address South Africa's dire shortage of affordable housing and will discuss in particular efforts by the ANC-led government to promote the banking sector's involvement in lending for affordable housing. Before it does so, it will offer a brief overview of the Mandela government's Reconstruction and Development Programme.

2.3.1 The Reconstruction and Development Programme

The Reconstruction and Development Programme (RDP), the major initiative of the Mandela-led Government of National Unity, was upheld by six basic principles: integration and sustainability, a people-driven process, peace and security for all, nation-building, linking reconstruction and development, and democratization.[68] Four of the main programs of the RDP were: meeting basic needs, developing human resources, building the economy, and democratizing the state and society. Citizen participation was heavily emphasized under the Reconstruction and Development Programme, and one

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[67] South African Institute of Race Relations, Survey 2000/01.

[68] Cameron, R. (1996) "The Reconstruction and Development Programme." Journal of Theoretical Politics 8.2 (1996): 283-294.

sensed in 1994 that there was a tangible commitment by the government (many of whose new members had just gained their own rights) to protect the rights of and promote civic participation by all members of society.

The Government of National Unity made a promise to deliver one million new homes within five years of the 1994 election. The government decided to emphasize the provision of housing for several reasons. First, there was clearly an acute shortage of decent housing in post-apartheid South Africa. Second, an emphasis on housing was seen as a way to promote employment. Third, the emphasis on home construction was seen as a way to bolster the development of new, African-owned small businesses. In short, an emphasis on housing and housing construction was seen as one way to help redistribute opportunity and income in post-apartheid South Africa.

Before the ANC-led government could address the need for housing, some level of basic standards of acceptable housing had to be agreed upon. According to Jones and Datta, housing standards were set in response to equity arguments: in the wake of apartheid, decent housing was defined by what South Africa's white minority had had access to under the apartheid regime, that is, decent housing was defined as either fully serviced stands or completed units. The Reconstruction and Development Programme defined the minimum acceptable level of housing as that which would provide "protection from weather, a durable structure, and reasonable living space and privacy. A house must include sanitary facilities, storm-water drainage, a household energy supply…and convenient access to clean water."[69]

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[69] African National Congress, Congress of South African Trade Unions, and South African Communist Party. The Reconstruction and Development Programme: A Policy Framework. Marshalltown: African National Congress, 1994. Section 2.5.7.

In order to achieve the goal of building one million fully serviced stands or completed units within five years, the Government of National Unity undertook several strategies to provide such housing on its own and to promote banks' participation in financing such housing. The remainder of this section will provide an overview of these efforts, focusing in particular on the government subsidy program, the Record of Understanding developed between the government and the banks, and the state-run National Housing Finance Corporation.

2.3.2 The Government's Subsidy Program

The main thrust of the ANC-led government's housing policy has been a subsidy program, the central component of which is a once-off capital subsidy set at different levels for different low-income groups (the amounts available to each group have increased over time to account for inflation). Government subsidies of varying amounts are available for approximately 72-percent of the population, that is, those households earning less than R3,501 ($637) per month; the poorer the household, the greater the amount of subsidy available (Table 3). The poorest 50-percent of households, those earning between 0 and R1,500 ($0 and $273) per month, are eligible for a subsidy that covers almost the entire cost of a government-provided, R28,279-value home ($5,147-value home).

Table 3: Eligibility for Government Subsidy

Monthly Income	Once-off Subsidy
0 to R1,500	R25,800
R1,501 to R2,500	R15,700
R2,501 to R3,500	R8,600

(Source: Department of Housing website.)

In accordance with its desire to bolster small-business development and overall employment, the government's subsidies were initially available only to developers and contractors. Developers and contractors would be eligible for the subsidy only after they had reached an agreement with a group of low-income people concerning the provision of affordable housing for this group. These agreements, known as social compacts, adhered to the Reconstruction and Development principle of instituting people-driven processes. In 1995, after recognizing that a more comprehensive disbursal system might better facilitate the rapid provision of housing, the subsidies became available to individuals for the purchase of a "housing option." A housing option might consist of a serviced site, a site plus starter house, or a conventional house or walkup. Alternatively the subsidy might be used by individuals for upgrading sites, services, or structures.[70]

South Africa's subsidy program got off to a slow start when one considers that it was intended to lead to the creation of one million new homes in five years. Within its first 30 months of operation (i.e. half way to the five year mark), the subsidy program had led to the construction of only 123,000 houses.[71] There were several reasons for the sluggish start to the program, including: institutional bottlenecks, institutional fragmentation and competition, budgetary uncertainty, economic recession, rising costs, and inconsistent policy formulation and application. An additional constraint was that the subsidy program relied mainly upon private sector contractors for the provision of affordable housing, yet the construction of affordable housing was not nearly as lucrative as that of middle-income housing. Where they had a

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[70] Tomlinson, M. "The Role of the Banking Industry in Promoting Low-income Housing Development." Housing Finance International 12.4 (1998): 8-13.
[71] Jones and Datta.

choice, private sector contractors made the decision to concentrate on the provision of more profitable projects.[72]

Another problem with the government subsidy program was that its initial policy of disbursing funds to developers and contractors led to the construction of many poor quality homes.[73] There are two possible explanations for this phenomenon. First, perhaps unwittingly the government's desire to foster business development led to the creation of many fly-by-night developers and contractors who were not qualified to construct the subsidy-based housing projects they undertook. Second, given the initial low levels of the subsidy (originally, the greatest subsidy available was only R15,000, or $2,730), it is likely that contractors would have to cut costs in order to realize a profit on the homes they built.[74]

When it designed its housing subsidy program, the government's intention was that the housing subsidy would be stretched by combination with either formal finance, personal savings, or, ideally, both. However, when one

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[72] Jones and Datta.

[73] The government has subsequently addressed this problem. In response to the level of dissatisfaction expressed by housing recipients over the quality of the homes they received, in 1995 the South African government created the National Home Builders Registration Council. The National Home Builders Registration Council was instituted to register builders working in low-income housing markets. Builders register with the Council and agree to build homes in line with standards set by the Council. Builders pay a "warranty levy" of 1.3-percent of the total contract price of the homes constructed, and this money is held by the Council for the purpose of providing homeowners with insurance against shoddy construction. Where there has been shoddy construction and where builders do not honor warranties, homeowners can approach the Council for financial compensation. (Tomlinson, "Role.") Under the Housing Consumers Protection Measures Act of 1998, it became mandatory for all homebuilders to be registered with the Council. By 1999, 4,281 complaints had been received by the council and 29 repairs, with an estimated value of R467,000, were completed. (South African Institute of Race Relations, Survey 2000/01.)

[74] One estimate states that the typical cost of a site and a 40-square-meter top structure is R40,000. (Mackay, C. J. "Housing Policy in South Africa: The Challenge of Delivery." Housing Studies 14.3 (1999): 387-399.) Another estimate states that a very small, conventional house on a serviced site costs approximately R45,000 to erect. (Tomlinson, "Role.")

considers the distribution of income in South Africa (Table 4), it becomes immediately apparent that the subsidy program would encounter enormous demand, with 72-percent of South African households eligible for some level of subsidy. The bulk of this demand would come from the lowest-income households, those with limited ability to save and limited opportunity to obtain formal finance.

Table 4: Income Distribution in Post-Apartheid South Africa

Monthly Household Income	Percent of Households
0 to R1,500	50%
R1,501 to R2,500	14%
R2,501 to R3,500	8%
R3,501 to R6,000	11%
≥R6,001	17%

(Source: South African Institute of Race Relations, Survey 2000/01 and Survey 2001/02.)

Indeed, such has been the case in South Africa. Government data show that of the 123,000 houses built in the program's first 30 months of operation, only 16-percent received credit-linked finance.[75] Over time the government's delivery of subsidized housing has improved; it is estimated that by September 2003, some 1.5 million subsidized homes had either been completed or were under construction.[76] However, banks' involvement in lending for subsidized housing did not increase. Recent estimates suggest that between 1994 and 1999, only 5.8-percent of the subsidies distributed for affordable housing were linked to credit of any kind.[77] Department of Housing officials suggest that the actual number of finance-linked subsidies may have

[75] Jones and Datta.
[76] Mabandla.
[77] Porteous and Naicker.

diminished to a low of two-percent.[78] This has led more than one researcher to conclude that South Africa's subsidy is acting as a one time welfare benefit rather than as a stimulus for increased lending.

2.3.3 The Record of Understanding

As has been mentioned, South Africa's subsidy program was never intended to meet on its own the housing needs of low-income South Africans. Rather, it was hoped that the once-off government subsidy would be complemented by savings or by finance from formal institutions. Consequently, much recent discussion on the provision of housing in post-apartheid South Africa has focused on how to involve the private sector in lending for affordable housing.

Because of their experience with lending in the townships in the 1980s, banks had become reluctant to engage in such lending by the time the Mandela government came into office in 1994. At the time of South Africa's first democratic elections, large banks and the state-owned mortgage lender Khayalethu Home Loans held in their possession some 49,000 properties and non-performing loans on which they could not gain access to the properties as security; the estimated exposure on these loans was close to R2 billion[79] ($364 million). How is it possible that banks were unable to regain possession of homes whose mortgagees were in default? Several factors, including violence in the townships, the persistence of evicted home owners in returning

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[78] In an article she wrote for *Business Day* in August of 2002, then Minister of Housing Sankie Mthembi-Mahanyele wrote, "The government assisted [the effort to increase private sector involvement in lending] by providing guarantees through the Mortgage Indemnity Fund. We thought the ball would start rolling. But instead, the banks' support for 6% of the low income housing market has shrunk by two-thirds to 2%. The banks have never explained their creeping departure from their commitments." (Mthembi-Mahanyele, S. "High Time Banks Returned to the Party." Business Day, August 23, 2002.)

[79] Porteous and Naicker.

to and reclaiming their property, an overburdened court system, and an inadequate and overburdened police force with more pressing concerns, made the recovery of certain township properties impossible.

By 1994, banks were also reluctant to lend in the townships based on the belief that a “culture of non-payment” had developed in protest against the apartheid state. Rent, mortgage, and service boycotts were one form of township protest against the apartheid government, and there was a widely held belief amongst those in the financial services industry that mortgage default in the townships was the result of protest against apartheid. In fact, more recent research has shown that less than five-percent of current default is due to political protest, while 59-percent of default stems from affordability problems.[80] These data were not available in 1994, however, and so the initial emphasis of the Mandela government’s efforts was on addressing banks’ concerns both about the culture of non-payment in the townships[81] and about banks’ inability to regain possession of properties where the mortgagee was in default. Consequently, a Record of Understanding was negotiated between the Department of Housing and the Association of Mortgage Lenders.

The Record of Understanding contained two provisions to help encourage renewed lending by the banking sector. First, the government would provide a guarantee on problem loans made before 1994. These loans were grouped into a portfolio and would be managed between government and banks by a new public-private organization, Servcon Housing Solutions (Servcon). It was agreed that Servcon would work to refinance properties that

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[80] Porteous and Naicker.
[81] The new government recognized the need to address this outdated form of protest and in 1994 initiated the Masakhane Campaign, a nationwide educational effort to promote a culture of rent, service, and mortgage payment.

could not be repossessed by offering households the opportunity to transfer to a tenancy agreement, by offering households the opportunity to move to more affordable accommodation, or by renegotiating the original loan package. By 1998, Servcon was targeting approximately 34,000 to 35,000 properties whose value was in excess of R1.6 billion ($291.2 million).[82]

Second, the Government of National Unity would provide a guarantee on new lending through the newly-created Mortgage Indemnity Fund. This fund would cover bankers' investments should they be unable to repossess properties that went into default. The Mortgage Indemnity Fund was established in 1995 as a government-owned company. The task of the Fund was to assess whether a previously redlined area was now safe to lend in. If an area was deemed safe for renewed lending, the Mortgage Indemnity Fund would offer lenders coverage against any political risk they might encounter. By 1998, when its services were terminated (the Fund was never intended to last more than three years), the Mortgage Indemnity Fund had covered in excess of 90,000 mortgages in approximately 540 assessed areas. These mortgages had a value of more than R7 billion ($1.27 billion).[83] More recent research suggests that in fact the Fund might have covered as many as 140,000 new loans with a total value of approximately R10 billion ($1.82 billion).[84]

What did banks commit to under the Record of Understanding? South Africa's major retail banks agreed to provide 150,000 new affordable home loans over the next three years (i.e. by 1998).

[82] Tomlinson, "Role."
[83] Tomlinson, "Role."
[84] Porteous and Naicker.

2.3.4 The National Housing Finance Corporation

In recognition that it would take time for the banking sector to begin lending for low-income South African's housing needs, the government sought to fill this lending gap through the creation of The National Housing Finance Corporation (NHFC). Founded in 1996, the National Housing Finance Corporation is a development finance institution in which the South African government is the sole equity investor. NHFC was established for three reasons: to involve banks in lending to low-income markets, to develop funding models for non-bank lenders, and to develop funding models for institutions lending for non-freehold tenure.[85]

As a development finance institution, the National Housing Finance Corporation lends to banks and non-bank lenders (also known as micro-lenders), who in turn make small loans to individuals for housing-related purposes. These loans, known as micro-loans, are normally under R6,000 ($1,092), and, because of their very small size, are not subject to South Africa's usury laws regulating interest rates.[86] Micro-lending can provide small loans for housing-related purposes in situations where formal mortgage finance is not available.

2.4 Community Reinvestment Legislation

Despite efforts to re-involve banks in lending to redlined areas, access to bank finance remains restricted to the wealthiest South Africans. Paulson and McAndrews have estimated that only 27-percent of South Africans with

[85] Jones and Datta.
[86] In 1999, legislation raised the limit of exempt loans, and it became possible to lend up to R10,000 without being subject to usury laws. As a trade off for this increased limit, interest rate caps were set in place, and micro-lenders were prohibited from holding borrowers' ATM cards (a common practice when the borrower was not formally employed and payment could not be guaranteed by an employer).

incomes of less than R5,000 ($910) per month hold formal bank accounts of any sort and of these customers only five-percent have home loans; this means that only 1.35-percent of South Africans with incomes of less than R5,000 per month obtain formal housing finance. This 1.35-percent contrasts sharply with the rates of home-related borrowing by higher income individuals: 31-percent for those with incomes between R5,000 ($910) and R25,000 ($4,550) per month and 64-percent for those whose incomes exceed R25,000 per month.[87]

The use of bank finance for one's housing needs remains restricted to the wealthiest 17-percent of South Africa's population, those households earning more than R6,000 per month ($1,092), who generally purchase homes costing more than R100,000 ($18,200). While the poorest 50-percent of households, those earning between 0 and R1,500 per month, are eligible for a housing subsidy that covers almost the entire cost of a government-provided, R28,279 ($5,147) home, a further 22-percent of lower-income households, those earning between R1,501 and R3,500, are eligible for a partial subsidy but require additional finance in order to afford a government-provided home. And for the 11-percent of the population earning between R3,501 and R6,000, a group popularly referred to as the "credit gap," neither a government subsidy nor bank finance is available to help them purchase a home they can afford (generally estimated to cost between R35,000 and R100,000, or $6,370 and $18,200).[88]

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[87] Paulson, J. and J. McAndrews. Financial Services for the Urban Poor: South Africa's E Plan. Washington, DC: The World Bank Financial Sector Development Department, 1998.
[88] The figures included here are taken from the following sources: Rust; South African Institute of Race Relations, Survey 2001/02; Department of Housing website, www.housing.gov.za, October 2004.

Unfortunately, despite initial indications that the government and banks were going to work together to address the issue of an inadequate flow of finance to previously marginalized populations, these efforts have devolved into squabbling and finger-pointing. South Africa's Department of Housing is frustrated that so few of its subsidies are credit linked; the Department believes the subsidy would stretch much further, and people's housing options would expand and improve, if the private sector were willing to add mortgage finance to the subsidy. The Department of Housing has accused the banks of failing to fulfill their obligation to provide 150,000 new loans as promised under the Record of Understanding,[89] of failing to be proactive about lending to lower-income people, and of redlining without cause. Banks in turn express frustration over the government's failure to "normalize" the lending environment by enforcing law and order, addressing poverty and unemployment, and promoting the development of infrastructure in former township areas. All of these things, bankers say, would allow them to act on their commitment to help reengage in mortgage lending to township areas.

In frustration over what it perceived as banks' reluctance to "come to the party"[90] and increase their levels of participation in lending to previously marginalized populations, South Africa's Department of Housing decided that it would use community reinvestment legislation to push banks to engage in such lending. While the Department was concerned with helping those in the "credit gap" (again, the 11-percent of households earning between R3,501 and

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[89] The banks argue that they nearly fulfilled their obligation to provide 150,000 new home loans. According to the bankers interviewed for this study, banks provided between 140,000 and 146,000 new loans in accordance with the Record of Understanding.

[90] A phrase used by government officials and housing activists when writing about banks involvement in lending for affordable housing in post-apartheid South Africa. See, for example, Mthembi-Mahanyele, "High Time" and Rust.

R6,000 per month) gain access to formal finance, the government was also interested in seeing banks match the government's own efforts by lending to those households receiving government housing subsidies.

In 2000, the South African government began its reinvestment legislation process with the passage of the Home Loan and Mortgage Disclosure Act. This was followed in May of 2002 by issuance of a draft Community Reinvestment Bill. Because these two pieces of legislation are based on legislation used in the United States, a brief introduction to the US legislation will be offered before South Africa's reinvestment legislation is discussed.

2.4.1 Reinvestment Legislation in the United States

As is the case in South Africa, in the United States the interaction between federal policies and private institutions' practices has led over time to unequal access between racial groups to both financial services and property ownership. Squires[91] contends that the discriminatory policies of public institutions and the discriminatory practices of private businesses have resulted in a pattern of development familiar to both planning academics and practitioners, namely, the simultaneous creation of mainly white, economically healthy suburbs and of mainly minority, economically struggling central cities. How exactly did these patterns develop?

During the 1930s, the federal government spent considerable energy working to stimulate the US housing market. In 1932, Congress created the Federal Home Loan Bank Board (FHLBB) which was given responsibility for chartering savings and loan associations. These institutions would accept and

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[91] Squires, G. "Community Reinvestment: An Emerging Social Movement." From Redlining to Reinvestment: Community Responses to Urban Disinvestment. Ed. G. Squires. Philadelphia: Temple University Press, 1992. 1-37.

insure savings accounts, and would lend these funds for single-family home mortgages and home improvements. To further bolster mortgage lending, the Federal Housing Administration (FHA), created under Title I of the Federal Housing Act of 1934, was enabled under Title II of the same act of offer mortgage insurance. FHA insurance was designed to provide lenders with 100-percent guarantee against loss; in this way the federal government assumed much of the risk of mortgage lending. Secondary market institutions, whose existence allowed lenders to sell mortgages and generate additional money for housing-related lending, were allowed by Title III of the Federal Housing Act; the Federal National Mortgage Association (FNMA or Fannie Mae) was created shortly thereafter in 1938.

The Home Owners Loan Corporation (HOLC), established by Congress in 1933, made home ownership a possibility for many Americans with the creation of the long-term, self-amortizing mortgage with uniform payments. This was not HOLC's only legacy, however. HOLC developed appraisal practices and standards that "may well have been the beginning of redlining in the United States."[92] HOLC appraisers collected information on urban real estate and created a rating system which undervalued dense, mixed, or aging neighborhoods. The rating system thereby undervalued central city neighborhoods while working in favor of new suburban developments.

As new policies favoring suburban real estate markets were created, so were policies determining who would have access to these markets. Now that it was undertaking much of the risk for mortgage lending, the federal government was interested in mitigating this risk through the protection of property values. Since those informing federal policy believed that integrated

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[92] Squires, p. 4.

and mainly-minority neighborhoods had unstable property values, the federal government advocated the preservation of mainly-white neighborhoods. Toward this end, until they were deemed unenforceable in 1948,[93] the Federal Housing Administration "supplied lenders with a form for racially restrictive covenants required on the properties which it insured."[94] In addition, the FHA advised in its Underwriting Manual (1938) that "if a neighborhood is to retain stability, it is necessary that properties shall continue to be occupied by the same social and racial classes. A change in social or racial occupancy generally contributes to instability and a decline in values."[95]

These federal policies and practices were similar to the policies and practices of private institutions in the real estate industry. For example, the National Association of Real Estate Board's (NAREB) national code of ethics for the years 1924 to 1950 stated that "a realtor should never be instrumental in introducing into a neighborhood a character or property of occupancy, members of any race or nationality, or any individual whose presence will clearly be detrimental to property values in the neighborhood."[96] Similarly, the 1935 text of the American Institute of Real Estate Appraisers (AIREA) warned appraisers to consider the effects of the "infiltration of inharmonious racial groups" when assessing the value of a property.[97]

The combination of these public and private actors' policies helped support the creation of economically healthy, white suburbs and economically

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[93] In Shelley v. Kraemer (US Supreme Court, 1948) it was decided that judicial enforcement by state courts of racially restrictive covenants violates the equal protection clause of the 14th Amendment.
[94] Bradford, C. (1979) "Financing Home Ownership: The Federal Role in Neighborhood Decline." Urban Affairs Quarterly 14.3 (1979): 313-335, p. 324.
[95] Squires, p. 5.
[96] Squires, p. 4.
[97] As quoted in Bradford, p. 323.

struggling, predominantly minority central cities. If dense, aging, and mixed development was considered less valuable, central city areas by definition would be undervalued. If it was important to keep racial and social stability in neighborhoods, then as white, middle-class people were the first occupants of new suburban developments, black Americans would find themselves excluded from these areas. The effects of these policies are apparent in the distribution of FHA-backed mortgages, which until the 1960s went mainly to white, suburban home buyers. Between 1934 and 1959, FHA supported 60-percent of home purchases. Between the mid-1940s and mid-1950s, only two-percent of these mortgages went to black Americans.

By the 1960s, the civil rights movement had helped put fair housing issues on the national agenda. Several legislative changes followed from the hard work of fair housing advocates. The Fair Housing Act of 1968 prohibited discrimination on the basis of race, color, religion, sex, or national origin in the following housing related activities: the sale or rental of housing, the terms and conditions of housing transactions, and advertising. In addition, racial steering[98] and blockbusting[99] were made illegal. Additional changes that came about through case law included the prohibition of discriminatory practices in land use and zoning, and the prohibition of loan denial, or the practice of making loans available on less favorable terms, due to neighborhood racial

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[98] Per Yinger, racial steering occurs when real estate brokers push minority home loan applicants toward FHA loans, rather than inform them of the full range of conventional and creative financing available to them. See Yinger, J. "Discrimination in Mortgage Lending: A Literature Review." <u>Mortgage Lending, Racial Discrimination, and Federal Policy</u>. Eds. J. Goering and R. Wienk. Washington, DC: The Urban Institute Press, 1996. 29-73.

[99] "Blockbusting" consists in the following. Realtors tell white homeowners in majority-white neighborhoods that their neighborhoods are beginning to undergo changes in racial composition which will affect property values. Realtors then purchase homes cheaply from white homeowners, and in turn sell these homes at a profit to minorities who are able to obtain FHA-backed financing.

composition. The 1970 Equal Credit Opportunity Act prohibited lending discrimination on the basis of race, color, national origin, age, sex, marital status, religion, or receipt of public assistance.

In the 1960s, as a result of pressure from the civil rights movement to eliminate discrimination, the Federal Housing Administration changed its policies and its underwriting standards. As a result, FHA-insured mortgages became widely available in central cities. Several researchers note that this sudden shift in policy had unexpected and negative consequences for central city areas.[100] The desire to ameliorate the effects of past discrimination led to a situation in which FHA would underwrite "almost any loan in older, minority, and integrated neighborhoods."[101] This ready supply of insurance gave realtors a chance to engage in blockbusting on a large scale.

The fact that the Federal National Mortgage Agency (FNMA) would purchase any FHA insured loan (without assessment of its soundness) meant that mortgage bankers[102] had a guaranteed market for any loan they could push through the local FHA office. This inundation of credit benefited realtors and mortgage bankers; it was detrimental to home buyers and to central city neighborhoods. High rates of foreclosure and abandonment were the result of unscrupulous realtors' steering minority home buyers to more expensive homes than they could afford. One result of this transition was that areas with high rates of FHA lending became seen as areas of high risk. Conventional

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[100] Bradford; Squires.
[101] Bradford, p. 313.
[102] As described by Bradford, mortgage banks are non-depository institutions. Their funding comes from a line of credit established with a commercial bank or from another source of commercial credit. Mortgage bankers are not in the business of holding loans; they earn their money from the fees they charge to originate loans, and from the fees they charge to service loans. In order to maximize their profits (as they often borrow at higher rates than they charge on the mortgages they originate), mortgage bankers have a vested interest in originating and selling off pools of mortgages as quickly as possible.

banks, who had not changed their guidelines as those of the Federal Housing Administration changed, were still more involved in lending to suburban areas than to urban areas. It was mortgage bankers who helped supply the credit needs of central cities.

Public and private actors' behavior in US housing markets has been credited with creating a dual housing finance system, separated on racial lines.[103] This system is composed on the one hand of conventional lenders (depository institutions) who serve suburban areas, and on the other hand of government insured (through FHA/VA[104]) lending by mortgage bankers to residents of central cities. The Home Mortgage Disclosure Act (HMDA) and the Community Reinvestment Act (CRA) were designed by Congress to combat "redlining"[105] (the refusal to issue housing finance based on the

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[103] Bradford, C. and G. Cincotta. "The Legacy, the Promise, and the Unfinished Agenda." From Redlining to Reinvestment: Community Responses to Urban Disinvestment. Ed. G. Squires. Philadelphia: Temple University Press, 1992. 228-286.

[104] VA, or Veterans Administration, mortgage insurance has been provided by the federal government since 1944.

[105] "Redlining" has been defined differently by different theorists. Some define redlining as "a process by which goods or services are made unavailable, or are available only on less than favorable terms, to people because of where they live regardless of their relevant objective characteristics" (Squires, p. 2.) Others offer a slightly different definition of redlining, characterizing it as "the discriminatory lending practice whereby financial institutions refuse to make mortgage loans to certain neighborhoods based on the racial composition of those areas or the age of their housing stock." (Fishbein, A. "The Ongoing Experiment with 'Regulation from Below': Expanded Reporting Requirements for HMDA and CRA." Housing Policy Debate 3.2 (1992): 601-636, p. 601.) Still others combine these concepts characterizing redlining as "the arbitrary decisions of banks and savings and loan associations not to lend in certain areas, or to lend in those areas only on more restrictive terms and conditions than normal, due to the age of the housing, the income of the residents or the racial composition of the community." (Bradford, p. 314.) Some hold that a definition of redlining may be either process- or outcome-based. A process-based definition of redlining focuses on individual lender decisions. By this definition, "redlining exists whenever a mortgage with a given set of applicant, property, and loan characteristics is more likely to be turned down in a minority than in a white neighborhood." (Yinger, J. Closed Doors, Opportunities Lost: The Continuing Costs of Housing Discrimination. New York: Russell Sage Foundation, 1995, p. 68.) In contrast, an outcome-based definition of redlining "focuses on the flow of funds into the minority neighborhoods served by a lender, not simply on the loan decisions a lender makes. According to this outcome-based definition, redlining exists if the flow of funds into minority neighborhoods lags behind the flow of funds into white neighborhoods with

location of the home in question) and discrimination on the part of banks in order to involve banks in lending to minority and central city neighborhoods.

The Home Mortgage Disclosure Act was created so that minority access to the home mortgage market might be monitored.[106] HMDA data provide information both on lending to individuals and on lending to regions; because of this, HMDA data can be used in the enforcement of both fair lending laws and the Community Reinvestment Act.[107] HMDA was enacted by Congress in 1975, was extended for five more years in 1980, and was made permanent in 1987.

The Home Mortgage Disclosure Act requires that banks report annually the number and dollar amount of housing-related loans they make or purchase in all metropolitan areas and that they provide information on the race, gender, and income level of all mortgage loan applicants. Importantly, while HMDA used to require information solely on originated loans, as amended it now requires information on the disposition of each application (deny and reason for denial, accept, or withdraw).[108] HMDA data are available to the public, and amendments to HMDA led to the development of a database which has

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comparable risk characteristics. A lender who treats comparable minority and white applicants exactly the same may still be guilty of redlining by this definition." (Yinger, Closed Doors, p. 68.) Regardless of whether one defines redlining in terms of processes or outcomes, it is clear that a definition of redlining must be location based. Redlining is the refusal to make home purchase or home improvement loans based on the location of the home in question. Redlining does not focus on the characteristics of a loan applicant, but rather focuses on the characteristics of the neighborhood in which the property to be financed is located.

[106] Munnell, A., G. Tootell, L. Browne, and J. McEneaney. "Mortgage Lending in Boston: Interpreting HMDA Data." The American Economic Review 86.1 (1996): 25-53.

[107] Evanoff, D. and L. Segal. "CRA and Fair Lending Regulations: Resulting Trends in Mortgage Lending." Economic Perspectives 20.6 (1996): 19-43.

[108] Lenders are also required to report on the sale of certain loans to the secondary market; all loans bought and sold within the same calendar year must be reported.

allowed regulators and the general public to analyze different institutions' lending patterns.

In 1977, Under Title VIII of the Housing and Community Development Act, the Community Reinvestment Act (CRA) was created. This act was designed to help combat an unequal distribution of credit by banks and thrifts, disparities that became statistically visible thanks to the Home Mortgage Disclosure Act data. The main purpose of the Community Reinvestment Act was to address redlining by banks. Rather than address lenders' treatment of individual applicants, CRA was meant to correct the inadequate flow of credit to certain neighborhoods.[109]

The Community Reinvestment Act states that federally insured banks "have a continuing and affirmative obligation to help meet the credit needs of the local communities in which they are chartered…consistent with safe and sound operation of such institutions."[110] CRA directs federal regulators to include as part of their regular on-site examinations an evaluation of the success of banks in meeting local credit needs.[111] The federal regulators rate banks in their efforts, and banks' community reinvestment records may be taken into account when these institutions apply to expand or merge their operations.

What does CRA require of banks? Institutions must prepare a CRA statement which includes: a map of their service area, identification of the

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[109] Evanoff and Segal.
[110] United States Congress. Public Law 95-128: Housing and Community Development Act of 1977. 95th Congress, 1st Session. College Park: Potomac Publishing Company, Inc., 1977.
[111] Different regulators are responsible for monitoring a different set of financial institutions. The Federal Reserve monitors state-chartered banks that are members of the Federal Reserve, the Office of the Comptroller of the Currency monitors national banks, the Federal Deposit Insurance Corporation regulates state-chartered banks that are not members of the Federal Reserve, and the Office of Thrift Supervision regulates thrifts and savings and loans.

credit needs of the communities within their service area (including low- and moderate-income communities), and a projection of how they will serve these various credit needs. Banks must keep publicly-available CRA files, which include comments from the public regarding the institutions' CRA performance. Each financial institution must also post a public notice concerning the Act and the publicly-available file.

CRA was created to ensure that banks are providing for the credit needs of the entire region they are chartered to serve. To enforce this, the Community Reinvestment Act permits regulators to impose sanctions on institutions with poor CRA records. Federal regulators are supposed to consider a financial institution's CRA lending record when evaluating expansion applications by banks; expansion applications include applications for charter, deposit insurance, the establishment of a branch office, a branch or office relocation, or for merger with or the acquisition of another bank. A financial institution that is deemed to have a poor CRA performance may have its application for expansion denied.

Although the Community Reinvestment Act was designed so that federal regulators might monitor and influence the community-based lending activity of banks, in reality, it has been advocates, community groups, and private citizens who have ensured that CRA has been implemented. Shlay[112] refers to the involvement of private actors in the implementation of the Community Reinvestment Act as a process of "regulation from below." "Regulation from below," in the case of CRA, means that private citizens have the right to challenge the approval of an expansion application by a financial

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[112] Shlay, A. "Influencing the Agents of Urban Structure: Evaluating the Effects of Community Reinvestment Organizing on Bank Residential Lending Practices." Urban Affairs Review 35.2 (1999): 247-278.

institution. Any challenge to expansion activities must be made on CRA grounds, that is, the challenge must be based on either the poor lending record of the applicant and/or on the record of the institutions to be acquired. Here is where HMDA and CRA work hand in hand. HMDA provides the data through which lending activity is assessed, and such data have been "used in virtually every challenge brought against an expansion request."[113]

CRA challenges generally result in a process of negotiation between banks and community groups. Because challenges slow or halt an institution's efforts to expand, and because such delays result in increased costs, banks have a vested interest in negotiating with challengers in order to appease these parties. A challenge is normally withdrawn after a CRA agreement has been negotiated between advocates and the financial institution being challenged. Agreements can include a bank's commitment to serving low-income and minority households and/or neighborhoods by providing home mortgage products which might offer below-market interest rates, lower fees, lower down payments, waivers of private mortgage insurance, or the allowance of higher housing cost burdens. CRA agreements might also include small business loans, home improvement loans, or construction loans. Sometimes CRA agreements include a commitment to fund broader community reinvestment activities; these agreements might provide credit for community development corporations or grants to community based organizations. Additionally, under a CRA negotiation, a financial institution might pledge to hire more minority staff, or might agree to negotiate more

[113] Fishbein, p. 611.

contracts with minority-owned firms. CRA agreements might apply to one community, or they might be regional, statewide, or national in scope.[114]

Researchers have used several methods to measure the effectiveness of the Community Reinvestment Act in the US, including examination of the effect of CRA agreements on individual lender behavior[115] and assessing the effect of CRA organizing on local lending.[116] Perhaps the most straightforward way to measure the impact of CRA, however, is in monetary terms. The reinvestment initiatives that have occurred as a result of the Community Reinvestment Act have resulted in more than $1 trillion-worth of investment in low- and moderate-income and minority communities.[117] This would seem to indicate that the Act has been successful in one of its goals, that is, in increasing banks' involvement in previously marginalized communities. And there is no denying that the Community Reinvestment Act has brought about some level of institutional change in the lending community. The Act was intended to push banks to lend to parties and regions they were not used to serving. Because they have been encouraged to enter new markets, banks have learned that low-income areas can profitably support new branch operations. Because of CRA requirements, banks in the United States have

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[114] Schwartz, A. "Bank Lending to Minority and Low-Income Households and Neighborhoods: Do Community Reinvestment Agreements Make a Difference?" Journal of Urban Affairs 20.3 (1998): 269-301.

[115] Schwartz, "Bank Lending."

[116] Shlay.

[117] Squires, G. and S. O'Connor. Color and Money: Politics and Prospects for Community Reinvestment in Urban America. Albany: State University of New York Press, 2001. At least one author notes that 92-percent of this lending activity occurred after 1996. Diamond credits the 1992 Federal Housing Enterprises Financial Safety and Soundness Act (FHEFSSA), which "applied overt and quantifiable pressure on the powerhouses of US housing finance, Fannie Mae and Freddie Mac, to go down-market," for part of this increase in CRA-related affordable lending. (Diamond, D. A Community Reinvestment Act for South Africa? Issues to Consider in Determining the Most Effective Legislative Approach to Broadening Housing Finance in South Africa. Occasional paper no. 2. Johannesburg: Housing Finance Resource Programme, 2002, p. 8.)

discovered that lower-income areas can provide them with a new customer base.[118]

2.4.2 Reinvestment Legislation in South Africa

The study now turns to South Africa's reinvestment legislation process. South Africa's Department of Housing embarked on this process following close interaction between government officials from the United States and South Africa in the mid-1990s. This interaction took the form of a United States/South Africa bi-national commission that discussed, among other topics, the provision of housing. The bi-national commission undoubtedly supplied the impetus for South Africa's reinvestment legislation efforts.[119]

In 2000, the South African government passed a Home Loan and Mortgage Disclosure Act (modeled on the US Home Mortgage Disclosure Act) and in May of 2002 the Department of Housing issued a draft Community Reinvestment Bill (modeled on the US Community Reinvestment Act). Each of these controversial pieces of legislation will be discussed here.

South Africa's Home Loan and Mortgage Disclosure Act (HLMDA), Act No. 63 of 2000, applies to "all financial institutions"[120] in South Africa and requires them to disclose certain information in their annual financial statements. The information to be disclosed on an annual basis includes: the number and amount in rand of completed home loan applications received

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[118] Schwartz, A. "From Confrontation to Collaboration? Banks, Community Groups, and the Implementation of Community Reinvestment Agreements." Housing Policy Debate 9.3 (1998): 631-662.

[119] Details about this commission and its effect on South Africa's reinvestment legislation process are provided in Chapter Four.

[120] "Financial institutions" are defined in the Act as "any bank or mutual bank registered as such…or any other registered financial institution whose business is, in full or in part, either the acceptance of deposits from the general public, the advance of credit to persons or both such acceptance and advance, with the security of a registered mortgage bond or any other form of accepted security, for the purpose of providing home loans."

(broken down as prescribed by category of borrower and by geographic area), the number and amount in rand of home loan applications declined and the reason for their rejection (broken down as prescribed by type of borrower and geographic region), the number and rand amount of all home loans closed and disbursed, and the number and rand amount of all home loans approved by the financial institution (broken down as prescribed by category of borrower and geographic area). The Act established an Office of Disclosure, to be located within the Department of Housing, whose job would be to receive, analyze, and make public the information gathered in accordance with the Home Loan and Mortgage Disclosure Act. One of the Office's main tasks would be to identify possible discriminatory lending patterns and assist regulatory bodies in enforcing compliance with anti-discrimination legislation. Anyone failing to comply with any provision of the Home Loan and Mortgage Disclosure At would be liable for a fine of up to R100,000 ($18,200).

The Home Loan and Mortgage Disclosure Act became law in December of 2000. Since that time South Africa's Department of Housing has been working to create regulations for the Act. HLMDA's regulations would detail the exact workings of the Act and would enable the Act to become a functioning piece of legislation.

In May of 2002, South Africa's Department of Housing released a draft Community Reinvestment Bill. Like HLMDA, the Bill applies to "all financial institutions," and commits them to certain positive obligations while at the same time restraining them from specific behaviors. The next section of this chapter will take an in-depth look at South Africa's draft Community Reinvestment Bill

2.4.3 Overview of South Africa's Draft Community Reinvestment Bill

According to Yinger,[121] lender involvement in the mortgage loan process can be broken into five distinct steps, any of which might be the locus of discriminatory behavior. These five steps are: advertising and outreach, application procedures, acceptance or denial of the home loan application, determination of loan terms, and loan administration. South Africa's draft Community Reinvestment Bill will be examined here in terms of which steps in the mortgage loan process the South African Department of Housing views as potentially discriminatory and in need of remedy.

In May of 2002, South Africa's Department of Housing released its draft Community Reinvestment Bill. The Bill applies to "all financial institutions,"[122] and commits them to certain positive obligations while at the same time restraining them from specific behaviors. Section 4 of the draft Community Reinvestment Bill outlines a set of "principles applicable to community reinvestment for housing." These principles, which are broken into three subsections will be analyzed here in turn.

The first section of the draft Community Reinvestment Bill, Section 4.1, states that:

> In attempting to meet the needs of low- and medium-income[123] households in accessing home loan finance, financial institutions must:

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[121] Yinger, "Discrimination."

[122] "'Financial institution' means any bank or mutual bank registered as such under the Banks Bill, 1990 (Bill No. 94 of 1990), or the Mutual Banks Bill, 1993 (Bill No. 124 of 1993), or any other registered institution whose business is, in full or in part, either the acceptance of deposits from the general public, the advance of credit to persons or both such acceptance and advance, with the security of a registered mortgage bond or any other form of accepted security, for the purpose of providing home loans." (Department of Housing. Draft Community Reinvestment Bill, revised as of 26/04/2002. Pretoria: Department of Housing, 2002.)

[123] The draft Bill did not prescribe the income level of these households, but rather defined "low-income level" and "medium-income level" as a "monthly household income in a range to be prescribed."

[a] refrain from refusing home loan finance to borrowers purely on the grounds of the current or future expected socio-economic characteristics of the residents in the neighbourhood in which the home is located;

[b] refrain from the practice of redlining[124] other than where dictated by safe and sound business principles;

[c] afford borrowers the necessary dignity, courtesy and honesty when discussing and processing applications for mortgage loans;

[d] communicate transparently and openly with borrowers during all stages of negotiations;

[e] communicate clearly and openly with all borrowers on the outcome of their applications and furnish reasons in writing for rejected applications;

[f] encourage where possible a climate of saving amongst home owners and borrowers and provide meaningful incentives to those who save;

[g] notwithstanding any reasons that are considered acceptable by the Minister, meet or exceed the targets and standards[125] prescribed by the Minister for lending to households with low- and medium-income levels; and

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[124] The draft Bill states that redlining "occurs when a financial institution does not offer a home loan to a borrower or household mainly on account of the house to be financed being located in a particular geographical area or neighbourhood."
[125] "Targets" are defined in the draft Bill as "that proportion of a financial institution's book that is prescribed by the Minister [of Housing] for disbursement either directly or indirectly to low- and medium-income level households for housing purposes." "Standards" are defined as "the performance, conduct and level of compliance that is prescribed by the Minister [of Housing] to a financial institution in attempting to meet its target."

[h] if they are unable to meet those targets and standards by lending directly to such end-users, opt for one or any combination of the following:

i. provide funding through a prescribed wholesale lender at a mutually agreed upon interest rate for on-lending to niche lenders to provide end user loans;

ii. purchase such wholesale lenders' securities and debt issues; and

iii. provide funding directly to niche market lenders to make available for end user loans.[126]

The principles applicable to community reinvestment for housing detailed in Section 4.1 of the draft Community Reinvestment Bill focus on two aspects of lender involvement in the mortgage loan process: application procedures and acceptance or denial of the home loan application. Each principle will be examined more closely at this point.

The first two principles delineated in Section 4.1 concern acceptance or denial of the home loan application. These two principles address the basis upon which bankers make their lending decision, and the principles work together to restrict banks from engaging in geographic discrimination in lending. Principle [a] legislates that banks must not refuse home loan finance based purely on the current or predicted socio-economic characteristics of the residents who live in the area in which the home to be financed is located. Principle [b] obligates banks to refrain from redlining, except where "dictated by safe and sound business principles."

In essence, principles [a] and [b] restrict banks from giving primacy to geography over borrower in the lending decision making process. These two

[126] Department of Housing, Draft Community Reinvestment Bill.

principles seek to push banks to assess each loan application in terms of the borrower's characteristics rather than in terms of the characteristics of the region in which the home to be financed is located. In combination, these principles can be seen as an attempt to shift the home loan decision making process, to alter the specific evaluative practices South African bankers are alleged to use when assessing home loan applications.

Principles [c], [d], and [e] also seek to alter bank behavior in order to make lending to low- and medium-income households possible, but these three principles focus on application procedures rather than on the decision to lend. Principle [c] requires bank employees to treat borrowers with "dignity, courtesy and honesty when discussing and processing applications for mortgage loans"; principle [d] dictates that bank employees must "communicate transparently and openly" with borrowers during all stages of the home loan negotiation process; and principle [e] obligates employees to "communicate clearly and openly" about the outcome of the home loan application process and to furnish in writing an explanation for why an application has been rejected.

In short, principles [c], [d], and [e] seek to change the behavior of bank employees who encounter would-be-borrowers, addressing discriminatory and discouraging practices on the part of these employees. While principles [a] and [b] identify the loan decision making process as an area in which discrimination might occur, principles [c], [d], and [e] suggest that branch employee behavior plays a role in either prohibiting or promoting lending to low- and medium-income people. Principles [c], [d], and [e] suggest that disrespect, discourtesy, dishonesty, and distorted communication have all played a part in prohibiting access to the services of South Africa's banks.

Principles [f], [g], and [h] of Section 4.1 commit South Africa's banks to a set of positive obligations. The first of these, principle [f], requires bankers to encourage "a climate of savings" amongst homeowners and borrowers and to provide "meaningful incentives" to those who save. Principle [f] is the only principle in the draft Bill that does not address discrimination in the lending process; it in no way addresses advertising and outreach, application procedures, acceptance or denial of the home loan application, determination of loan terms, or loan administration. Rather, principle [f] makes banks responsible for encouraging homeowners and borrowers to save for current and anticipated housing needs.

Principles [g] and [h] are the most contentious of the principles applicable to community reinvestment for housing in the draft Bill. These principles address discrimination in acceptance or denial of the home loan application, and do so in two distinct ways. Principle [g] requires banks to meet or exceed targets and standards prescribed by the Minister of Housing for lending to households with low- and medium-income levels. This principle is the most direct assault on what the Department of Housing believes is the main cause of inadequate access to housing in South Africa: banks' unwillingness to release funds to low- and medium-income borrowers.

Principle [h] does not address discrimination in the lending process per se, but rather addresses one of the outcomes of discrimination in the lending process: an inadequate flow of mortgage finance to low- and medium-income borrowers. This principle states that if banks are unable to meet the targets and standards set by the Minister of Housing for lending to low- and medium-income households, they may opt to provide funding through a prescribed wholesale lender (i.e. the public National Housing Finance Corporation or

NHFC), may purchase the securities of a prescribed wholesale lender (NHFC), or may provide funding directly to niche market lenders[127] for on-lending to low- and medium-income households. This principle suggests that the Department of Housing is aware that banks may choose not to become involved in lending to low- and medium-income households, yet the Department is still determined to increase the flow of mortgage finance to these households. Principle [h] provides a means through which access to such finance might be broadened, regardless of whether or not banks will provide the finance directly.

The next section of the draft Community Reinvestment Bill, Section 4.2, states that:

> In attempting to meet the needs of the poor in accessing home loan finance, financial institutions must not:
>
> [a] lend without due regard to a borrower's repayment ability;
>
> [b] for low-income borrowers, make mortgage loans where the principal amount loaned is greater than the amount needed for housing purposes; and
>
> [c] implement policies that lead to discrimination or have a disparate impact.[128]

In the context of Yinger's five distinct steps of the mortgage loan process presented above, these three principles address, respectively, acceptance or

[127] A "niche market lender" is defined in the draft bill as "a financial institution for which more than half of its outstanding rand volume of home loans are to households with low- or medium-income levels."
[128] Department of Housing, <u>Draft Community Reinvestment Bill</u>.

denial of the home loan application, determination of loan terms, and application procedures. Each of these three principles will be examined here.

Principle [a], which restricts lenders from issuing finance without considering a borrower's repayment ability, concerns acceptance or denial of the home loan application. In the heated debates over the causes of the mortgage defaults that occurred in the townships in the late 1980s and early 1990s, the South African banks point to civil unrest and bond boycotts, while the South African Department of Housing points to reckless lending on the part of South Africa's banks. Principle [a] of Section 4.2 was clearly intended to curb what the Department of Housing views as improper behavior on the part of South Africa's banks and legislates them to make prudent lending decisions.

Principle [b] of Section 4.2 concerns the determination of loan terms. This principle restricts banks from lending to low-income borrowers an amount greater than the amount needed for housing purposes. This principle might reflect an awareness on the part of Department of Housing of one of the basic facts of mortgage borrowing, i.e., a greater investment on the part of the borrower decreases the likelihood of default in times of trouble. Put differently, "many people who have little of no equity in their house and who are in financial trouble decide to stop making payments on their mortgages."[129] On the other hand, principle [b] of Section 4.2 might reflect a concern on the part of the Department of Housing that South African bankers have engaged in reckless lending in the past and might be tempted to do so again.

Section 4.2 [c] restricts South African banks from implementing policies that lead to discrimination or have a disparate impact. This restriction can be

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[129] Yinger, "Discrimination," p. 48.

seen as an attempt to regulate application procedures, to ensure that banks are not creating policies that lead them to discriminate against particular applicants. Further, principle [c] restricts banks from implementing policies that have disparate impact, defined in the draft Bill as “the adverse effect on a borrower or household of any attitude, practice or policy of a financial institution (or its representatives) that it cannot reasonably justify on the basis of safe and sound business principles.”[130] This definition of “disparate impact” is similar to that used in the United States, where “disparate impact” has been defined as “particular policies or practices that are applied uniformly across all applicants and are neutral on their face [but that] may exclude a disproportionate share of protected class members and, therefore, may constitute unlawful discrimination.”[131]

The third section of the draft Community Reinvestment Bill, Section 4.3, states that:

> A financial institution must not, unless reasonably justified by business necessity:
>
> [a] fail to provide information or services regarding the home lending process, including credit availability, application procedures or underwriting standards;
>
> [b] discourage or selectively encourage borrowers;
>
> [c] refuse to extend credit or use different underwriting methods;
>
> [d] vary credit terms, including amount, interest rate, duration or type of home loan;

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[130] Department of Housing, <u>Draft Community Reinvestment Bill</u>.
[131] Squires and O'Connor, pp. 10-11.

[e] service a home loan or invoke default remedies differently;

[f] use different standards for pooling or packaging home loans.[132]

Section 4.3 of South Africa's draft Community Reinvestment Bill seems to draw directly from the guidelines as to what constitutes discrimination in the lending process released by a 1994 meeting of a US federal interagency task force.[133] According to the US guidelines, lenders may not because of a prohibited factor:[134] fail to provide information/services or provide different information/services on any aspect of the lending process, discourage or selectively encourage applicants, refuse to extend credit, use different standards in determining whether to extend credit, vary the terms of credit offered, use different standards to evaluate collateral, behave differently in servicing a loan or in invoking default remedies, use different standards for pooling or packaging loans, express a preference based on prohibited factors, or discriminate because of the characteristics of a person associated with the applicant or because of the characteristics of the occupants of the area where the property to be financed is located.[135]

The principles in Section 4.3 of South Africa's draft Community Reinvestment Bill address discrimination in four distinct aspects of the lending process: application procedures, acceptance or denial of the home loan application, determination of loan terms, and loan administration. Principles

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[132] Department of Housing, Draft Community Reinvestment Bill.
[133] This task force included representatives from the US Department of Housing and Urban Development, the Department of Justice, the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Housing Finance Board, the Federal Trade Commission, and the National Credit Union Administration.
[134] In the United States, prohibited factors include race, color, national origin, age, sex, marital status, religion, or receipt of public assistance.
[135] For details, see Evanoff and Segal.

[a] and [b] address discrimination in application procedures. Through these two principles, bankers are prohibited from providing potential borrowers with partial information on loan products and procedures and are prohibited from discouraging or selectively encouraging potential borrowers. As was the case with some of the principles discussed earlier, these two principles seek to change the behavior of the employees who encounter would-be-borrowers, addressing discriminatory and discouraging practices on the part of the these employees.

Section 4.3 [c] addresses discrimination in acceptance or denial of the home loan application. Here banks are prohibited from refusing credit outright and from using different underwriting methods when determining whether or not to extend credit. Underwriting processes normally take into account such things as borrower income, assets, credit history, estimated housing expense, and other debt obligations. The draft Community Reinvestment Bill requires banks to use the same underwriting criteria for all of their mortgage loan applicants, recognizing that the use of different underwriting standards across applicants can result in differential access to mortgage finance across applicant groups.

The next principle of Section 4.3, principle [d] prohibits discrimination in the determination of loan terms. Here financial institutions are prohibited from varying credit terms such as loan-to-value ratio, interest rate, duration, and type of home loan. It has long been recognized that changes in the terms of lending affect the cost of credit. When terms of lending are altered based on the borrower's income level or the location of the home to be financed, the cost of credit can increase and may be priced beyond the reach of the borrower, resulting in differential access to credit across applicant groups.

Finally, principles [e] and [f] of Section 4.3 address two aspects of loan administration that might have repercussions on continued lending to low- and medium-income groups. Principle [e] prohibits lenders from servicing a home loan and invoking default remedies differently, while principle [f] prohibits them from using different standards for pooling or packaging home loans.

The first of these prohibitions requires banks to treat all borrowers equally in the servicing of home loans, and especially when resorting to default proceedings. Why should this matter? While we are used to assuming that borrower behavior leads to default, Quercia and Stegman[136] have pointed out that in fact it is the lender who decides when a cessation of mortgage payment turns into a default proceeding. These authors note that while the borrower is the one who stops payment, the lender is the one who decides if default has occurred by choosing whether to work with the borrower or to foreclose. Principle [e] recognizes that differential treatment in servicing home loans and in enacting default proceedings will result in different default rates across borrower groups. Should differences in default rates become statistically significant, this could tempt lenders to engage in statistical discrimination, that is, discrimination based on information that is valid for one group of borrowers on average, but which will not be valid for each specific borrower within that group.[137] Put simply, lender practices around the use of default remedies might lead to a higher incidence of default amongst a certain group of homeowners, which in and of itself might make lenders reluctant to lend to members of that group.

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[136] Quercia, R. and M. Stegman. "Residential Mortgage Default: A Review of the Literature." Journal of Housing Research 3.2 (1992): 341-79.
[137] Yinger, "Discrimination."

Principle [f] of Section 4.3 prohibits South Africa's bankers from using different standards for pooling or packaging home loans. Schafer and Ladd[138] have pointed out that the decision to make a loan is first and foremost part of a "complex portfolio decision." Before any loan is made, banks must decide what portion of their assets to hold in the form of mortgages on residential property, a decision which is in turn influenced by: the demand for residential mortgages, liquidity needs, lender attitudes toward risk, and regulatory constraints. One of the benefits of packaging home loans for sale in the secondary market is that it frees up capital within a bank to make additional home loans. Principle [f] recognizes that if the standards for packaging home loans for sale is dissimilar across loan types and only loans made to more affluent borrowers are sold, then funds for lending to more affluent borrowers are the only type that will be freed up for additional loans. If a bank keeps its loans to low-income borrowers on its books, then it will not free up additional capital for loans to low-income borrowers.

2.4.4 Goals of the South African Department of Housing

The preceding section of this chapter analyzed South Africa's draft Community Reinvestment Bill and assessed which areas of potential discrimination the Bill targeted. The draft Bill includes principles applicable to community reinvestment for housing that target four of the five steps in the lending process delineated by Yinger:[139] application procedures, acceptance or denial of the home loan application, determination of loan terms, and loan administration. The one area the draft Bill did not target was marketing and

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[138] Schafer, R. and H. Ladd. Discrimination in Mortgage Lending. Cambridge: MIT Press, 1981.
[139] Yinger, "Discrimination."

outreach (a factor that will be discussed when the efficacy of using legislation to promote access is considered in Chapter Five).

Clearly the draft Community Reinvestment Bill was designed to change the practices of financial institutions in South Africa. It is worth asking exactly what was expected to follow-from these changes. Exactly what was the South African Department of Housing hoping to achieve by legislating changes in banks' practices? What were the Department of Housing's goals in passing community reinvestment legislation?

Two goals can be gleaned from the structure of South Africa's draft Community Reinvestment Bill. First, the Department of Housing hoped CRA would broaden access to South Africa's banks. Second, whether or not access to the country's banks was broadened, the Department expected CRA to result in an increased flow of funds into previously marginalized communities. Each of these changes was expected to result in increased access to housing finance by low- and medium-income South Africans, and thereby increased access to housing by low- and medium-income South Africans.

The next two sections will explore how the Department of Housing's two goals, broadening access to financial services and increasing the flow of funds into poorer communities, are reflected in the draft Community Reinvestment Bill. It bears mentioning first that the Department of Housing's two goals are not necessarily separate and distinct. While it is possible to increase the flow of funds into previously marginalized communities without broadening access to the services of financial institutions (for example, by allowing banks to lend to financial intermediaries who will then on-lend to low- and medium-income households), it is almost certain that broadened access to South Africa's banks would result in an increased flow of funds to previously marginalized communities. For this reason the goals of the South African Department of Housing should be viewed as complementary.

2.4.4.1 The First Goal: Broadened Access to Banks

The first goal underlying the draft Community Reinvestment Bill is that of broadening access to South Africa's banks. The best way to achieve this in the Department of Housing's view is by addressing three things: discrimination on the part of bank employees who interact with potential borrowers, discriminatory practices banks use when evaluating applications for home loans, and institutional inertia on the part of South Africa's banks.

The Department of Housing issued its draft Community Reinvestment Bill in part because, "it has become increasingly apparent that many financial institutions are quite prepared to take a community's money but are not prepared to reinvest in that community, particularly in the form of mortgage lending. The communities, which are hardest hit, are invariably the poorer communities."[140] The Department of Housing consequently tailored its draft Bill to attack income discrimination on the part of South Africa's banks. The draft Bill attempts to do this by addressing two things: the behavior of bank employees and the practices banks use when evaluating applications for and when issuing home loans.

The draft Community Reinvestment Bill targets bank employee behavior by legislating that employees treat borrowers with dignity, courtesy and honesty, communicate transparently and openly with borrowers, provide full information on products and services, and that they refrain from

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[140] Department of Housing. Memorandum on the Objects of the Community Reinvestment (Housing) Bill, 2002. Pretoria: Department of Housing, 2002.

discouraging or selectively encouraging borrowers.[141] In combination, these principles indicate that the Department of Housing believes unequal access to housing finance results in part from bank employee behavior. By targeting this behavior, the Department of Housing is attempting to make banks more welcoming to previously excluded customers. It should be noted that these principles do not focus on the decision to lend, but rather focus on the treatment potential customers receive when inquiring about and applying for housing finance. The Department of Housing clearly believes that racism and discrimination against individuals from lower-income areas have affected the ability of some borrowers to access bank finance for their housing needs. The draft Community Reinvestment Bill targets bank employee behavior in order to equalize treatment of borrowers and consequently broaden access to mortgage finance.

The draft Community Reinvestment Bill seeks to redress income discrimination on the part of South Africa's banks in another way, that is, by addressing the practices banks use when evaluating applications for and when issuing home loans. After a loan application is submitted, it is evaluated and a decision on whether or not to lend, and the terms upon which to do so, is arrived at. The draft Bill targets the loan application evaluation process by insisting that banks use similar underwriting methods across all of their borrowers.[142] The Bill targets the decision to lend and the terms of lending by requiring banks to offer similar credit terms to all of their borrowers and by restricting banks from refusing to extend credit.[143]

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[141] 4.1 [c], 4.1 [d] and [e], 4.3 [a], and 4.3 [b], respectively.
[142] Principle 4.3 [c]
[143] Principles 4.3 [d] and [c], respectively.

The draft Community Reinvestment Bill does not stop at insisting that banks alter their lending practices; it goes one step further to place upon banks the positive obligation to lend to low- and medium-income households. In doing so, the Bill attempts to push banks beyond the habits they adopted during the apartheid era, that is, the Bill seeks to redress institutional inertia on the part of South Africa's banks. Should employee behavior stay the same and lending practices remain unchanged, this final obligation would still result in broadened access to banks by previously excluded individuals. This final obligation, that banks must lend to low- and medium-income households, can be seen as an attempt to provide banks with the push they need to undertake such lending.

It is argued here that the draft Community Reinvestment Bill can be seen as an attempt to address what the Department of Housing views as the major obstacles to low- and medium-income households' access to financial services. The Department of Housing's idea of how broadened access might be achieved must be understood in terms of how the Department of Housing conceives of current access to financial institutions. Based on the principles the Department of Housing has included in its draft Bill, we can conclude that the Department of Housing conceives of current access to banks' services in the following way:

Current access to banks' services = f (income discrimination + institutional inertia)

By addressing each of these factors in its draft Community Reinvestment Bill, the Department of Housing hopes to broaden access to banks and in doing so to increase the flow of funds to low- and medium-income households and communities.

2.4.4.2 The Second Goal: Increased Flow of Funds to Marginalized Areas

Broadened access to banks is not the sole issue with which the South African Department of Housing is concerned. The South African Department of Housing tailored its draft Community Reinvestment Bill to result in an increased flow of finance into previously marginalized communities. The Department did this through three means. First, the draft Bill outlaws the practices of geographic discrimination and redlining.[144] Bankers are restricted from refusing home loan finance purely on the grounds of the current or future expected socioeconomic characteristics of the residents in the area where the home is located; they are also restricted from refusing finance mainly on account of where the home is located, regardless of their reason for doing so. Clearly each of these restrictions would broaden access to bank finance, demonstrating that the goals of increasing access to banks and increasing the flow of funds into previously marginalized communities are interrelated. However, as these restrictions focus specifically on previously excluded areas, it is fair to view them as concerned first and foremost with increasing the flow of funds into previously marginalized communities rather than with broadening access to bank finance.

The second way in which the draft Community Reinvestment Bill attempts to increase the flow of funds into previously marginalized communities is by placing upon banks the positive obligation to lend to low- and medium-income households.[145] Given the extent of income segregation in

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[144] Principles 4.1 [a] and [b]

[145] Principle 4.1 [g]. As has been discussed, the goals of broadening access to banks and increasing the flow of funds into communities are not necessarily separate and distinct. It is almost certain that broadened access to South Africa's banks, achieved through the

post apartheid South Africa (which will be discussed when an overview of the Gauteng Province is provided in Chapter Three), the requirement that banks meet targets in lending to low- and medium-income households would undoubtedly have a geographic effect, with the increase in such lending resulting in an increased flow of funds into previously marginalized communities.

The third means through which the Department of Housing attempts to increase the flow of funds to previously marginalized communities is through the Bill's requirement that if banks are unable to meet their targets and standards by lending directly to low- and medium-income households, they may opt to lend to or buy securities from a wholesale lender, who will pass the money along to niche market lenders, or they may lend directly to niche market lenders.[146] These provisions demonstrate that the Department of Housing is determined to increase the flow of funds into low- and medium-income households and communities, whether or not it is banks who ultimately make these loans.

It is argued here that the draft Community Reinvestment Bill can be seen as an attempt to increase the flow of funds into previously marginalized communities. The Department of Housing's idea of how this might be achieved must be understood in terms of how the Department of Housing understands the current flow of housing funds into these communities. Based on the principles the Department of Housing has included in its draft Bill, we can conclude that the Department of Housing conceives of the current flow of funds into low- and medium-income communities in the following way:

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requirement that banks target low- and medium-income households for affordable home lending, would result in an increased flow of funds to previously marginalized communities.

[146] Principle 4.1 [h]

Current flow of funds to low- and medium-income communities =

f (geographic discrimination + inadequate levels of funding for

wholesale lenders and niche market lenders)

By addressing each of these factors, the Department of Housing hopes to increase the flow of funds to low- and medium-income households and communities.

2.5 Summary of Chapter Two

This chapter concentrated on two main topics. First, it told the story of how legislative restrictions and private institutions' practices culminated in the grossly inequitable access to housing and finance found in South Africa today. Second, it provided a consideration of the ANC-led government's efforts to promote the banking sector's involvement in lending for affordable housing in post-apartheid South Africa. Community reinvestment legislation is part of this effort, and the chapter ended with a thorough consideration of South Africa's draft Community Reinvestment Bill and an analysis of the Department of Housing's goals in attempting to enact this piece of legislation.

The central question of the study, i.e. whether or not the draft Community Reinvestment Bill would be an effective means though which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa,[147] must be answered through an

[147] Chapter Two has provided a lengthy history of access to housing in South Africa and has also detailed recent governmental initiatives intended to correct the disparate access to housing resulting from this history. Chapter Two has also supplied details of the Community Reinvestment Act in the United States, including an overview of the institutional history leading up to CRA and an explanation of why the legislation was enacted in that country. It might be thought that the answer to the question of whether or not a Community Reinvestment Act might be an effective means through which to redress unequal access to housing finance in post-apartheid South Africa is obvious: CRA will not work in South Africa because the institutional support required for it to work in the United States (Fannie Mae, Freddie Mac, FHA/VA insurance, etc.) is not in place in South Africa. While this claim is undoubtedly true, it obviously begs two further questions. First is the question of what explains the absence of

assessment of whether or not the draft Bill would achieve the two goals the Department of Housing has in mind. These considerations inform the analysis presented in Chapter Three.

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such institutions in South Africa, since these factors (high rates of poverty and poorly functioning housing markets, among others) are also the deeper causes of CRA's unsuitableness. Second is the question of what other factors led to the failure of CRA legislation in South Africa. This second question is the fundamental one, and the analysis presented in the next two chapters attempts to answer it. (For discussion of the claim that South Africa lacks the institutional support that CRA requires, see Barnard, Jacobs, Mellet. Community Reinvestment Act: Is South Africa Ready for It? Position Paper J081. Johannesburg: Barnard Jacobs Mellet Securities (Pty.) Ltd., 2002 and Diamond.)

Chapter Three: What will CRA Achieve in South Africa?

3.1 Overview of Chapter Three

Chapter Three provides an assessment of whether or not South Africa's draft Community Reinvestment Bill would achieve the Department of Housing's two goals. The first section relies upon analysis of 30 stakeholder interviews to determine whether or not CRA would result in broadened access to South Africa's banks. The second section of this chapter combines deed transfer and census data for use in OLS multiple regression and binary logistic regression models. These models are used to assess whether or not geographic discrimination in lending is a primary cause of communities' having insufficient funds for their housing needs; this analysis helps determine whether or not CRA is structured to result in an increased flow of funds into previously marginalized communities.

By examining the likelihood that the draft Community Reinvestment Bill would achieve either of the Department of Housing's goals, this chapter answers the central question of the dissertation: is a Community Reinvestment Act an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa?

3.2 Will CRA Broaden Access to Banks?

The first goal underlying the draft Community Reinvestment Bill is that of broadening access to South Africa's banks. The draft Bill aims to achieve this by legislating two things: the behavior of bank employees and the practices banks use in evaluating and issuing home loans. Beyond this, the Bill stipulates that banks must lend to low- and medium-income households to an extent prescribed by the Minister of Housing.

Again, from the draft Bill we can infer that the Department of Housing conceives of current access to banks' services as follows:

Current access to banks' services = f (income discrimination + institutional inertia)

We can assume that if this conception of current access to finance is accurate, then the specific changes in bank employee behavior, evaluative practices, and lending practices called for in the draft Bill would result in increased access to the services of South Africa's banks.

The question then becomes the following: has the South African Department of Housing identified accurately the barriers to low- and medium-income people's use of bank services in post-apartheid South Africa? Is limited access to financial institutions in post-apartheid South Africa primarily a function of income discrimination and institutional inertia? Will changes in bank employee behavior, evaluative practices, and lending practices that address these perceived barriers result in broadened access to South Africa's banks?

Interview data assessed for this study suggest that while the Department of Housing has identified accurately some of the barriers to low- and medium-income households access to mortgage finance,[148] it has not

[148] It goes without saying that one of the remnants of apartheid is racism, and that this is likely to affect the way that bank employees treat lower-income (i.e. African) customers. As one housing and lending specialist put it: "I think the thing that makes black South Africans angrier than anything is going into a banking hall and being treated rudely. And not being told why they're being denied, and having it all very un-transparent, and being treated really pretty abysmally. I think that makes them madder than anything…. You know, you want to walk into Nedcor and be treated in a reasonable [manner], if you can afford the credit you want the credit, if you can't, I think you can accept that decision, but you want to be treated decently." (Interviewee 7) A South African banker supported this idea, stating that "we believe that the country has a particular history…I mean the banks have probably 200,000 people, we have no doubt there are individuals that will discriminate on the basis of race." (Interviewee 3a) Bankers were unwilling to discuss at length the issue of discrimination in the practices banks use after a home loan application has been submitted. One banker stated that "one of the

captured, and therefore has not targeted in its draft Community Reinvestment Bill, the full range of barriers to such access. In particular, the interviews[149] reveal that four additional factors greatly affect lower-income people's access to mortgage finance in South Africa today. These factors are: law and order, poverty (and, hence, affordability), unemployment, and a poorly functioning affordable housing market. Each will be considered here.

3.2.1 Law and Order

Time and again interviewees stated that a lack of law and order in the former township areas is one of the major obstacles to banks' issuing home loans in these communities. At its most basic level, a lack of law and order affects a bank's willingness to issue home loans in the first place. Where there is no law and order, a bank will be unable to foreclose upon, repossess, and resell the property that stands as security behind the mortgage loan. This has made bankers unwilling to lend in certain regions so long as the home in question serves as collateral for the loan.[150]

While bankers mention often the issue of law and order during public debates over community reinvestment legislation, in the interviews conducted for this study it wasn't only bankers who acknowledged law and order as a

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things that most of the banks have created in South Africa over the last two or three years is application scoring….[I]t's no longer done by human hands, so that removes a lot of that discrimination." (Interviewee 4) (We did not go on to discuss the "norms" upon which such scoring is based, but it is likely that the banks base such scoring systems upon the traits of past successful (i.e. white, wealthier) borrowers.) Other bankers were more willing to admit that banks alter their lending practices based on the region within which a borrower wishes to purchase a home. For example, one interviewee explained that areas are categorized "as risk category A, B, C, D…in our assessor's system, [and] if it's definitely a house within a category A area, it's not the type of security we want on our book, so we won't lend in that area." (Interviewee 16)

[149] See Appendix A for a detailed description of the qualitative methods employed in this study.

[150] Bankers have been willing to issue home loans where the pension of the borrower serves as the underlying collateral for the loan. However, these "pension-backed loans" are available only to those who are formally employed, and they put the borrower at risk of losing retirement savings should she run into trouble with repayment of the loan.

problem. Housing and lending specialists, community representatives, and even government officials conceded that the breakdown of law and order in the former township areas poses a real problem for banks as they seek to engage with lower-income markets.

One housing and lending specialist put it succinctly when he stated that

> …the reality is that the banks are *not* lending on mortgages at the moment on housing. They're just not lending. I would argue in their favor here, because the environment is just too risky at the moment, you know…the mechanisms aren't in place, the legal system doesn't work effectively. (Interviewee 5)

This claim was supported by a government official, who stated that, "the biggest problem, that…is happening in certain areas, is where the sheriff has problems in evicting people. Because you evict a person, the next day he's back, in the same house. Or if you do evict him, he burns the house down. So the issue of law and order is paramount." (Interviewee 2a) One South African banker supported these claims, explaining the situation at length:

> …they say I can lend into this area, but I will never be able to get my property back. Because what happens is even if you go through the judicial foreclosure process, and you attach the property, and you sell the property at a sale in execution, in certain areas, you're never going to get a buyer for it. So you end up having to buy that property in and it becomes a repossessed property. The ex-borrower will never move out. So all that happens then is that the bank now starts subsidizing that person. So he stops paying his bond because his bond is now closed, you still have a large outstanding balance, short fall on that bond. The bank is then responsible to pay the rates and taxes on that property. And the bank will never dispose of that property. So the bank sits with that property, liable for the rates and taxes, because it's in the bank's name…. (Interviewee 8)

Most interviewees argue that the issue of enforcing law and order is the responsibility of the South African government, and almost all interviewees who mention the issue concede that the government has fallen short in this area. As one housing and lending specialist put it, there has been “a spoken willingness but an acted unwillingness by government in a sense to draw a line under that and say, ‘Due process of law must take its course.’ The banks must be able to take vacant possession of properties in default.” (Interviewee 12) Another housing and lending specialist supported this claim, arguing that in order to create working housing markets there has to be security of tenure and security over the mortgage bond: “that means you have to have law and order in the place, got to be able to serve attachment orders. So that’s the whole task that government really hasn’t done in this country.” (Interviewee 18) A community representative supported these views, stating that “we have a new government and the police can go anywhere. So if then they cannot go to a particular area, it shouldn’t be the banks’ problem. It should be an issue of governance.” (Interviewee 22) Even government employees acknowledge this responsibility; one conceded that “there’s also an onus and obligation on the part of the Ministry [of Housing] to ensure that the environment is conducive to lending. And there has to be that; we’ve got to meet [the banks] halfway.” (Interviewee 20)

3.2.2 Poverty

Poverty was another topic interviewees returned to often when considering barriers to lower-income people’s access to mortgage finance in South Africa. While inadequate law enforcement affects bankers’ willingness to supply credit to low- and medium-income communities, poverty rates affect the demand for credit from such communities. Poverty affects lower-income people’s ability to afford a home, and, even should they have some money with which to pay for a home, affects their ability to afford the mortgage instrument itself. The issues of poverty and affordability were raised by all groups of interviewees, housing and lending specialists, government officials, community representatives, and bankers, alike.

There is no denying that rates of poverty remain high in post-apartheid South Africa, with some 48-percent of South Africa's population living below the official "basic-needs" line.[151] Obviously such a high rate of poverty is going to affect how many people are eligible for housing finance. As one housing and lending specialist put it, the problem in South Africa

> …is affordability. Low-affordability levels…and then on top of that since the election we've lost five-hundred thousand formal jobs through retrenchments. And so people's economic situation is if anything worse at the lower end of the market rather than better. And until we get some significant economic growth, and people's incomes increase, this affordability is going to be the issue. (Interviewee 7)

A government employee echoed this concern, noting that the problem is one of "sheer destitution…76-percent of this country earn 10.66-percent of the income…that alone tells you the enormous problem you're facing." (Interviewee 19)

And of course bankers are keenly aware of the barrier that poverty places on access to finance in post-apartheid South Africa. As one banker noted, "you've seen the income levels of people in the households in South Africa, and you know that 60-percent of the households in this country earn less than 1,500 rand [per month]. They will never get a mortgage." (Interviewee 25) Another banker supported this claim, stating that "if you look at the minimum income levels to sustain a mortgage bond, you'll find that most

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[151] South African Institute of Race Relations, Survey 2001/02. Poverty is measured by the income required to meet the basic needs of households of different sizes. The poverty income ranges from R551 per month for a single person to R2,349 for a household of eight or more.

people in South Africa will be excluded anyway, it's at 50-, 60-percent…[the] mortgage bond is the wrong instrument." (Interviewee 1)

For those who are not living below the poverty line, for those who have jobs and a steady, though low, income, mortgage finance is still very expensive in South Africa. The typical South African mortgage offers a variable interest rate. As of February 2005, South Africa's mortgages carried an interest rate of 11-percent,[152] a 24-year low.[153] South Africa's economy is particularly vulnerable to global economic forces, however, and this can affect interest rates with little warning. In the late 1990s, for example, in response to the Asian economic crisis, South Africa's mortgage rates spiked seven percentage points over a three month period. This led to significantly higher payments being due on mortgages, and the increased costs hit hardest lower-income homeowners. Porteous and Naicker have found that some 59-percent of borrowers in default on their mortgages stopped repaying because they couldn't afford to do so.

3.2.3 Unemployment

Closely linked to levels of poverty are levels of unemployment. As mentioned in Chapter One, South Africa's unemployment rate is 26-percent by the strict definition and 37-percent when discouraged workers are taken into account. As is the case with poverty, high rates of unemployment affect the demand for housing credit by low- and medium-income households. Of the South Africans who are actually working, only 62-percent are formally employed[154] and therefore likely to receive bank finance.[155] This means that in

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[152] Anon. "Interest rate remains unchanged at 11 percent." BuaNews, February 10, 2005.
[153] Anon. "Credit surge may rain on rates parade." Business Day, February 28, 2005.
[154] Source for employment statistics: South African Institute of Race Relations, Survey 2001/02.

total only 39-percent of South Africa's potentially economically active population (those between ages 15 and 65 who are able to work) are formally employed and entitled to partake of banks' loan products. Clearly unemployment acts as a major barrier to low- and medium-income people's access to mortgage finance.

What did interviewees have to say about unemployment in South Africa? One community representative noted that "we've just lost a million jobs since the ANC took over, so it is a profound structural problem in housing finance to have unemployment…." (Interviewee 17) Bankers are particularly aware of the problem that unemployment creates for lending to lower-income people. As one banker said,

> [t]here are people who got into mortgage loans ten years ago who are now structurally unemployed, just can't afford it now. That's not a bank problem, it's a social problem…. [W]e've learned…some very hard lessons, that particularly for the low-income market, mortgage finance is not the route. Especially in our sort of conditions, where we have probably a 35-percent unemployment rate. It's just stupid to tie somebody into a 20-year loan when the guy doesn't know whether he's going to be working next year. (Interviewee 3a)

Given South Africa's unemployment rates, several interviewees directly questioned the usefulness of South Africa's draft Community Reinvestment Bill. As one housing and lending specialist noted, "[The Community Reinvestment Bill] does presuppose that people have income and have jobs…. I don't think any legislation's going to help anybody who doesn't." (Interviewee 5) Even government employees questioned the usefulness of CRA in an environment of such high unemployment: "that's [government's]

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[155] Much like banks in the United States, South Africa's banks prefer to lend to employed individuals with job stability and a predictable stream of income.

political prerogative, if they want to line this up in advance, but the answer might not be that you want to throw credit at the problem. The answer might be that you want to create jobs." (Interviewee 14)

3.2.4 Housing Markets

The final issue that was raised with great regularity as an obstacle to low- and medium-income people's access to housing finance is the lack of well functioning affordable housing markets in post-apartheid South Africa. The lack of such markets creates both supply and demand constraints. On the supply side, developers are unable to make a profit when they build houses that are affordable to lower-income South Africans, and so such housing is not being built. On the demand side, consumers who are interested in obtaining an affordable home encounter poorly functioning real estate processes (a lack of brokers in this market, a lack of information on property values), problems with legal processes (regularization of title, delays in filing), and, of course, the limited supply of such housing just alluded to. Clearly a lack of affordable housing and the curtailed ability to exchange affordable housing affect low- and medium-income people's need for home loans. Poorly functioning affordable housing markets therefore act as a constraint on people's need for and use of formal financial products.

What did bankers, government officials, housing and lending specialists, and community representative have to say about South Africa's affordable housing markets? One housing and lending specialist summed up the supply-side constraints nicely, including his idea of how government might help overcome these barriers:

> [The goal of delivering]…affordable housing means [one must ask] 'what is the legitimate cost to the developer of building a new residential

> area in the kind of price range that people can afford to pay?' And here I think…there has been a lapse in government policy…. [T]here are a whole range of things which I think government could do from a regulatory point of view to ensure that the costs of building houses was less, and which would enhance affordability…. [T]he process of township establishment…is quite inefficient and slow. And you can't build the houses until the land has been rezoned for residential…. [And] the kind of title deed process as well is not efficient. So you wait a long time to register the property, which means it takes a long time for the bank loans to come through, which means that the developer has higher holding costs because they can't transfer and pass the costs on…. So that's one area, the whole township establishment process and…the transfer of title. The second would be a policy which says that local authorities, provincial government, and national government between them would try and make sure that…well located land [is] being made available for this kind of affordable housing market…. The authority has a great deal of influence on the market as far as that's concerned. Finally…the provision of services: if you're a developer building one-and-a-half-million rand townhouses in Sandton, or you're a developer building sixty-thousand rand houses just south of Johannesburg, the cost of linking your development to the infrastructure, the contribution that you have to make is the same. Now, as a percentage of the total cost of a sixty-thousand rand house, it's very high; as the percentage of the total cost of a one-and-a-half-million rand house, it's very low. In the past, various local authorities have waived the contribution to bulk infrastructure…as a way of subsidizing…recognizing that this level of housing is a target of social policy, and that therefore there are ways of ensuring that it gets delivered more affordably. So it's not just the [question of], 'Are there people who can afford the loans, are there people willing to make the loans?' It's [a question of], 'What is government doing at a national and local level to ensure that the environment is conducive for the delivery of relatively low-cost housing?' (Interviewee 12)

Another housing and lending specialist spoke at length about the demand-side constraints within South Africa's affordable housing markets:

> …working markets…require the following things. They do require legal processes that give some certainty. And by that I'm not just saying you've got to send the sheriff and [that] type of stuff; that's an aspect, but I don't even think it's the most important. [It's] important that there's legal certainty over title and things like that. The second thing is

> information. To make a market work, you've got to have better quality information. The third is you've got to have the active brokerage networks, realtors, estate agents, and so on, who are actively seeking to make markets work. Because without a secondary market for houses [i.e. a market for used housing], the valuation processes are always going to be iffy. You also need a borrower base which is educated about the process; that's an information issue, but really education rather than market stats. And you need a borrower base that can afford to buy a house. In other words, that has realistic expectations about what's possible given income levels. [T]hat's five things, and then you need product, housing finance product, that is appropriate, be it mortgage or non-mortgage, be it fixed rate or floating rate, be it long-term or shorter-term, be it whatever, then you need that. (Interviewee 11a)

Government is aware of these demand- and supply-side constraints. As one government employee said,

> [i]f you look at house price ranges, let's say, under eighty-thousand today, there are very few developers, in fact, no developers I can think of that are developing in that area…other than the subsidy houses that are being developed…. The other issue about access is around the secondary markets, secondary property markets [i.e. markets for used housing]. Secondary property markets…in most townships are non-existent. (Interviewee 2a)

Bankers are aware of these constraints as well. One banker explained,

> [y]ou will see there's very, very little in the lower-income market [affordable to] households below R6,000 [monthly income] that is being delivered by developers…. [Y]ou've got the bottom end which is really the subsidy stuff, which is the give-away…but then you've got nothing…and it really starts kicking in from [homes costing] about sixty-thousand upwards…. There's a gap in the market. And that gap, the developers have taken flight from that area because they're unable to satisfy client expectations…and secondly, they've taken flight because there's no money there. (Interviewee 4)

From the statements made by community representatives, housing and lending specialists, bankers, and government officials, it would seem that the draft Community Reinvestment Bill's emphasis on mortgage finance is poorly suited to the needs and abilities of lower-income South Africans. First, mortgage finance is expensive and should only be undertaken if one is certain to have a steady stream of income over the life of the mortgage loan. South Africa's high rates of poverty and low-rates of formal employment suggest that the mortgage instrument might be more burdensome than the average lower-income South African can manage. Second, mortgage finance is only necessary if there are housing markets within which such finance might be used. South Africa's affordable housing markets are poorly functioning at this point, with a limited supply of affordable housing being constructed and with dysfunctional markets through which it might be exchanged.

3.3 Will CRA Increase the Flow of Funds?

The second goal underlying the draft Community Reinvestment Bill is that of increasing the flow of funds into previously marginalized communities. The draft Bill aims to achieve this through three means: by making geographic discrimination in lending illegal, by requiring banks to lend to low- and medium-income households (which would increase the flow of funds into low- and medium-income communities), and by legislating that banks lend to or buy securities from a wholesale lender who will on-lend to niche market lenders or that banks lend directly to niche market lenders.

The Department of Housing's conception of how to secure additional funds for low- and medium-income communities gives us some idea of how the Department of Housing understands the current flow of funds to such communities. From the provisions of the draft Community Reinvestment Bill, we can infer the following:

Current flow of funds to low- and medium-income communities = f (geographic discrimination + inadequate levels of funding for wholesale lenders and niche market lenders)

Again, we can assume that if this equation is accurate, then by restricting geographic discrimination in lending, by requiring banks to lend to low- and medium-income households, and by increasing the funding available to wholesale lenders and niche market lenders, South Africa's Community Reinvestment Bill will result in an increased flow of funds to low- and medium-income communities. And so, as before, the question becomes the following: has South Africa's Department of Housing identified accurately the barriers to low- and medium-income communities' access to housing finance in post apartheid South Africa? Is geographic discrimination in lending a primary cause of such communities' having insufficient funds for their housing needs? Is a lack of funding for wholesale lenders and niche market lenders an obstacle to low- and medium-income communities' ability to obtain housing finance? Each of these questions will be answered here.

3.3.1 Geographic Discrimination in Lending

The debate over community reinvestment legislation in South Africa has been fueled by accusations that South Africa's four main retail banks, ABSA, First Rand, Nedcor, and Standard Bank,[156] engage in "redlining." As defined in South Africa's draft Community Reinvestment Bill, "redlining occurs when a financial institution does not offer a home loan to a borrower or household mainly on account of the house to be financed being located in a particular

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[156] Again, South Africa's retail banking sector is highly concentrated. Four main banks, Standard Bank of South Africa, ABSA, First Rand and Nedcor, known collectively as the "big four" dominate the country's retail financial market. Today the big four are responsible for over 90-percent of mortgage lending in South Africa today.

geographical area or neighbourhood."[157] To date there has been much heated discussion between banks and the Department of Housing over the topic of redlining but very little analysis to determine exactly what the link is between geography and lending in post-apartheid South Africa.

The analysis presented here is an attempt to shed some light on this debate. The question of whether or not geographic discrimination in lending is a primary cause of communities' having insufficient funds for their housing needs is assessed through use of both Census and deed transfer data, which are combined to model lending for affordable housing throughout South Africa's Gauteng Province. These models helps determine whether or not CRA is structured to address the particular relationship that exists between geography and lending in post-apartheid South Africa. This analysis provides part of the answer to the question of whether or not the legislation would result in an increased flow of funds into previously marginalized communities.

Two types of regression analysis are incorporated into the study in order to assess the relationship between geography and lending in the Gauteng Province. The first is a binary logistic regression that attempts to assess how certain area-level variables influence the odds that institutions' will issue affordable home loans to different regions throughout the province. The cases here are the 1,231 "suburbs"[158] demarcated for Gauteng under the 1996 Census. The second regression analysis concentrates on the suburbs in Gauteng where affordable home lending has actually taken place. This OLS

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[157] Department of Housing, Draft Community Reinvestment Bill.

[158] "Suburb" is the term applied to each sub-region of Gauteng in the deed transfer dataset. As is described in Appendix E, these regions are identical to the sub-areas demarcated in the 1996 Census. Within the deed transfer dataset, regions are referred to as "suburbs" whether they are located at the urban fringe, in rural areas, or in the city center. This study utilizes the term "suburb" as it is used in the deed transfer dataset, i.e. to refer to any sub-region of Gauteng demarcated in that dataset.

regression analysis follows a model developed by Bradbury, Case, and Dunham[159] and helps determine which area-level factors affect most significantly the levels of lending to suburbs where affordable home lending has taken place. The cases in the OLS regression are the 618 suburbs (about half of all) from the 1996 Census where affordable home loans have been issued.

Unfortunately, neither of these models can answer definitively exactly how banks incorporate geography in their decision to lend; such an answer could only be provided through an analysis of banks' underwriting guidelines and an assessment of exactly how these guidelines are applied differentially across regions.[160] However, by using Census and deed transfer data to model lending for affordable housing throughout the Gauteng Province, the analysis presented in this study offer a more rigorous examination of the relationship between area-level factors and lending patterns than has been offered to date.

Why does the analysis focus on the Gauteng Province? Gauteng was selected as the focus of this study for three main reasons. First, of South Africa's nine provinces, Gauteng has seen the greatest amount of affordable housing development since South Africa's 1994 political transition. Between April 1994 and September 2003, close to 364,000 new affordable homes had been completed or were under construction in Gauteng.[161] Second, of all of the provinces, Gauteng has seen the greatest demand for affordable housing

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[159] Bradbury, K., K. Case, and C. Dunham. "Geographic Patterns of Mortgage Lending in Boston, 1982-1987." New England Economic Review September/October (1989): 3-30.
[160] As explained in Appendix C, it was hoped that an assessment of geographic discrimination in lending might be conducted through adaptation of a model developed by Stengel and Glennon. (Stengel, M. and D. Glennon. "Evaluating Statistical Models of Mortgage Lending Discrimination: A Bank-Specific Analysis." Real Estate Economics 27.2 (1999): 299-334). However, this model would have required sufficient data from South Africa's banks and such data were not available.
[161] Mabandla.

since the political transition, with close to 1,000,000 government housing subsidies approved in the Gauteng Province between 1994 and September 2003.[162] Third, Gauteng is experiencing the fastest rate of population growth in the country (the growth rate between 1996 and 2001 was 20-percent[163]), which means that it will continue to experience great demand for housing in general, and for affordable housing in particular.

This section will proceed as follows. First, some basic facts about Gauteng in 1996 and an overview of the deed transfer dataset will be presented. Next the binary logistic regression will be discussed and findings from it will be presented. Finally the OLS regression analysis will be presented and major findings will be examined.

3.3.1.1 Affordable Lending in the Gauteng Province

Gauteng is one of nine provinces that South Africa was divided into following the end of apartheid. The Gauteng Province lies in the northeastern part of South Africa and contains two of the country's major cities: Pretoria (the country's capital) and Johannesburg (the country's financial center). In 1996 the population of South Africa was 44.8 million; of this, 8.8 million people (approximately 20-percent of the population) resided in Gauteng.[164] Gauteng is South Africa's smallest province and is also the most densely populated. It is highly urbanized, with some 97-percent of the province's residents residing in urban areas.[165]

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[162] Mabandla.
[163] Statistics South Africa. Census 2001: Key Results. Report No. 03-02-01 (2001). Pretoria: Statistics South Africa, 2001.
[164] Statistics South Africa, Key Results.
[165] City of Johannesburg website, www.joburg.org.za/travel/gaugeng.stm, February 2005.

According to the South African Census,[166] in 1996 approximately 65-percent of Gauteng's households[167] were African-headed and 29-percent were headed by whites (Table 5). Some 57-percent of Gauteng's households

Table 5: Racial Composition of Gauteng in 1996

Race of Household Head	% of All Households
White	29.0
Indian	2.0
Coloured	3.0
African	65.0

(Statistics South Africa. The People of South Africa, Population Census, 1996. Pretoria: Statistics South Africa, 1996.)

had monthly incomes between R0 and R3,500 ("low-income" for the purposes of this study; see Table 6). An estimated 72-percent of Gauteng's economically active population was employed in 1996, though the data gathered for this study do not make clear what percentage of employed individuals worked in the formal versus the informal sector. According to the

[166] As explained in Appendix C, the deed transfer dataset utilized in this study contains transfers that occurred between 1997 and mid-2002. Therefore, the 1996 Census data were the most up-to-date area-level data available at the time the deed transfers in the dataset were made. (South Africa's next census was conducted in 2001 and the results were not released until 2003.) For this reason, 1996 Census data were the relevant data to incorporate into the study.

[167] Household level averages were calculated as follows: the total number of households for each of Gauteng's 24 magisterial districts were added together to arrive at the denominator for each equation; then for each specific household-level phenomenon (white-headed households, for example), the total number of households meeting the criterion within each of Gauteng's 24 magisterial districts was ascertained and these were added together to form the numerator. The exception to this method was the calculation for employment statistics, which were calculated at the individual rather than the household level. In this instance, the total number of persons included in the economically active population within each magisterial district was ascertained and these figures were added together to arrive at the total number of people within the economically active population in Gauteng (denominator); then the total number of individuals within the economically active population in each magisterial district who were either employed or unemployed was ascertained, and these figures were added together to provide the numerators for the calculation of employment and unemployment rates respectively.

Table 6: Income Levels in Gauteng in 1996[168]

Level of Household Income	% of All Households
R0 to R3,500 ("low-income")	57.0
R3,501 to R6,000 ("medium-income")	10.0
R6,001+ ("high-income")	16.0

(Source: Statistics South Africa, <u>Population Census, 1996</u>.)

1996 Census data, approximately 48-percent of Gauteng's households lived in houses on separate stands (free-standing houses[169]), that is, the type of

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[168] Readers will note that the total for households within the three income groups comes to 83-percent. A word of explanation is necessary here. All of the household-level averages for Gauteng were calculated against the total number of households in Gauteng; this means that for all of the averages calculated, the denominator remained constant. The numerators varied a great deal, however, due to discrepancies in reporting. For every category of variable, two categories of "non-reporting" were allowed: "unspecified/dummy" (marked when the respondent didn't answer a question) and "institution/hostel" (marked when an address contained an institutional setting, e.g. a hospital, hostel, etc.). Each of these categories increased the total number of households designated as living within the individual suburbs but did not provide specific information on the attributes of these households (race of household head, gender of household head, income level of household). For the most part, these incidences of non-reporting had little effect on the data included in the study; reporting rates for the variables of interest (race, gender, homeownership, etc.) generally came to over 99-percent. The one exception was the reporting rate for "income." Here the number of households included in the category "unspecified/dummy" was quite high, indicating that households were reluctant to discuss their levels of income with the Census enumerators. For this reason, the total reporting rate for income levels in Gauteng came to 83-percent, meaning that for 17-percent of Gauteng's households there are no data available on levels of household income. In light of this, a decision was required: should levels of income be calculated only for those who reported income (thereby turning the 83-percent who reported their income levels into a 100-percent denominator for the calculation) or should the practice of calculating each income variable against the 100-percent of households included in the 1996 Census be maintained (thereby using the same denominator as was used for every other calculation)? Neither option would provide an accurate picture of levels of poverty and wealth in Gauteng: the first was certain to over-report these phenomena while the second was certain to under-report these phenomena. The second option was chosen, and income levels were calculated as follows: the number of households reporting either low, medium, or high household income was divided by the total number of households reported as residing in Gauteng on the night of the 1996 Census. While this undoubtedly under-reports the actual share of households falling in each category, it is the preferable choice for two reasons. First, it maintains the method of calculation used for all variables included in the study. Second, it reports only what is actually known to be true about Gauteng based on the 1996 Census.

[169] The housing types demarcated under the 1996 Census were as follows: house on separate stand, traditional dwelling, flat in block of flats, town-cluster/semi-detached house, unit in retirement village, house/flat/room in backyard, informal dwelling/shack in backyard, informal dwelling/shack elsewhere, room/flatlet on shared property, caravan/tent, none/homeless, other, unspecified/dummy, NA/institution/hostel. The regression analysis created for this study concerns itself mainly with houses on separate stands for two reasons. First, houses on separate stands are the type most often developed within the price range

housing most likely to receive formal finance from a bank, while 24-percent of the province's households lived in informal housing (the type found in the informal settlement described in Chapter One). The provincial homeownership rate was reported at 71-percent, though it is not clear from the Census whether people owned the houses they were residing in or owned a home elsewhere (in a rural region, for instance).

Just how segregated were economic and racial groups in Gauteng in 1996? This question is an important one to answer for the study. The Department of Housing has asserted that banks are discriminating against low-income communities in their mortgage lending practices. Therefore, regions with a high concentration of low-income people might be starved of credit for their housing needs. The Department of Housing has also stated that banks are being racist in their lending practices, that they discriminate against black borrowers.[170] If this is true and black South Africans are concentrated in certain geographic areas, then it is likely that discrimination against black South Africans will have a geographic effect, cutting certain areas off from access to housing credit. In order to assess the extent of racial and economic segregation in South Africa in 1996, Census data were used to calculate two different measures of these phenomena: concentration quotients and isolation indices.[171] These are presented here.

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under consideration (R35,000 to R104,999). Second, houses on separate stands have higher rates of homeownership than other types of units in the same price range. For these two reasons, houses on separate stands are the type most likely to be eligible for affordable mortgages and are therefore of greatest interest to the study.

[170] One civil servant commented that "the discrimination is two-fold: one is racial grouping, the other one is the household income of a particular sector." (Interviewee 10) According to another government employee, banks' objections to CRA have "nothing to do with the legislation itself or the principles: it's about prejudice. And they just have to move beyond that prejudice and be business like." (Interviewee 23)

[171] Concentration quotients, isolation indices, and multiple regression are all subject to a problem that arises when aggregate geographical data are used in statistical analyses, that is,

Concentration quotients allow one to assess whether a phenomenon is more concentrated in a sub-area of a region than might be expected given the prevalence of the phenomenon across the broader region; therefore, a quotient is the ratio of a local percentage to a regional percentage.[172] For each of Gauteng's 1,231 suburbs, quotients were calculated concerning racial and income-level statistics. The quotients for Gauteng reveal the following about the province in 1996.

In 1996, only one-percent of Gauteng's suburbs contained no African-headed households whatsoever. The remaining suburbs tended to have either quite low or relatively high concentrations of African-headed households (Table 7). In more than half of Gauteng's 1,231 suburbs fewer than 33-percent of households were African-headed (resulting in a quotient of less than .50). At the other extreme, 28-percent of Gauteng's suburbs had rates of African household headship in excess of Gauteng's average of 65.2-percent (resulting in quotients of 1.01 to 1.53). Put simply, racial segregation in

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the modifiable areal unit problem. The modifiable areal unit problem arises due to there being denumerably many ways that individual level data might be grouped within regional analyses; the results one obtains will therefore be influenced by how these data are aggregated. The ideal solution to this problem is to work with individual, fixed-point data; the prohibitive cost of doing so generally rules out this option. Other techniques that might be used to overcome the modifiable areal unit problem involve different methods for dividing a greater region into subunits for analysis. (For a thorough discussion of the modifiable areal unit problem and solutions to this problem, see Páez, A. and D. Scott. "Spatial Statistics for Urban Analysis: A Review of Techniques with Examples." GeoJournal 61.1 (2004): 53-67.) The present study was constrained in its ability to address the modifiable areal unit problem by the fact that the data gathered from South Africa's census bureau were already aggregated at the suburb level by the census bureau. Readers should therefore be aware of the modifiable areal unit problem's potential effect on the analyses presented here.

[172] When a quotient's value is 1.0, we know that the concentration of a phenomenon in a sub-area of a region is equal to its prevalence in the greater region. A ratio less than 1.0 shows that a phenomenon is underrepresented in a sub-area when compared to its representation in the greater region as a whole. A ratio of greater than 1.0 shows that a phenomenon is more highly concentrated in a sub-area than its representation in the region as a whole.

Gauteng in 1996 was still fairly extreme, a remnant from the apartheid era in which people's access to land was based on people's race.

Table 7: Concentration of African-Headed Households in Gauteng's Suburbs, 1996

Quotients (and %)	# of Suburbs	% of Total	Cum. %
0 (0)	10	0.81	0.81
.01 to .25 (<16.3)	344	27.94	28.76
.26 to .50 (16.4 to 32.6)	285	23.15	51.91
.51 to .75 (32.7 to 48.9)	161	13.08	64.99
.76 to 1.0 (49 to 65.2)	89	7.23	72.22
1.01 to 1.53 (65.3 to 100)	342	27.78	100.00
Total	1231	100.00	

(Source: Statistics South Africa, Population Census, 1996.)

Measures of the concentration of white households throughout the Gauteng Province in 1996 were even more extreme (Table 8). First, 20-percent of Gauteng's suburbs (249 suburbs) contained no white-headed households at all. Second, some 66-percent of Gauteng's 1,231 suburbs contained greater concentrations of white-headed households than the

Table 8: Concentration of White-Headed Households in Gauteng's Suburbs, 1996

Quotients (and %)	# of Suburbs	% of Total	Cum. %
0 (0)	249	20.23	20.23
.01 to .25 (<7.3)	77	6.26	26.48
.26 to .50 (7.4 to 14.5)	33	2.68	29.16
.51 to .75 (14.6 to 21.8)	24	1.95	31.11
.76 to 1.0 (21.9 to 29)	30	2.44	33.55
1.01 to 2.0 (29.1 to 58)	172	13.97	47.52
2.01 to 3.0 (58.1 to 87)	485	39.40	86.92
3.01 to 3.45 (87.1 to 100)	161	13.08	100.00
Total	1231	100.00	

(Source: Statistics South Africa, Population Census, 1996.)

provincial average of 29-percent. This shows that white-headed households tended to concentrate in a smaller number of suburbs than did African-headed households, and where they did concentrate they did so more intensely than did African-headed households.

In order to get a clearer picture of the level of segregation in Gauteng, the Census data were used to calculate isolation indices for both white- and African-headed households.[173] These show that the province was indeed segregated in 1996. The index for African-headed households was .88, which meant that the average African-headed household resided in a suburb where 88-percent of households were also African-headed (despite only 65-percent of all of Gauteng's households being African-headed). The isolation of white-headed households was even more extreme. Although only 29-percent of Gauteng's total households in 1996 were white-headed, the average white household lived in a neighborhood where approximately 74-percent of other households were headed by whites.

Income segregation, another remnant of the apartheid era, is revealed through an examination of income-based concentration quotients for Gauteng in 1996. The data reveal that approximately 57-percent of the province's households were low-income (earning between R0 and R3,500 per month) and that these households resided in almost all of Gauteng's 1,231 suburbs (Table 9). Gauteng's low-income households in 1996 were distributed similarly to the province's African-headed households: suburbs tended to have either relatively low or relatively high concentrations of these households. The isolation index for low-income households came to .65,

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[173] The isolation index is calculated as follows: $\sum [(x_i/X)*(x_i/t_i)]$, where: x_i = the number of category x members (Africans, for example) in neighborhood "i"; X = number of category x members (Africans, for example) in the province; and t_i = total number of residents in neighborhood "i". As in all calculations based on Census data, totals include the categories "unspecified/dummy" and "institution/hostel."

Table 9: Concentration of Low-Income Households in Gauteng's Suburbs, 1996

Quotients (and %)	# of Suburbs	% of Total	Cum. %
0 (0)	7	0.57	0.57
.01 to .25 (<14.2)	59	4.79	5.36
.26 to .50 (14.3 to 28.5)	271	22.01	27.38
.51 to .75 (28.6 to 42.7)	316	25.67	53.05
.76 to 1.0 (42.8 to 56.9)	202	16.41	69.46
1.01 to 1.5 (57 to 85.4)	280	22.75	92.20
1.51 to 1.76 (85.5 to 100)	96	7.80	100.00
Total	1231	100.00	

(Source: Statistics South Africa, Population Census, 1996.)

indicating that these households were more isolated than might be expected given the Gauteng average of 57-percent (Table 10).

Table 10: Income Segregation in Gauteng, 1996

Monthly Income	% of All Households	Isolation Indices
Low (R0 to R3,500)	57.0	.65
Medium (R3,501 to R6,000)	10.0	.14
High (R6,001+)	16.0	.35

(Source: Statistics South Africa, Population Census, 1996.)

Medium-income households (those earning between R3,501 and R6,000 per month) were more concentrated into fewer of Gauteng's suburbs than low-income households were in 1996 (Table 11). Four-percent of the region's suburbs contained no medium-income households at all, but the majority of suburbs (55-percent) contained concentrations of medium-income households in excess of the provincial average of 10-percent. Gauteng's medium-income households in 1996 were concentrated in a smaller number of suburbs than its low-income households, and were concentrated at levels either near or higher than the regional average of 10-percent. This resulted in medium-income households' having an isolation index of .14, meaning that for

Table 11: Concentration of Medium-Income Households in Gauteng's Suburbs, 1996

Quotients (and %)	# of Suburbs	% of Total	Cum. %
0 (0)	48	3.90	3.90
.01 to .25 (<2.6)	99	8.04	11.94
.26 to .50 (2.7 to 5.2)	107	8.69	20.63
.51 to .75 (5.3 to 7.8)	139	11.29	31.93
.76 to 1.0 (7.9 to 10.4)	150	12.19	44.11
1.01 to 2.0 (10.5 to 20.8)	541	43.95	88.06
2.01 to 3.0 (20.9 to 31.2)	138	11.21	99.27
3.01 to 4.0 (31.3 to 41.6)	8	0.65	99.92
4.01 to 5.0 (41.7)	1	0.08	100.00
Total	1231	100.00	

(Source: Statistics South Africa, Population Census, 1996.)

the average medium-income household, 14-percent of its neighbors were also medium-income (Table 10).

High-income households (those earning more than R6,000 per month) residing in Gauteng in 1996 were the most concentrated in their residential patterns of the three income groups (Table 12). While five-percent of suburbs contained no high-income households at all, the majority of suburbs

Table 12: Concentration of High-Income Households in Gauteng's Suburbs, 1996

Quotients (and %)	# of Suburbs	% of Total	Cum. %
0 (0)	58	4.71	4.71
.01 to .25 (<3.9)	215	17.47	22.18
.26 to .50 (4.0 to 7.9)	93	7.55	29.73
.51 to .75 (8.0 to 11.8)	58	4.71	34.44
.76 to 1.0 (11.9 to 15.7)	62	5.04	39.48
1.01 to 2.0 (15.8 to 31.4)	271	22.01	61.49
2.01 to 3.0 (31.5 to 47.1)	297	24.13	85.62
3.01 to 4.0 (47.2 to 62.8)	163	13.24	98.86
4.01 to 5.0 (62.9 to 78.5)	12	0.97	99.84
5.01 to 6.0 (78.6 to 94.2)	2	0.16	100.00
Total	1231	100.00	

(Source: Statistics South Africa, Population Census, 1996.)

(approximately 61-percent) contained a percentage of high-income households in excess of the Gauteng average of 16-percent. The isolation index for high-income households is .35 (Table 10): despite only 16-percent of Gauteng's households being classified as high-income, the average high-income household in 1996 resided in a suburb where 35-percent of its neighbors were also high-income.

Having looked at some of the demographics for Gauteng in 1996, it is now important to present an overview of affordable lending in that province between 1997 and 2002.[174] In the four and a half years between January 1, 1997 and July 19, 2002,[175] 613,973 deed transfers were registered for the Gauteng Province. Of these, 27,318 were for houses whose value fell between R35,000 and R104,999 and were linked to a mortgage bond whose value was less than or equal to R100,000 (hereafter called "affordable lending"). This means that approximately 4.5-percent of all Gauteng deed transfers from the time period of interest were for an affordable home on which a mortgage bond had been issued.

After these data were cleaned, 26,653 deed transfer cases remained in the dataset.[176] Who had issued the mortgage bonds attached to these houses? Some 23,881 deed transfers (90-percent of the cases)were linked to mortgages held by one of the "big four" financial institutions: ABSA held 26.5-

[174] These facts are a summary of the 26,653 record deed transfer dataset.
[175] It should be noted that it can take several months for the Deeds Office to enter new transfers into its database. It should also be noted that Property24 receives its data from the Deeds Office on a monthly basis with a one month lag in the data it receives; for example, in March, Property24 receives all data entered by the Deeds Office in February. The data for this study were sourced from Property24 on July 19, 2002 and the most recent transfer listed in the dataset at that point was for June 24, 2002. It is certain that any number of transfers from the several months preceding July, 2002 were not yet entered in the Deeds Office database and therefore were not yet available in the Property24 database on July 19, 2002.
[176] See Appendix E for a thorough explanation of how these data were cleaned.

percent; First Rand held 22-percent; Standard Bank held 21.5-percent; and Nedcor held 19.6-percent.[177] The outstanding share of the mortgages – 10.4-percent – were held by smaller banks (e.g. African Bank Ltd., Islamic Bank Ltd., Mercantile Bank Ltd.), were employer related (e.g. City of Johannesburg Pension Fund, Transnet Ltd.), were held by loan companies or developers (Greenstart Home Loans Pty. Ltd., Lulasiko Developers Cc), or were held by private individuals.[178] Within the dataset, the median housing price was R74,000, while the median mortgage amount was R73,000.

Under the 1996 Census, Gauteng was divided into 1,266 suburbs, 1,231 of which were incorporated into the study.[179] Out of these 1,231 suburbs, 618 included at least one affordable mortgage-linked deed transfer.[180] This means that 50-percent of the suburbs incorporated into the study contained at least one deed transfer for a mortgage-linked affordable home. The median number of loans made in the 618 suburbs was 11.

3.3.1.2 What Factors Affect the Odds of Lending to Suburbs?

In order to assess lending throughout Gauteng, two types of regression analysis were conducted. First, a binary logistic regression was developed in order to assess what independent variables influence the odds of different agents' issuing affordable loans in each of Gauteng's suburbs (N = 1,231). Second, having assessed what factors influence the odds that lending will occur in Gauteng's suburbs, an OLS regression was created in order to

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[177] Again, South Africa's retail banking sector is highly concentrated, and the big four are responsible for over 90-percent of mortgage lending throughout South Africa. (Joffe.)

[178] Outside of the big four, the only agencies that held a significant share (defined as greater than one-percent of the dataset) of the 26,653 mortgages were Ferrobond Pty. Ltd. (1.4-percent of the dataset) and Transnet Ltd. (5.7-percent of the dataset).

[179] See Appendix E for an explanation of why 35 of Gauteng's suburbs had to be excluded from the regression dataset.

[180] Again, an affordable mortgage-linked deed transfer is one with a value of less than or equal to R100,000 that is linked to a house valued between R35,000 and R104,999.

determine what combination of independent variables affects the number of loans made in suburbs where affordable loans have been issued (N = 618). Findings from the binary logistic regression will be presented here.

Binary logistic regression[181] was incorporated into the study in order to assess the effect of continuous, area-level variables (Table 13) on a binary dependent variable, which is whether or not lending for affordable housing had occurred at the area level. The binary dependent variable used in this study was coded "1" if lending had occurred in a suburb and "0" if it had not.

Table 13: Binary Logistic Regression Independent Variables[182]

Variable	Description
NOHHSUB	the number of households in the suburb
PERHHAFR	the percent of households in the suburb headed by Africans
PERHHNON	the percent of households in the suburb headed by non-whites
PERHHWHI	the percent of households in the suburb headed by whites
PERHHFEM	the percent of households in the suburb headed by females
PERHHMAL	the percent of households in the suburb headed by males
PERHHLOW	the percent of households in the suburb that fell into the low-income category
PERHHMED	the percent of households in the suburb that fell into the medium-income category
PERHHHIG	the percent of households in the suburb that fell into the high-income category
PEREMP	the percent of the suburb's economically active population that was employed

[181] See Appendix C for a full description of this technique and its incorporation into the study.
[182] See Appendix E for an explanation of how each of these independent variables was calculated.

Table 13 (Continued)

PERUNEMP	the percent of the suburb's economically active population that was unemployed
PERHHSEP	the percent of households living in houses on separate stands
PERHHFIN	the percent of households living in houses likely to receive finance
PERHHINF	the percent of households living in informal housing
PERHHOWN	the percent of households in the suburb who own their home

The binary logistic regression was conducted in order to ascertain how certain area-level variables affect the likelihood that different actors will issue loans at the area level throughout Gauteng. Table 14 provides details on the dependent variables that were incorporated into six different models.

Table 14: Binary Logistic Regression Dependent Variables

Variable	Description
LOGITDT	the presence or absence of at least one affordable home loan, regardless of who had made the loan
LOGITABS	the presence or absence of at least one affordable home loan made by ABSA
LOGITFR	the presence or absence of at least one affordable home loan made by First Rand
LOGITNED	the presence or absence of at least one affordable home loan made by Nedcor
LOGITSTD	the presence or absence of at least one affordable home loan made by Standard Bank
LOGITOTH	the presence or absence of at least one affordable home loan made by a party other than the big four

Before trends across the six best[183] models are presented, the findings from the model for the dependent variable LOGITDT (the presence or absence of any affordable home loan, regardless of who had made the loan) are

[183] See Appendix C for a discussion of how the "best model" for capturing the change in the log odds of being in the category of interest on the dependent variable was arrived at.

presented. These findings are included here for two reasons: first, because they provide an example of how the various binary logistic regression analyses were conducted and assessed; and second, because the model concerning lending by all institutions (big four lenders and others) was used as a basis for the discussion of the five other models, each of which shared some findings with this main model.[184]

The best model for the dependent variable LOGITDT[185] included eight predictors, each of which was significant at the .05 level (Table 15). It would appear that the model has good predictive ability: while blind estimation of the most frequently occurring category (that lending occurred) for all cases would have resulted in 50-percent of cases assigned correctly, use of the model improves this predictive ability to 76-percent.[186]

How are the eight independent variables in the model related to the odds that lending will occur in Gauteng's suburbs? Two covariates are negatively correlated with the odds: the share of households that are African-headed (PERHHAFR) and the percent of the suburb's households living in

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[184] An exhaustive overview of each of the remaining five models, that is, the models for ABSA, First Rand, Nedcor, Standard Bank, and other parties, may be found in Appendix D.

[185] The model was significant (Chi-square 480.417, eight degrees of freedom, significance of .000), so it was possible to reject the null hypothesis that none of the predictors was linearly related to the log odds of the dependent variable. The Hosmer and Lemeshow Goodness-of-Fit Test resulted in a significance of .066; this is greater than .05, as is desirable with this test, and means that what variance the model explains is explained to a significant degree.

[186] This study will not report the R^2 values associated with each "best" logistic regression model. The R^2 statistic in logistic regression has a different meaning from the R^2 statistic in OLS linear regression, where it depicts the proportion of variation in the dependent variable explained by the model. Hosmer and Lemeshow believe that R^2 measures in logistic regression analysis "can provide useful statistics for comparing competing models [sic] fit to the same set of data" (p. 164), but that the best assessment of a model's fit is provided through a comparison of observed and predicted values from the fitted model. This study relied upon the R^2 statistic to provide a general comparison between different models' fit to the same set of data, as advocated by Hosmer and Lemeshow. See Hosmer, D. and S. Lemeshow. Applied Logistic Regression. New York: John Wiley and Sons, Inc., 2000 for a more complete discussion of the role of the R^2 statistic in logistic regression analysis.

Table 15: Binary Logistic Regression Model for LOGITDT

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.001	.000	70.428	1	.000	1.001
PERHHAFR	-.018	.004	23.200	1	.000	.982
PERHHMAL	.017	.008	5.359	1	.021	1.018
PERHHMED	.064	.012	29.799	1	.000	1.066
PERUNEMP	.043	.009	25.340	1	.000	1.044
PERHHSEP	.018	.004	22.054	1	.000	1.018
PERHHINF	-.023	.007	12.287	1	.000	.977
PERHHOWN	.009	.004	6.262	1	.012	1.009
Constant	-3.708	.560	43.806	1	.000	.025

informal housing (PERHHINF). Closer examination of the odds ratio for the first variable reveals that for each one percentage point increase in the percent of African-headed households in a suburb, the odds of any agent issuing an affordable home loan in that suburb decrease by 1.8-percent, controlling for all other independent variables.[187] Put more simply, the likelihood of there being affordable lending to a region decreases as the percent of African-headed households in the region increases. Because the percent of African-headed households was negatively correlated with the odds of lending in each of the six models, this finding will be discussed in the section assessing trends across the six models.

The second variable with a negative beta coefficient is the percent of households in the suburb living in informal housing (PERHHINF). For every one percentage point increase in the percent of such households, the odds of at least one affordable loan having been made decrease by 2.3-percent. This finding is unsurprising: it makes intuitive sense that a greater level of informal

[187] As is explained in Appendix C, this study uses the binary logistic regression analysis in order to calculate the percentage change in the odds of being in the category of interest in the dependent variable given a one-unit increase in the independent variable. This is accomplished though use of the odds ratio, Exp(B), which is incorporated into the following calculation in order to arrive at the percentage change in the odds: 100 * [Exp(B)-1].

housing in a region makes lending less likely to the region, since informal housing is not a type that is eligible for mortgage finance and since regions with much informal housing tend to be regions with much poverty (and hence, limited demand for mortgage finance).

The remaining variables are all positively correlated with the odds that lending will occur in Gauteng's suburbs. Controlling for all other variables, the number of households in the suburb (NOHHSUB) has a very small, positive impact on the odds of lending, as does the percent of households in the suburb who reported being homeowners (PERHHOWN). Every additional household residing in a suburb increases the odds of lending by .10-percent while every one percentage point increase in the percent of households reporting homeownership increases the odds of lending by .90-percent.

Two variables with an equal positive impact on the odds that lending will occur at the area level are the percent of the suburb's households headed by males (PERHHMAL) and the percent of the suburb's households living in housing on separate stands (PERHHSEP). For every one percentage point increase in each of these predictors, the odds that lending will occur in a region increase by 1.8-percent, controlling for all other variables. The finding concerning gender is troubling, as it indicates that areas with a greater percentage of male-headed households have a higher likelihood of being issued affordable home loans. It is not possible to say whether this finding is the result of discrimination against individual (female) borrowers, is the result of a greater number of men than women applying for housing finance, or is the result of a correlation between gender and another area-level variable not included in the study. The finding concerning the percent of households living in housing on separate stands is unsurprising. Houses on separate stands are the type most likely to receive mortgage finance, so it is to be expected that as the share of such houses increases across areas, so too will increase the likelihood that banks will issue finance at the area level.

Finally, two covariates have a fairly significant, positive impact on the odds that lending will occur in a suburb. These are the share of the suburb's households that fall into the medium-income category (PERHHMED) and the share of the suburb's economically active population that is unemployed (PERUNEMP). Controlling for all other predictors, for every one percentage point increase in the percent of a suburb's households who report being in the medium-income category, the odds of any institutions' lending to that suburb increase by 6.6-percent. This makes intuitive sense. Affordable home loans are normally linked to housing that is appropriate for those in the "credit gap," i.e. households who earn between R3,501 and R6,000 per month; these households have been designated as falling into the "medium-income" category in this study. It is therefore not surprising that as the percentage of medium-income households in a region increases, so too increase the odds that affordable home loans will be issued to that region.

The finding for PERUNEMP is a bit surprising at first. For every one percentage point increase in the percent of a region's economically active population that is unemployed, the odds of there being affordable home lending to that region increases by 4.4-percent, controlling for all other independent variables. Upon further reflection, however, it is not necessarily unexpected that unemployment rates are positively correlated with the odds of affordable home loans' being issued to regions. This analysis concerns itself with the distribution of loans connected to affordable housing, i.e. housing costing between R35,000 and R104,999. Such housing is a good deal less expensive than traditional market rate housing and tends to be built in areas where low- and medium-income households reside. Areas where low- and medium-income households reside are poorer than areas where high-income households reside, and these areas generally have higher unemployment rates than wealthier areas. It is not surprising, therefore, to find that as unemployment rates increase in Gauteng's suburbs, so too increases the likelihood that affordable home loans will be issued to these suburbs. It is only when a suburb gets quite poor that the odds of lending actually decrease, as demonstrated by the negative correlation between the odds of lending and the percent of households living in informal housing (PERHHINF).

Having discussed in depth the model concerning lending by all institutions in Gauteng (LOGITDT), the text will now present trends across the different "best" models concerning each of the six dependent variables.[188] Again, these six models concern affordable home lending by all institutions (LOGITDT, just discussed), affordable lending by each of the big four financial institutions, i.e. ABSA, First Rand, Nedcor, and Standard Bank (LOGITABS, LOGITFR, LOGITNED, and LOGITSTD, respectively), and affordable home lending by actors other than the big four financial institutions (LOGITOTH).

A cursory glance across the six models reveals that five variables are significant in each model and in similar ways across the models (Table 16). What is interesting and important about these and related findings as concerns South Africa's community reinvestment legislation efforts?

The first interesting common factor across the models is that, despite the Department of Housing's contention that banks are discriminating against

[188] For an examination of each individual model, see Appendix D.

low-income areas, the percent of low-income households in an area was rarely significantly influential on the odds of lending's occurring at the area level. In

Table 16: Significant Independent Variables in all Six Binary Logistic Regression Models

Variable	Description	Correlation
NOHHSUB	the number of households in the suburb	positive
PERHHAFR	the percent of households in the suburb headed by Africans	negative
PERHHMED	the percent of households in the suburb that fell into the medium-income category	positive
PERUNEMP	the percent of the suburb's economically active population that was unemployed	positive
PERHHSEP	the percent of households living in houses on separate stands	positive

the one instance where this variable was significant, in the model concerning ABSA's lending patterns, the percent of low-income households was in fact positively correlated with lending at the area level. This means that as the share of such households increases in areas, the likelihood of ABSA's lending to areas increases also. Outside of this one instance in which the share of low-income households was positively correlated with the likelihood that a bank would lend at the area level, the percent of low-income households in an area was an unimportant variable in terms of the odds that banks would lend to the area.

The second significant finding is that the percent of African-headed households in a suburb is negatively correlated with the odds of lending occurring at the area level in each of the six models. Put more simply, as the percent of African-headed households increases, the likelihood that affordable lending will occur decreases. Across the models, a one percentage point increase in the percent of African-headed households in a suburb results in between a 1.4- and a 2.1-percent decrease in the odds that affordable home lending will occur at the area level (these figures are from the models concerning Nedcor and parties other than the big four lenders, respectively).

This trend would seem to confirm government officials' and housing and lending activists' accusations that banks are discriminating against black people in their lending practices. Can the binary logistic regression actually confirm that this is the case? No; the binary logistic regression can only determine what variables are correlated with a change in the odds that affordable lending will occur at the area level. However, while the analysis cannot determine why a certain correlation exists, it is well worth stopping to consider what might explain the negative correlation between the percent of African-headed households in an area and the odds that affordable home lending will occur.

Certainly, one explanation for the negative correlation between the percent of African-headed households in an area and the odds of lending occurring to that area might be that banks are behaving in a racist fashion when deciding where to issue loans. One housing and lending specialist believes that this is the case, although this interviewee thought there was a deeper explanation for this phenomenon. According to this individual:

> [t]he problem has been, and this is where it's seen as racist, is that there's been a migration from the black areas to other areas. It started with Hillbrow. Hillbrow became black and then Berea nearby, then Yeoville, and Bellevue. So now moving south, there are working class neighborhoods that have been stable for years and years and years, [that] have been targeted as residential areas by a lot of black people. And those areas have become redlined now. Now the knee-jerk reaction is that it's because black people have moved into those areas

> that banks have stopped lending there, and that it's pure racist. Because it's now a black area, they're not going to lend there. Now there might be some truth in that. However, if you were to analyze it more deeply, what actually happened is that those areas were to some extent invaded by illegal occupants. If a house became vacant, squatters would move in. Or, alternatively, absentee landlords would then overcrowd the properties. So you would get fifteen people living in a house that was really only designed for four or five people. Now the upshot of that is that the neighborhood and the individual property, the asset, gets rapidly degraded because the people are paying quite exorbitant rents, probably, the landlord has no interest in maintaining the property… . So suddenly the neighborhood now becomes a 'bad' environment, not because it's now occupied by black people, but because…the properties are not maintained. So it becomes a self-fulfilling prophecy. The bank says, 'Ooh! I don't think that this property's going to be worth a hundred-thousand in a year's time, so I'm only going to lend the people seventy.' And lo and behold what happens? It's only worth seventy in a year's time. You know, so it becomes a self-fulfilling prophecy, and that I think is the issue. And the government sees this now as being geographically prejudicial, if that's the right word. And to some extent it is. But it's possibly just a reflection of what's happening within that geographical area. (Interviewee 5)

While the most obvious explanation for the negative correlation between the percent of African-headed households in an area and the odds of affordable lending's occurring in that area is that banks are behaving in a racist fashion, there is one problem with this explanation: of all six models, the model depicting the lending practices of smaller banks, non-bank lenders, other entities, and individuals (LOGITOTH) demonstrates the greatest negative correlation between the percent of African-headed households and the odds of lending's taking place at the area level (with a 2.1-percent decrease in the odds of lending for every one percentage point increase in the percent of African-headed households in the area, controlling for all other predictors). This group of entities includes (though is not limited to) lenders and developers whose mandate is to serve those who have been unable to receive finance from banks in the past, mainly Africans. So while the negative correlation between the percent of African-headed households and the odds of lending might be attributable to banks' behaving in a racist fashion, the fact that the odds of other entities' lending are even more significantly influenced by this dependent variable means that something additional might be going on here.[189] What further factors might account for this negative correlation?

First, the negative correlation might be due to limited demand within these regions. Areas with a greater concentration of African-headed households might be less likely to require home loans, even affordable home loans, due to limited affordability in these areas. One problem with this explanation, however, is that the variable to do with low-income households was insignificant across most of the models, and where it was significant (in the ABSA model) the percent of low-income households was positively correlated with the odds of lending.

A second explanation for this negative correlation might be that areas with the highest concentration of African-headed households are correlated with the most crime-ridden areas of Gauteng. Bankers admit quite openly that crime rates affect their willingness to lend at the area level, and it is to be expected, therefore, that there would be a decreased odds of lending to areas where crime rates are the highest. This hypothesis could be tested were

[189] Of course, small lenders might be even more reliant on crude indicators, such as racial composition of areas, in their decision making processes than large lenders are for the simple reason that small lenders have less information than large lenders have. However, since the variable LOGITOTH includes lenders and developers whose mandate is to serve those who have been unable to receive finance from banks in the past, i.e. Africans, it seems odd that this model demonstrates the greatest negative correlation between the percent of African-headed households and the odds of lending's taking place at the area level. For this reason, it is worth at least considering what factors besides racism might account for this negative correlation.

sufficient area-level data on crime available for inclusion in the study; unfortunately such data were not available for the study.[190]

A third possible explanation for the negative correlation between the percent of African-headed households and the odds of lending for affordable housing might concern where affordable housing is actually being constructed in Gauteng. As Bradbury, Case, and Dunham have noted, "any factor that affects the supply of housing or the demand for housing, as well as the demand for mortgages or the supply of mortgages, will have an effect on the volume of credit flowing to a given neighborhood."[191] Housing construction is surely one factor that will affect the demand for credit within regions, and it might be the case that developers who specialize in constructing affordable homes are not choosing to build in the regions of Gauteng containing the greatest concentration of African-headed households. This would mean that the demand for affordable home loans would be less in these areas and therefore that the odds of lending to these areas would be less.

Returning to patterns across the binary logistic regression models, a third and interesting trend is the consistent importance of the variable to do with the percent of medium-income households at the area level. This variable was significant in every model and it is always positively correlated with the odds of lending's occurring. In addition, in every model this predictor affects the odds of lending to a more significant degree than any other predictor. The effect of a one percentage point increase in the percent of

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[190] There has been an intermittent, unofficial moratorium on the release of crime statistics in South Africa in recent years, imposed first by Safety and Security Minister Steve Tshwete and then by his replacement Charles Nqakula. The explanation for this action is that release of crime statistics has been deemed to be "demoralizing for the general public." (Anon. "Minister Lifts Veil On SA's Crime Statistics." Business Day, August 23, 2002.)
[191] Bradbury, Case, and Dunham, p. 4.

medium-income households in an area, holding all other predictors constant, ranged from an increase of 6.6-percent in the odds of lending (for all institutions combined) to an increase of 9.4-percent in the odds of lending (for institutions other than the big four banks). Across the big four banks, the effect of a one percentage point increase in the percent of medium-income households in a region ranged from a 6.4 percentage point increase in the odds of lending (for Nedcor) to a 9.3 percentage point increase in the odds of lending (for First Rand). This means that areas with a higher percentage of households living in what is popularly called the “credit gap” (households earning between R3,501 and R6,000 per month) are more likely to receive affordable home loans than are areas with fewer of these households.

The finding concerning medium-income households would seem to contradict one of the main rationales for the institution of CRA. South Africa’s draft Community Reinvestment Bill is intended, in part, to address the needs of those in the “credit gap,” i.e. households who are too wealthy for a government subsidy and too poor for traditional bank finance. It is thought that households living in this income bracket lack access to appropriate levels of finance for their housing needs. However, the model shows that where these households reside in greater concentrations, housing finance from both the big four banks and from other actors is most likely to flow.

While the finding concerning medium-income households might seem to contradict one of the main rationales for CRA, it is important to keep this finding in perspective. While the presence of medium-income households in a suburb might be positively correlated with the odds of lending to that area, it must be kept in mind that the affordable home loan-linked transfers that are the focus of this analysis constitute only a small percentage of all of the deed transfers that occurred during the time period of interest. While some 613,973 deed transfers occurred in Gauteng during the period under study, only a fraction of these, some 4.5-percent, were linked to affordable housing that had received mortgage finance. So while the loans that different parties make for affordable housing might be targeted at those living in the “credit gap,” loans of this type constitute only a fraction of all mortgage lending that is taking place in post-apartheid South Africa.

3.3.1.3 What Factors Affect the Level of Lending to Suburbs?

The analysis just presented concerned itself with which variables influence the likelihood that lending for affordable housing will occur across Gauteng’s 1,231 suburbs. Now that the issue of what affects the odds of lending has been examined, it is time to consider more closely those areas within which affordable home lending has occurred. How do the area-level characteristics of the 618 suburbs within which such lending has occurred affect the level of lending to those suburbs?

In order to consider this question, this study utilized OLS multiple regression analysis in which a dependent variable (Y_i) is seen as a linear function of more than one independent variable (X_k).[192] The independent variables tested for inclusion in the models were the same as those tested for inclusion in the binary logistic regression analysis (Table 17).

Multiple regression analysis was conducted in order to assess how certain area-level variables affect the level of lending that different actors engage in at the area level throughout Gauteng. The dependent variables incorporated into six different models may be found in Table 18.

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[192] For a detailed description of this technique and its incorporation in the study, see Appendix C.

Table 17: OLS Multiple Regression Independent Variables

Variable	Description
NOHHSUB	the number of households in the suburb
PERHHAFR	the percent of households in the suburb headed by Africans
PERHHNON	the percent of households in the suburb headed by non-whites
PERHHWHI	the percent of households in the suburb headed by whites
PERHHFEM	the percent of households in the suburb headed by females
PERHHMAL	the percent of households in the suburb headed by males
PERHHLOW	the percent of households in the suburb that fell into the low-income category
PERHHMED	the percent of households in the suburb that fell into the medium-income category
PERHHHIG	the percent of households in the suburb that fell into the high-income category
PEREMP	the percent of the suburb's economically active population that was employed
PERUNEMP	the percent of the suburb's economically active population that was unemployed
PERHHSEP	the percent of households living in houses on separate stands
PERHHFIN	the percent of households living in houses likely to receive finance
PERHHINF	the percent of households living in informal housing
PERHHOWN	the percent of households in the suburb who own their home

Before trends across the six best[193] OLS regression models are presented, the findings from the model concerning the dependent variable NOTOTDT (the number of deed transfers linked to a mortgage valued less than or equal to R100,000 where the house was valued between R35,000 and

[193] See Appendix C for a discussion of how the "best model" for capturing the change in the number of loans issued at the area level was arrived at.

Table 18: OLS Multiple Regression Dependent Variables

Variable	Description
NOTOTDT	total number of deed transfers where the house was valued between R35,000 and R104,999 and was linked to a mortgage valued at less than or equal to R100,000, regardless of who had made the loan (i.e. total number of mortgage-linked deed transfers for affordable housing)
NOABSADT	number of mortgage-linked deed transfers for affordable housing made by ABSA
NOFRDT	number of mortgage-linked deed transfers for affordable housing made by First Rand
NONEDDT	number of mortgage-linked deed transfers for affordable housing made by Nedcor
NOSTDDT	number of mortgage-linked deed transfers for affordable housing made by Standard Bank
NOOTHDT	number of mortgage-linked deed transfers for affordable housing made by a party other than one of the big four banks

R104,999, regardless of who made the loan) will be presented. These findings are included here because they provide an example of how the different OLS multiple regression analyses were conducted and assessed and because this model was used as the basis for the discussion of the five other models.[194]

The best OLS multiple regression model for the dependent variable NOTOTDT, the number of affordable mortgage-linked deed transfers made by the big four banks as well as by other lenders, business entities, and individuals, included: the number of households in the suburb (NOHHSUB), the percent of households in the suburb falling into the medium-income category (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), and the percent of households in the suburb

[194] An exhaustive overview of each of the remaining five models, that is, the models for ABSA, First Rand, Nedcor, Standard Bank, and other parties, may be found in Appendix D.

falling into the low-income category (PERHHLOW) (Table 19). The model had an R^2 of .285, indicating that the model accounts for 29-percent of the variation in the dependent variable; put differently, the model fails to explain 71-percent

Table 19: OLS Multiple Regression Model for NOTOTDT

MODEL SUMMARY

R	R Square	Adjusted R Square	Std. Error of the Estimate
.534	.285	.280	97.63

COEFFICIENTS

Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-116.584	20.430		-5.706	.000
NOHHSUB	9.162E-03	.001	.484	13.347	.000
PERHHMED	2.857	.714	.151	4.001	.000
PERHHSEP	.938	.200	.178	4.696	.000
PERHHLOW	.938	.229	.163	4.093	.000

of the variation in the number of loans made at the area level by all institutions. The meaning of this low R^2 statistic, as well as the generally low R^2 statistics arrived at for the other models, will be considered toward the end of this section.

What are the effects of the individual variables within the model? The number of households in the suburb, the share of medium-income households in the suburb, and the percent of households living in houses on separate stands, when the other independent variables are held constant, is each positively correlated with the number of loans issued at the area level. Simply put, the more households in a suburb, the greater the share of medium-income households in a suburb, or the greater the percentage of households living in houses on separate stands in a suburb, the more affordable home loans were issued to that suburb.

It is not surprising that the percentage of households falling into the low-income category also bore a significant relationship to the number of loans made at the area level. What is surprising, though, is that this independent variable was positively correlated with the dependent variable. With a coefficient of .938, we can say that the average change associated with a one percentage point increase in the percent of low-income households in the suburb (when the other variables are held constant) is almost one more loan.

This finding is interesting because it contradicts what the Department of Housing has said is occurring in South Africa today. The Department of Housing has argued that banks are not lending to low-income areas and has further argued that CRA is necessary in order to push banks to begin to lend in low-income areas. As the Department stated in the memorandum released concurrent with the draft Community Reinvestment Bill, "it has become increasingly apparent that many financial institutions are quite prepared to take a community's money but are not prepared to reinvest in that community, particularly in the form of mortgage lending. The communities, which are hardest hit, are invariably the poorer communities."[195] However, the analysis of lending for affordable housing by all institutions (this includes both the big four, who hold 90-percent of these mortgages, and all others involved in providing housing finance) demonstrates that the greater the percentage of low-income households in an area, the greater the number of loans flowing to that area.

Because of concern over the weak explanatory power of the model concerning NOTOTDT (that is, concern over the model's low R^2 statistic), the regression was run again, excluding all cases that had been diagnosed as

[195] Department of Housing, Memorandum.

"outliers"[196] in the original model. Eight cases, which is one-percent of the 618 cases incorporated into the model, were so identified by SPSS. In seven of these eight cases, the number of mortgage-linked deed transfers at the area level far exceeded that predicted by the regression analysis; the residuals for these outliers ranged from a low of 306 to a high of 1,642. In one case, the number of deed transfers at the area level fell far short of that predicted by the model, with some 498 fewer mortgage-linked deed transfers occurring than the model anticipated.

After careful consideration,[197] these eight outliers were removed, and the regression was run again (Table 20). In the case of NOTOTDT, removal of the eight outliers identified in the original model changed the summary statistics and coefficients in the following ways. First, the R^2 statistic for the model improved to .456, meaning that the model now accounted for 46-percent of the variation in the number of loans made by all institutions at the area level. Second, the t-statistics improved for each of the independent variables. Third, certain variables increased in strength relative to other variables in the model.[198] In the initial model, the number of households in the suburb was approximately three times more influential than any other

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[196] For all OLS models, SPSS identified as an "outlier" as any case that fell outside of plus or minus three standard deviations of the mean.

[197] This included looking both at the summary data for each case as well as at the original deed transfer data, which allowed for an examination of the characteristics of the individual deed transfers and associated loans behind the summary data. The investigation led to the conclusion that these suburbs were unique for one of two reasons: either they had been the location of one or more affordable housing developments, which meant that they had experienced a construction boom leading to an abnormally high number of deed transfers registered at the area level, or they contained a greater number or fewer deed transfers than expected due to an error in sorting and linking the deed transfer and census data. See Appendix E for a full explanation of these processes.

[198] This can be assessed through a comparison of the standardized Beta coefficients for the independent variables.

Table 20: OLS Multiple Regression Model for NOTOTDT, outliers removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.676	.456	.453	46.46

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-91.608	9.763		-9.383	.000
NOHHSUB	7.360E-03	.000	.581	18.175	.000
PERHHMED	1.963	.341	.190	5.748	.000
PERHHSEP	.757	.095	.265	7.935	.000
PERHHLOW	.855	.110	.272	7.793	.000

independent variable in determining the number of loans issued at the area level. In the new model, this variable is still three times more influential than the percent of medium-income households in the suburb, but it is now only twice as influential as the percent of households living in houses on separate stands and the share of low-income households in the suburb. Overall, removal of these eight outliers improved the model and helped reveal more accurately the relationships between the independent variables.

How do the findings for the model concerning all institutions' lending compare with the findings for the other models? What are some of the trends revealed across the six models? It is to these questions that this section now turns.

The number of households in each suburb (NOHHSUB) is an influential independent variable affecting all institutions' lending patterns (each of the big four banks as well as other parties) across the six models. In fact, this variable is not only important in each model, but within each model (when standardized Beta coefficients are compared) is the most important independent variable. The number of households in the suburb is always positively correlated with the number of loans made at the area level, indicating that as the number of households increases, the number of loans made also increases. We can assume from this that more developed areas, that is, areas that are more urbanized and built up, are receiving more credit than less developed areas, areas that are more rural. This could be due to greater demand in these regions (more people needing loans), greater supply (more homes to be financed), or banks' preferences to lend in areas where infrastructure is more developed and housing prices are generally higher.

Another variable that was important across all six models was the percent of households in the suburb that fell into the medium-income category (PERHHMED). Again, these are the households that earn between R3,501 and R6,000 per month, those considered too poor for formal finance and too wealthy for a government subsidy. The percent of households in the suburb that fell into the medium-income category was always positively correlated with the number of loans made to the suburb, so as the share of medium-income households in a suburb increased, so too did the number of loans made to that area.

A third independent variable that was important in four of the five models was the percent of households in a suburb living in houses on separate stands (PERHHSEP). This variable affects the lending patterns of each of the big four banks, but it was not influential in the lending patterns of other lenders (smaller banks, loan companies, private citizens, etc.). When standardized Beta coefficients are compared, this variable is usually the second most influential in each of the models, following the variable pertaining to the number of households living in the suburb. The percent of households living in houses on separate stands was always positively correlated with the number of loans made to an area, meaning that as the percent of households living in houses on separate stands increases, so too increases the number of loans made at the area level. This is not a surprising finding. Because houses on separate stands are the type most likely to be built within the price range of interest and are a type more likely to be owned than rented, these are the type of houses most likely to be eligible for bank finance. The OLS regression analysis seems to indicate that this is indeed the case.

What is interesting and important about the findings from the OLS regression analysis as concerns South Africa's community reinvestment legislation efforts? As was the case in the discussion of the binary logistic regression analysis, this question will be answered through an examination of trends concerning the effects of race and income variables across the six OLS regression models.[199]

In the six "best" models, race was only an important variable for two institutions: Standard Bank and ABSA. In the ABSA model (NOABSADT), the percent of African-headed households (PERHHAFR) in an area was negatively correlated with the number of loans issued to that area.[200] In the Standard Bank model (NOSTDDT), the effect was the opposite, with a greater number of loans going to areas with a higher percentage of African-headed households. The finding concerning the negative correlation between the

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[199] See Appendix D for a detailed overview of the testing of racial and income-level variables in each model.

[200] The actual effect of this variable in the ABSA model was negligible. With a value of .13, the coefficient could be interpreted as follows: holding the other independent variables constant, a ten percentage point increase in the share of African-headed households in an area resulted in ABSA's making 1.3 fewer loans to that area. Once outliers had been removed from the ABSA model, the coefficient for the percent of African-headed households increased to 8.58. This means that after removing the linear effects of the other variables, a ten percentage point increase in the percent of African-headed households in an area resulted in ABSA's issuing 90 fewer loans to that area. See Appendix D for a full discussion of these models.

percent of African-headed households in an area and the number of loans ABSA issues at the area level is surprising given ABSA's reputation as one of the most pro-active banks when it comes to targeting South Africa's previously underserved communities. It is also surprising given the fact that ABSA held 27-percent of the affordable mortgages issued in Gauteng in the time period under consideration; this is five percentage points more than the share held by First Rand, which has the second greatest holding of affordable mortgages.

What might explain the negative relationship between the number of ABSA-linked deed transfers made to an area and the percentage of African-headed households in an area? In fact, ABSA's aggressive lending strategy might itself account for this finding. If ABSA is actively seeking new lending opportunities, then it might be lending in areas that have not previously been targeted for such lending. ABSA may be pushing to lend in low-income but more mixed race areas or may be targeting new populations in its outreach, specifically low-income customers who are not African.

While race did not appear as a significant variable in the best models for the other dependent variables (those for all institutions, for First Rand, for Nedcor, and for parties other than the big four banks) it was incorporated into the best model for each dependent variable in order to test for its effects. The percent of African-headed households (PERHHAFR) proved significant in the modified models for all institutions (NOTOTDT) and Nedcor (NONEDDT), and in these models race was positively correlated with lending at the area level. Race was never significant in the First Rand model (NOFRDT) or the model concerning parties other than the big four banks (NOOTHDT).

In sum, for all institutions combined, for Nedcor, and for Standard Bank, the percent of African-headed households could be a significant variable, and an increase in the percent of African-headed households in an area was correlated with an increase in the number of loans issued to that area. For ABSA, the percent of African-headed households in an area was a significant variable, but an increase in the percent of such households in an area led to a decrease in the number of loans issued to the area. For First Rand and for parties other than the big four lenders, the percent of African-headed households was never a significant variable.

What do these findings imply for the Department of Housing's CRA efforts? One of the Department of Housing's main rationales for CRA is that banks are discriminating against black borrowers. Insofar as this could be seen through geographic effects, this assertion is almost unsupported by the OLS regression analysis. For the majority of lenders, an increase in African-headed households is either positively correlated with the level of lending to areas (this was the finding for Standard Bank and Nedcor) or has no effect on levels of lending at the area level (this was the finding for First Rand and parties other than the big four). Only for ABSA was an increase in African household headship correlated with a decrease in the level of lending.

What of the findings concerning income across the six models? One important finding concerning income level variables is that the percent of medium-income households (PERHHMED) is an influential independent variable in each model and in each model this variable exerts a positive influence on the number of loans issued at the area level. Second only to the change brought about by the number of households in the suburb (NOHHSUB), the greatest change in the dependent variable was brought about by a one-unit change in the share of medium-income households in the suburb. Holding all other variables in the models constant, a one percentage point increase in the percent of medium-income households in an area resulted in between .391 and 2.86 affordable home loans being issued at the area level (for other parties and for all lenders combined, respectively).

This finding would seem to contradict one of the main rationales for the importance of CRA. CRA is intended, in part, to address the needs of those in the “credit gap,” that is, households who are too wealthy for a government subsidy and too poor for traditional bank finance. However, the OLS regression analysis shows that, in fact, areas with a greater share of these households receive greater numbers of home loans than other areas. Households in the “credit gap” seem to be just the households banks and other parties are targeting in their affordable lending practices.

The second interesting finding concerning income levels was related to the variable for low-income households (PERHHLOW). The percent of low-income households in an area was a significant variable in the best models for all institutions combined (NOTOTDT), for ABSA (NOABSADT), and for First Rand (NOFRDT). In each of these models, the percent of low-income households in an area was positively correlated with the number of home loans issued at the area level. Although not a variable included in the best models for Nedcor (NONEDDT) and Standard Bank (NOSTDDT), when tested for inclusion in these models, the percent of low-income households could be significant and was positively correlated with the number of loans issued at the area level. In the model concerning actors other than the big four lenders (NOOTHDT), the variable concerning low-income households was never significant.

In sum, the percent of low-income households in an area could be a significant variable in five out of the six models, and when it was significant, its effect was always positive. Again, this finding contradicts one of the Department of Housing's main rationales for instituting CRA, namely, that banks are discriminating against low-income areas. Contrary to the Department of Housing's claims, the OLS regression analysis shows that areas with a greater share of low-income households receive greater levels of affordable mortgage finance.

Before leaving the discussion of the OLS regression analysis, there is a final and important point to discuss: in general, the area-level variables available from the 1996 Census combine to provide a weak model of lending throughout Gauteng. The R^2 statistics for the best models range from a low of .147 (for the model concerning lending by parties other than the big four) to a high of .314 (for First Rand). This means that the best of these models still leaves unexplained 69-percent of the variation in the number of loans different parties issue at the area level. When outliers are removed from these models, the R^2 statistics improve from a low of .295 (for Nedcor) to a high of .46 (for First Rand). This means that the best model still leaves unexplained 54-percent of the variation in the dependent variable.

What this means, of course, is that these models suffer from specification error, that is, they fail to include certain relevant independent variables. What independent variables might be missing from these models? Most likely those factors that banks actually use in their lending decision making processes. These factors likely include some area-level assessment of law and order (which bankers admit is an important factor in their willingness to issue traditional mortgage finance), an area-level measure of past loan performance (that is, a measure of the bank's past default experience in that area), and statistics concerning trends of housing values in the area (which bankers again admit is significant in their lending decision making process; they are unwilling to issue traditional finance where the value of the property underlying the bond might fall below the actual amount of the bond). An additional factor that should be included in the models has nothing to do with the lending decision making process; this is the effect of the number of houses available to be financed in the area. Where there is an inadequate supply of affordable housing, there will be limited demand for finance and a smaller number of mortgage-linked deed transfers. This means that both the rate of affordable home construction in areas and the functionality of housing markets in areas will affect the demand for mortgage finance at the area level.

To summarize, an ideal OLS regression model for lending at the area level in Gauteng might include the following eight variables: the number of households in the suburb, the percent of medium-income households, the percent of households living in houses on separate stands, the percent of either low- or high-income households, a measure of law and order, a measure of default rates, a measure of trends in housing values, and a measure of affordable home construction.

3.3.1.4 Will CRA Remedy Geographic Discrimination?

How do the findings from the binary logistic and multiple regression analyses relate to the Department of Housing's community reinvestment legislation efforts? Has the Department of Housing identified accurately the relationship between geography and lending in post-apartheid South Africa? Is the draft Community Reinvestment Bill structured to remedy the relationship between geography and lending in post-apartheid South Africa insofar as this relationship unfairly restricts the flow of funds into black and/or low- and medium-income communities?

The Department of Housing has implied that CRA is necessary in part because banks are being racist in their lending practices. The draft Community Reinvestment Bill addresses this by outlawing on the part of financial institutions the practices of geographic discrimination and redlining. Bankers must "refrain from refusing home loan finance to borrowers purely on the grounds of the current or future expected socio-economic characteristics of the residents in the neighbourhood in which the home is located,"[201] and they must also "refrain from the practice of redlining other than where dictated by safe and sound business principles."[202] The phrase "socioeconomic characteristics" refers not only to income levels, but to the racial composition of areas. What exactly do the two types of analysis conducted for this study show about the relationship between race and lending in post-apartheid South Africa?

In the binary logistic regression analysis, the percent of African-headed households in an area was negatively correlated with the odds of banks and other entities' issuing loans at the area level. Put simply, the areas of Gauteng with a greater share of African-headed households were less likely to be issued at least one affordable home loan than areas with a smaller share of African-headed households. This finding held true across all of the binary logistic regression models: the model for all institutions, the models for each of the big four lenders, and the model for parties other than the big four lenders. The racial composition of areas is significantly related to the likelihood that lending will occur in areas, and those areas with a higher

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[201] Department of Housing, Draft Community Reinvestment Bill, Principle 4.1 [a]
[202] Department of Housing, Draft Community Reinvestment Bill, Principle 4.1 [b]

percentage of African-headed households are less likely to receive housing finance than are other areas.

The OLS regression analysis paints a somewhat different picture of lending than the binary logistic regression analysis does. This analysis demonstrates that, in general, in the areas to which banks are issuing affordable home loans, an increase in the proportion of African residents in those areas has either a positive impact or no impact at all on the number of affordable home loans being issued. For all institutions combined, for Nedcor, and for Standard Bank, the more African-headed households in an area, the more affordable home loans will be issued to that area. For First Rand and for parties other than the big four lenders, race was an insignificant variable, with race making no difference in the number of loans issued at the area level. For ABSA, the correlation between race and lending was negative, with fewer loans going to areas that had a greater share of African-headed households.

Ultimately, therefore, the percent of African-headed households in an area has a negative effect on the odds that any actor will issue affordable home loans at the area level. Once institutions have determined that they will lend in an area, however, the percent of African-headed households in the area tends to have either a positive effect or no effect at all on the number of loans issued to the area. Given these two findings, how might the draft Community Reinvestment Bill's consideration of racial issues influence lending at the area level?

Put very simply, the draft Community Reinvestment Bill will have little effect on lending at the area level as far as race is concerned. The draft Bill restricts financial institutions from refusing finance based on the current or expected socioeconomic characteristics of the region in which the home to be financed is located. This prohibition on geographic discrimination might help curb whatever negative correlation there is between the racial composition of areas and the odds that agents will lend at the area level in the first place. However, this prohibition on discrimination in lending was the Bill's only requirement as concerns race, and this aspect of the Bill can be seen as a restriction on behavior rather than a positive impetus to adopt new practices. Rather than push banks into the positive obligation to engage with areas they have failed to provide affordable loans to, the draft Community Reinvestment Bill required that banks *not* not lend to certain areas. This restriction on banks behaving in certain ways is a far weaker component of the Bill than would have been either the positive obligation to lend to areas with higher percentages of African-headed households or the positive obligation that banks meet targets for lending to African borrowers.

In addition, of course, there is the finding that once actors have determined within which areas they will issue affordable housing finance, the effect of the percent of African-headed households on the number of loans issued to areas is either positive or non-existent (the exception being the finding from the ABSA model, where the effect is negative). This implies that the Department of Housing should have concentrated its community reinvestment legislation efforts on pushing banks to lend in areas where they had not issued loans before. To do this, the draft Community Reinvestment Bill should have been strengthened as concerns banks' targeting previously underserved racial groups and banks' targeting areas with a higher percentage of residents from these groups.

Yet the draft Community Reinvestment Bill's emphasis was elsewhere. The draft Bill placed upon banks the positive obligation that they "meet or exceed the targets and standards prescribed by the Minister for lending to households with low- and medium-income levels."[203] The assumption on the part of the Department of Housing is that banks have been discriminating against the poorer areas of South Africa. In addition, both the Department of Housing and other housing and lending activists have asserted that banks are not lending to those in the "credit gap"; these are the medium-income households earning between R3,501 and R6,000 per month. For this reason, the Department of Housing chose to tailor its draft Community Reinvestment Bill to require banks to lend to low- and medium-income households for their housing needs. What exactly do the two types of analysis show about the relationship between income and lending in post-apartheid South Africa?

First, in both types of analysis the share of medium-income households in a region was positively correlated with lending patterns. In the binary logistic regression, the percent of medium-income households in an area was always significant and was always positively correlated with the odds of different actors' issuing loans at the area level. In fact, as has just been discussed, in the binary logistic regression analysis, the percent of medium-income households affected the odds of lending to a more significant degree than any other predictor. Likewise, in the OLS regression analysis, the percent of medium-income households in a region is an important variable in influencing the level of lending to different areas. The analyses suggest that the assumptions underpinning the draft Community Reinvestment Bill are inaccurate: households in the "credit gap" are exactly the ones banks are targeting for their affordable home lending.

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[203] Department of Housing, Draft Community Reinvestment Bill, Principle 4.1 [g]

What do the analyses show about the relationship between low-income households and affordable lending? The binary logistic regression found that the percent of low-income households in an area was insignificant in influencing the odds of different institutions' issuing affordable home loans at the area level in five out of the six models; the exception was the ABSA model, in which the percent of low-income households was positively correlated with the odds of lending at the area level. In the OLS regression analysis, the percent of low-income households could be significant in five out of six models (the exception being the model for parties other than the big four banks) and where this variable was significant it was positively correlated with the number of loans issued at the area level.

The findings of the binary logistic regression and multiple regression analysis as concerns the relationship between income levels and lending patterns suggest that the Department of Housing misconceived the link between these variables in post-apartheid South Africa. The draft Community Reinvestment Bill would require banks to lend to low- and medium-income populations, and it is thought that this requirement would alter financial institutions' behavior in a significant way. Contrary to what the Department of Housing believes to be true, it would appear that the presence of low-income households in an area is positively correlated with the number of loans issued at the area level; the presence of medium-income households in an area is even more important in influencing both the likelihood that banks will lend to areas and the level of lending they will engage in. It is unlikely, therefore, that South Africa's draft Community Reinvestment Bill will alter which populations banks target for their affordable home lending. In short, CRA is not going to alter radically which populations are eligible for affordable housing finance.

However, it is likely that South Africa's draft Community Reinvestment Bill (if adopted) might have a somewhat positive effect on the *level* of lending to low- and medium-income people (only to the extent that there is a demand for the mortgage instrument, however). As has been stated, the deed transfer-linked affordable home loans that are the focus of this analysis constitute only a minute percentage of all of the deed transfers that occurred over the time period of interest. While some 613,973 deed transfers occurred in Gauteng during the period under study, only a fraction of these (4.5-percent) were linked to affordable housing that had received mortgage finance. The Community Reinvestment Bill's requirement that banks meet targets for lending to low- and medium-income households will undoubtedly push banks to pursue the low- and medium-income markets more actively than they are currently doing. In this way, the draft Community Reinvestment Bill might have an effect on the level of funds flowing to certain income groups in post-apartheid South Africa.

3.3.2 Funding for Wholesale and Niche Market Lenders

The second way in which the draft Community Reinvestment Bill is structured to result in an increased flow of funds into previously marginalized communities is through the requirement that banks might meet their targeted lending requirements by providing funding through a prescribed wholesale lender, i.e. the public National Housing Finance Corporation (NHFC), by purchasing the securities of a prescribed wholesale lender (again, NHFC), or by providing funding directly to niche market lenders[204] for on-lending to low- and medium-income households.[205]

This principle in the draft Community Reinvestment Bill suggests that the Department of Housing is determined to increase the flow of mortgage finance to low- and medium-income communities even if banks choose not to become directly involved in such lending. Of course, this provision will only result in an increased flow of funds to low- and medium-income communities insofar as wholesale and niche market lenders are capable of getting the funds out to the people who need them. The next two subsections consider the following question: will more money flowing to NHFC and niche market lenders translate into more money flowing into previously marginalized communities?

3.3.2.1 The National Housing Finance Corporation

Should banks choose not to lend directly to low- and medium-income households, the draft Community Reinvestment Bill makes provision for banks to meet their targets for such lending by issuing funding through a prescribed wholesale lender or by purchasing the securities of a prescribed wholesale lender. The "prescribed wholesale lender" referred to is South Africa's National Housing Finance Corporation (NHFC). This section will assess the likelihood that an increased flow of funds to NHFC would result in an increased flow of funds into low- and medium-income communities.

South Africa's National Housing Finance Corporation is a public sector agency that was

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[204] A "niche market lender" is defined in the draft Bill as "a financial institution for which more than half of its outstanding rand volume of home loans are to households with low- or medium-income levels." (Department of Housing, <u>Draft Community Reinvestment Bill</u>.)
[205] Department of Housing, <u>Draft Community Reinvestment Bill</u>, Principle 4.1 [h]

> …set up by the Department of Housing in 1996 with a mandate to ensure that every South African with a regular source of income is able to gain access to finance [in order] to acquire and improve a home of his or her own. One of the country's Development Finance Institutions (DFIs), the Corporation acts as a wholesale funder and risk-manager, facilitating access to housing finance for low- and moderate-income communities.[206]

Essentially, NHFC works to get housing funds to the “unbankable majority that is the working poor of South Africa.”[207] NHFC does this not by lending money directly to would-be homeowners, but rather by lending money to different lenders and housing agencies throughout South Africa who then provide finance to would-be homeowners. Funding is disbursed through NHFC’s three core programs: Alternative Tenure, Home Ownership, and Incremental Housing. The minimum requirements for those who would obtain credit from one of NHFC’s affiliates are as follows: the borrower must be a South African citizen, over 21 years old, earn less than R7,500 per month, prove two years of continuous employment, and demonstrate the ability to service a loan. Potential homeowners can be financed to purchase an existing home or to buy a new home, and the collateral for the funding issued through NHFC’s affiliates is “provided by pension fund guarantees, mortgage bonds, and insurance cover.”[208]

One obvious limitation on NHFC’s ability to move funds into South Africa’s poorer communities becomes clear when one considers its eligibility and collateral requirements. While NHFC’s mandate to serve individuals earning under R7,500 per month would certainly include the majority of South Africa’s population, NHFC’s other requirements serve to restrict eligibility for these funds. The requirement that borrowers prove two years of continuous

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[206] National Housing Finance Corporation website, www.nhfc.co.za, February 2005.
[207] National Housing Finance Corporation website.
[208] National Housing Finance Corporation website.

employment will serve the formally employed better than the informally employed. The fact that the collateral for the loans issued by NHFC's affiliates is provided by pension fund guarantees, mortgage bonds, and insurance cover would indicate again that NHFC's affiliates target the formally employed; it is unlikely that the informally employed will have pension funds or insurance cover to pledge as collateral for a housing loan.

Just how might NHFC's stringent requirements restrict access to funding from its affiliates in the Gauteng Province? Gauteng's unemployment rate in 2001 was 32-percent by the expanded definition; this means that only 68-percent of the province's potentially economically active population was gainfully employed.[209] If one applies to the province the national rate of those working in the formal sector, we can assume that some 62-percent of those who were employed in Gauteng in 2001 were formally employed.[210] This would mean that, in total, only 42-percent of Gauteng's potentially economically active population (those between ages 15 and 65 who are able to work) are formally employed and eligible to partake of the finance available from NHFC's affiliates. It must be kept in mind, however, that these figures actually include those who are formally employed and earn more than R7,500 per month; these individuals are already well served by South Africa's big four banks.

Outside of the fact that NHFC's mandate limits how successfully its affiliates would be able to provide low- and medium-income households and communities with affordable housing finance, interviewees expressed serious concerns about NHFC's capacity to disburse the funds that a Community

[209] South African Institute of Race Relations, Survey 2001/02.
[210] South African Institute of Race Relations, Survey 2001/02.

Reinvestment Act might make available to it. One housing and lending specialist stated that NHFC would be unable to cope with the influx of money CRA might make available should the banking sector choose to disburse its CRA-mandated funds to NHFC. According to this interviewee,

> I think the day after the Bill becomes an Act, the National Housing Finance Corporation will have four-hundred million downloaded on its head, a hundred-million from each of the big four. And then the NHFC, who's struggled to fulfill its own mandate, is going to completely collapse under four-hundred million rand. They're going to have to really jack their show up [to cope with that effectively]. Everybody thinks that they haven't lived up to their mandate. (Interviewee 7)

Another housing and lending specialist echoed these sentiments, stating that a lack of funding wasn't the issue in the struggle to provide affordable housing finance in post-apartheid South Africa; rather, the issue was limited capacity to get the money out and working. According to this individual,

> …this is the age old problem in South Africa…money is not the issue. If you take the National Housing Finance Corporation, they've got money, apparently. They keep saying they want the banks to invest with them, but apparently, the last I heard, they had something like seven-hundred-and-fifty-million rand that they hadn't lent out. They'd raised money or the government had given them capital, but they hadn't been able to deliver the money on the ground. (Interviewee 5)

Some interviewees believe that NHFC's limited ability to disburse the funds it has is not so much a matter of institutional ability, but rather reflects a lack of effective demand for housing finance in the communities targeted by the draft Community Reinvestment Bill. According to one housing and lending specialist, "…it isn't necessarily a lack of funds that's constraining the NHFC. In fact the opposite; NHFC sits with two-billion rand of which it can only use a relatively small portion. It's a lack of demand, or viable, effective demand. So [giving NHFC more money], doesn't necessarily solve the problem." (Interviewee 11a)

Bankers agree that NHFC's ability to get money out to the people who need it might be limited. Some felt this might be due to capacity constraints. As one banker stated,

> I don't think the National Housing Finance Corporation has been very effective up to now…. I think the general perception has been that they've been unable to get it all together. I'm not sure whether it's been a funding issue, but I think it's probably been more of an issue of being able to implement it and put the structure in place to really make an impact and to focus on the correct target market. (Interviewee 8)

Others in the financial sector feel that the constraints on NHFC's ability to deliver the funding it might receive through CRA would be the same as the constraints banks face when trying to lend in South Africa's poorer communities, namely, a level of economic risk that makes such lending untenable. According to one banker,

> [i]n principle we'd have no problems in saying, 'Ok, let's see if we can do wholesale funding of the NHFC.' But any bank when it does that would want to see what the NHFC's portfolio is: where it's lending, what the risks are, and so on. And it would probably come up with the same sort of risk profile that you do when you want to do this direct lending. (Interviewee 3a)

Another banker supported these views, stating

> [NHFC's early managers] very soon realized that what the banks had been saying for many years in terms of inability to lend in an area because of economic issues [was] also real for the National Housing Finance Corporation. If you look at [NHFC's] performances, it has been [the same as] in the banks: absolutely dismal.... [T]he risks are so

> high, and it's not necessarily political risk, it's just pure economic risk. (Interviewee 6)

Individuals within government are aware of the poor perception of the performance of the National Housing Finance Corporation. These individuals believe, however, that limited funding is partly responsible for these capacity constraints and believe that CRA would provide funding to help NHFC overcome these constraints. According to one government employee,

> …at the moment, [NHFC's] disbursements are about four to five hundred million per annum. But let's say all the banks decide, 'Look, we don't want to get into direct lending, but we want to give NHFC the money to lend for us.' If each of them put in two, three hundred million per annum, [NHFC is] going to be sitting with lots of capital. And [they] could design new programs and so on to get the money invested in different housing programs. So it's going to create that kind of hope…. I don't think people will get upset in the [banking] industry about something like that. Obviously there is the issue that people perceive [NHFC] in terms of [their] performance. But we have to deal with [that perception].... The biggest complaint from the banking industry, particularly around NHFC, is the performance of NHFC. It's five, six years now that [NHFC has] been in business, and the perception is that [they] could have done a hell of a lot more in terms of impact, in terms of delivery, and so on. And maybe there's some valid issues there that need to be dealt with. But those are more, I would think, operational issues that need to be dealt with. But fundamentally when you look at it from the policy point of view, the policies [NHFC has] in place are sound. (Interviewee 2a)

Overall, interviewees felt that several factors would inhibit NHFC's ability to deliver housing finance on the ground, including: limited capacity on the part of NHFC, limited effective demand in low- and medium-income communities, and levels of economic risk that makes lending in poorer communities untenable. This final concern regarding economic risk might help explain why NHFC's lending requirements are so stringent to begin with. However, as has already been noted, the stringent requirements adopted in response to these risk levels only serve to curtail the number of people who might benefit from affordable housing finance through NHFC's affiliates.

3.3.2.2 Niche Market Lenders

The final way in which banks might meet their lending obligations under the draft Community Reinvestment Bill is by disbursing money directly to niche market lenders. This section will assess the likelihood that an increased flow of funds to niche market lenders would result in an increased flow of funds into low- and medium-income communities.

The draft Community Reinvestment Bill defines a niche market lender as "a financial institution for which more than half of its outstanding rand volume of home loans are to households with low- or medium-income levels."[211] The more regularized segment of the niche market lending industry comprises the micro-lenders who are registered with South Africa's Micro Finance Regulatory Council (MFRC). The non-profit MFRC was founded in 1999[212] in accordance with the Usury Act Exemption Notice and is the "official and single regulator of all money lending transactions falling within the scope of the Usury Act Exemption Notice."[213]

What types of loans are micro-lenders issuing in South Africa? These loans are for less than R10,000 and have terms shorter than 36 months. In accordance with the Usury Act Exemption Notice, micro-lenders registered with MFRC are able to issue such loans exempt from the interest rate cap normally applied to loans of this type; other institutions who issue loans for

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[211] Department of Housing, Draft Community Reinvestment Bill.
[212] Founding members of the Micro Finance Regulatory Council include: Alliance Micro Enterprise Development Practitioners, the Banking Council, the Department of Trade and Industry, Khula Enterprise Finance, the Micro Lenders Association, the National Housing Finance Corporation, and the South African Reserve Bank. (van Niekerk, M. "Microlenders council gets ministerial go-ahead." Business Day, July 22, 1999.)
[213] Micro Finance Regulatory Council website, www.mfrc.co.za, March 2005.

under R10,000 are subject to a 26-percent interest rate cap in accordance with South Africa's Usury Act.[214] While registering with MFRC frees lenders from interest rate caps on their micro-loans, it also places upon registered lenders positive obligations, in particular, that they adhere to certain codes of behavior in their practices and that they be reviewed and monitored by MFRC.

Although micro-lending initially developed in the early 1990s in South Africa as a means for funding micro-enterprise, micro-loans have typically been used for other purposes. Recent research has found that approximately 4-percent of micro-loans are being used for enterprise development, 12-percent are being used to finance education, 11-percent are put toward housing needs,[215] and "the vast majority of micro-loans are being advanced for consumption purposes."[216]

How have the 11-percent of micro-loans put toward housing purposes been used? According to Porteous and Hazelhurst, micro-finance has "played an important part in housing – financing mainly incremental housing,"[217] that is, additions and improvements to existing homes. This is not surprising when one looks at the profile of a typical micro-loan. The average micro-loan issued in South Africa in 2004 was valued at R1,390,[218] well under the amount needed for any but the most basic repair or improvement to one's home. The

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[214] Anon. "Usury Rate Hike Signals Change in States Approach." Business Day, June 21, 2002.
[215] Micro Finance Regulatory Council. Fact Sheet on the Micro Finance Sector. Johannesburg: Micro Finance Regulatory Council, 2005.
[216] Micro Finance Regulatory Council. The Second Annual Report of the Micro Finance Regulatory Council, Covering the Period 31 July 2000 to August 2001. Johannesburg: Micro Finance Regulatory Council, 2001, p. 6.
[217] Porteous, D. and E. Hazelhurst. Banking on Change: Democratising Finance in South Africa, 1994-2004 and Beyond. Cape Town: Double Storey Books, 2004, p.78.
[218] Micro Finance Regulatory Council. Commercial Banks Increasing their Share in Microlending. Media release, December 2. Johannesburg: Micro Finance Regulatory Council, 2004.

interest rates charged on micro-loans varies from a low of 18-percent to a high of 100-percent per year,[219] making borrowing greater amounts prohibitive for lower-income homeowners. And of course, even for consumers who can afford to borrow R10,000 at high interest rates, this amount falls far short of the amount needed to fund home purchase or construction. As CEO of the Micro Finance Regulatory Council Gabriel Davel has stated, "the combined effect of the R10,000 limitation on the Exemption Notice and the level at which the Usury Act interest rate cap is set…make a range of potentially viable housing…finance products unprofitable."[220]

It is obvious, given the restrictions on micro-lending in South Africa, that an increased flow of funds to micro-lenders would be unlikely to increase the level of money flowing into low- and medium-income communities for housing purposes. However, individuals interviewed for this study had additional reasons to believe that an increased flow of finance to niche market lenders[221] would be unlikely to promote the finance of housing in low- and medium-income communities. What were some of the reasons for their skepticism?

First, the costs of starting up a niche market lending business that can grow and become profitable are prohibitive. According to one banker,

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[219] Anon. "Screws Tighten on Microlender Charges." Business Day, November 24, 2004.
[220] Micro Finance Regulatory Council, Second Annual Report, p. 6.
[221] It bears mentioning that those lenders registered with the Micro Finance Regulatory Council include South Africa's big four financial institutions. An area-level search of the "List of Registered Lenders" on the Micro Finance Regulatory Council's website found ABSA, First Rand, Nedbank (Nedcor), and Standard Bank all registered to serve as micro-lenders in the Johannesburg region. (See www.mfrc.org for details.) In fact, micro-lending has become a profitable business in South Africa, and banks now make up 48-percent of all registered microlenders. (Micro Finance Regulatory Council, Fact Sheet.) While banks might be able to fulfill their CRA obligations by channeling funding into their own micro-lending businesses, and while they might prefer this option to the option of channeling funding to smaller micro-lenders, this increased flow of funding would still be unlikely to result in much additional housing finance. The limited size of micro-loans restricts the uses to which such funds might be put regardless of who is issuing the loan.

> ...the reality is that the cost of setting up an infrastructure to grow is so huge that you just don't have the ability or the capital to actually do it. So you're always going to have hundreds of small lenders who will be out there and do a very good job, [but] it will be very localized nine times out of ten…. (Interviewee 6)

In addition, this individual believed that limited effective demand within the low-income market would act as a further constraint on niche market lenders' ability to grow. He stated that,

> [t]here are a few people who've tried to get bigger…. The reality for them, though, is that they now face a problem with growth, exactly the same as the other banks, because the market in terms of lending to economically viable entities or to individuals has been saturated. So they've now got to the point where to grow, they're having to go and buy books of small lenders to bring it in, because there's no more market. (Interviewee 6)

Second, some interviewees were concerned about the risk associated with lending into the communities that niche market lenders traditionally target. According to one banker,

> …we can lend to niche market lenders. The problem is that these niche market lenders are on-lending in the very areas where we're not lending. And whether it's banks lending there or whether it's the NHFC lending there or some of its intermediaries, you're still going to end up with the same problem if people aren't able to pay. If people aren't able to pay and there's default, whichever organizations lend, they're still going to have problems in actually realizing their security. (Interviewee 3a)

Housing and lending specialists dismissed the idea that additional funding flowing to niche market lenders would make a difference to low- and medium-income people's housing finance needs. One interviewee believed it would be unlikely that banks would choose to discharge their CRA lending obligations in this way. This individual stated, "I don't think that [banks are] going to go for the niche market lender business. I don't think so. Those niche market lenders, it's very marginal business." (Interviewee 12) Another housing and lending specialist believed that the CRA requirement might actually benefit niche market lenders, but that this benefit would be unlikely to translate into additional housing finance. According to this individual,

> [i]f you look at the niche market lenders, the guys who actually do micro-lending for housing, they're always running up against liquidity problems. So [CRA] could free up their liquidity problems…. I think [CRA] will free up finance, but it's going to be for micro-lending, not mortgage lending. Because the niche market lenders don't really do mortgage products. (Interviewee 7)

Despite the obvious mismatch between the types of loans niche market lenders are eligible to make and the types of loans required for housing purposes, government employees were optimistic that an increased flow of finance to niche market lenders would translate into an increased flow of housing finance into low- and medium-income communities. One interviewee, when asked if CRA would result in "funding starting to flow to the niche market lenders," replied, "I'm sure. I'm sure that would happen." (Interviewee 13) When asked more specifically "do you think the Community Reinvestment Act will translate into increased access to housing finance by lower-income people," this individual replied that CRA would do so, mainly by allowing niche market lenders to reach more consumers. According to this interviewee,

> I would say customers themselves, consumers on the ground would benefit, as well as intermediaries and niche lenders. Because I think the problem is that most of the people who are involved in micro, especially the small companies, you find it is somebody who…got a retrenchment package and he started to on-lend, actually invest whatever he got, and is starting up a business lending to people and so forth…. But obviously there are constraints in that this person can't lend to quite a number of people. It's a small business. But then with [the] influence [of CRA], I think such people would really benefit in

> terms of having relationships with the banks and in turn on-lending in the market. (Interviewee 13)

Another government employee echoed this sentiment, stating that "I think niche lenders would benefit tremendously. One of the problems that we have with niche lenders in the country is their inability to access capital markets. So [those] liquidity problems will go away." (Interviewee 2a)

Interview findings concerning CRA's effect on niche market lenders and on affordable housing finance can be summarized as follows. While several interviewees agreed that additional funding flowing to niche market lenders would have the benefit of freeing micro-lenders from liquidity problems, most interviewees thought this additional funding was unlikely to be used to meet low- and medium-income people's housing finance needs. This is because of the simple fact that micro-loans are too small to be used for housing purposes. Beyond this, some interviewees believed that limited effective demand in lower-income communities and the high levels of risk associated with micro-lending would restrict banks' willingness to discharge their CRA obligations by lending to niche market lenders. Overall, despite the potential benefits CRA might bring to niche market lenders, interviewees were skeptical that these benefits would translate into additional housing finance for poorer South Africans.

3.4 Summary of Chapter Three

Chapter Three provided an assessment of whether or not South Africa's draft Community Reinvestment Bill would achieve the Department of Housing's two goals in passing such legislation, i.e. broadening access to the country's banks and increasing the flow of funds into previously marginalized communities.

As concerns the first goal, analysis of interview data revealed that as it is currently written the draft Community Reinvestment Bill would be unlikely to broaden access to South Africa's banks. The draft Community Reinvestment Bill identifies accurately some of the barriers to people's access to the services of South Africa's big four banks, namely income discrimination and institutional inertia. However, the Bill fails to acknowledge four additional factors that serve to inhibit access to affordable mortgage finance from banks in post-apartheid South Africa; these are law and order, poverty, unemployment, and a poorly functioning affordable housing market. Because it targets only a small part of what stands in the way of lower-income people's access to mortgage finance, the draft Community Reinvestment Bill would be unlikely to result in an increase in real access to bank finance for affordable housing.

The second goal of the Department of Housing in passing community reinvestment legislation is to increase the flow of funds into previously marginalized communities. The draft Community Reinvestment Bill attempts to do this by addressing geographic discrimination in lending and by channeling funding to those institutions currently serving lower-income communities, i.e. the National Housing Finance Corporation and niche market lenders.

As concerns geographic discrimination in lending, analysis of Census and deed transfer data revealed that the Department of Housing hasn't identified accurately the relationship between geography and lending in post-apartheid South Africa. While the racial composition of areas does seem to decrease the likelihood that banks and other actors will lend at the area level, the draft Community Reinvestment Bill includes no provision to address this linkage. Rather, the draft Bill assumes that banks aren't lending to low- and medium-income areas and tailors its targeted lending requirements to address this barrier. However, analysis of census and deed transfer data showed that the prevalence of low-income households in an area either doesn't affect or positively influences the odds that banks will issue loans at the area level. In addition, the share of low-income households in an area always positively influences the number of loans made at the area level. As concerns the presence of medium-income households in an area, this variable always exerts positive and significant influence on both the odds of lending to and on the level of lending in different areas. Therefore, while CRA's targeted lending requirements might increase the amount of lending to low- and medium-income households, it will not change significantly banks' current patterns of lending.

As for the draft Community Reinvestment Bill's option that banks might meet their lending requirements by channeling funds to the National Housing Finance Corporation and to niche market lenders, what effect would these options have on the flow of funding into previously marginalized communities? The conclusion reached here is that the effect of each option would be extremely limited. The general consensus amongst interviewees was that additional money channeled to NHFC will not make much difference to the level of funding flowing to low- and medium-income communities due to limited capacity on the part of NHFC, limited effective demand in low- and medium-income communities, and high levels of economic risk making lending in poorer communities untenable. In addition, NHFC's stringent lending requirements restrict the populations its affiliates might serve, even should additional funds be made available via the enactment of CRA. As for niche market lenders, while several interviewees agreed that CRA might benefit niche market lenders themselves, interviewees thought it unlikely that this additional funding would be used to meet low- and medium-income people's housing finance needs. This is because of the fact that micro-loans are simply too small to be used for housing purposes.

This analysis presented here has shown that South Africa's draft Community Reinvestment Bill will not achieve either of the Department of Housing's goals in passing such legislation. The draft Bill will not result in significant changes in access to the services of the country's banks. The draft Bill will not result in a dramatically increased flow of funds into previously marginalized communities. To answer the central question of the dissertation, the draft Community Reinvestment Bill will not be an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa. The draft Bill might promote formal, legal access to housing finance but will leave real, effective access to such finance unchanged.

Unfortunately, it is not possible to test this conclusion through an examination of the effects of a Community Reinvestment Act in South Africa. Well before it had a chance to be enacted, South Africa's draft Community Reinvestment Bill suffered from political and economic failure. Chapter Four will tell the story of how this happened, will probe the reasons for the Bill's failure, and will conclude by asking why, given the inappropriate structure of CRA and the inability of the South African Department of Housing to see the Bill through to completion, this piece of legislation was introduced in this place at this particular point in time.

Chapter Four: Political and Economic Factors Affecting the Passage of South Africa's Community Reinvestment Bill

4.1 Overview of Chapter Four

The analysis presented in Chapter Three showed that CRA would have been unlikely to achieve either of the Department of Housing's goals: the Bill would have been extremely limited in its ability to broaden access to South Africa's banks and the Bill would have been unlikely to result in much additional housing finance flowing into previously marginalized communities. The conclusion reached in Chapter Three was that South Africa's draft Community Reinvestment Bill would not have been an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa.

It seems fair based on the analysis presented in Chapter Three to say that South Africa's draft Community Reinvestment Bill was badly crafted given the situation at hand in post-apartheid South Africa. For this reason, the draft Community Reinvestment Bill can be considered a failure as structured. However, the draft Community Reinvestment Bill suffered from an additional type of failure, namely, procedural failure: despite fierce determination on the part of members of the Department of Housing there has been little progress toward the creation of effective reinvestment legislation in South Africa.

It will be recalled that the South African government passed a Home Loan and Mortgage Disclosure Act (HLMDA) in 2000. The Act established an Office of Disclosure that would receive, analyze, and make public lending data gathered in accordance with the Home Loan and Mortgage Disclosure Act. Since the passage of HLMDA, South Africa's Department of Housing has been working to create regulations for the Act; without these regulations, HLMDA is not operable. Since the Department of Housing has yet to create HLMDA's regulations, the Act remains unenforceable.

In May of 2002, South Africa's Department of Housing released its draft Community Reinvestment Bill. By mid-August of that year, the Bill was no longer on the table. At the time of the Bill's withdrawal, the banking sector and the media stated that the Bill had been permanently withdrawn from consideration. The Department of Housing, however, insisted that the Bill was merely being redrafted pending submission to parliament, which civil servants interviewed for this study stated would happen before the end of 2002. This did not occur. Government employees then took steps to ensure that both the Community Reinvestment Bill and the regulations for the Home Loan and Mortgage Disclosure Act would be submitted for parliamentary approval before the end of 2003.[222] Neither of these things took place. Rather, as of April 2005 there has been no further mention of the Community Reinvestment Bill's release.[223]

Chapter Four will assess the various political and economic factors that led to the withdrawal of South Africa's draft Community Reinvestment Bill. The chapter has two sections. The first section offers a thorough analysis of the political and economic factors that thwarted the draft Bill's passage. The second section of Chapter Four takes up the following question: given the

[222] In 2003, the Department of Housing set an employee from the National Housing Finance Corporation the tasks of completing the HLMDA regulations and setting up the Office of Disclosure. In addition, several government employees insisted in July of 2003 that CRA was currently being modified and would be pushed through parliament before the end of 2003. When asked about the Department of Housing's determination to pass CRA before the end of 2003, one government employee commented that, "I think this year has been earmarked as the year of the delivery by several government departments. 2003, year of delivery, things must happen." (Interviewee 20)

[223] The last mention in the press occurred in September of 2003. See Loxton, L. "Empowerment clock ticks for crucial bill." Business Report, September 3, 2003.

inappropriate structure of the draft Community Reinvestment Bill and given the limited likelihood that the Bill would be accepted by a broad range of political and economic actors in South Africa, what explains the Department of Housing's decision to attempt the passage of a Community Reinvestment Act at this particular point in time?

4.2 The Draft Community Reinvestment Bill's Procedural Failures

What exactly has gone wrong with South Africa's reinvestment legislation efforts? Why has the Department of Housing been unable to draft and enact viable community reinvestment legislation? The answer is that both political and economic considerations have served to thwart this process. In particular, four factors contributed to the demise of South Africa's reinvestment legislation efforts. These are: the Department of Housing's capacity; difficult relations between the Department of Housing and other government agencies; international pressures on South Africa's financial system; and the power and capacity of South Africa's banking sector as compared with that of the Department of Housing. Each of these factors will be considered in turn.

4.2.1 The Department of Housing's Capacity

When seeking to explain the fits and starts of South Africa's reinvestment legislation process, the majority of interviewees identified limited government capacity as a significant cause of these difficulties. This section will explore interviewees' concerns about the Department's ability to create, enact, and follow through upon community reinvestment legislation.

In South Africa, the community reinvestment legislation process is managed entirely by the Department of Housing. The Department of Housing is responsible for drafting the relevant statutes, for creating the regulations that would provide these laws with procedural teeth, and would ultimately be responsible for overseeing compliance with both the Home Loan and Mortgage Disclosure Act and a Community Reinvestment Act. Several interviewees expressed concern about the Department of Housing's ability to see the Home Loan and Mortgage Disclosure and Community Reinvestment Acts through to becoming law with regulations that would allow these laws to be enforced.

First, some interviewees thought that the Department of Housing might lack the ability to draft a Home Loan and Mortgage Disclosure Act and a Community Reinvestment Bill that could work well together. Ideally, these legislative instruments should work together to promote lending to previously marginalized communities. However, there is what appears to be a mismatch between South Africa's HLMDA and draft Community Reinvestment Bill. While the data to be gathered under HLMDA would allow for the analysis of lending across regions, the draft Community Reinvestment Bill was structured to increase lending to households in low- and medium-income groups. One might question how the first piece of legislation could possibly serve the second, that is, how the geographic-level data gathered under HLMDA would help promote lending to individuals within the income groups targeted by the draft Community Reinvestment Bill.

When asked to comment on this apparent mismatch, interviewees identified as its main cause confusion about both procedure and policy within the Department of Housing. One housing and lending specialist commented that the mismatch

> …reflects a number of things. A bit of naiveté about what can be done or what the intentions of the legislation [are], number one. Number two, a lack of certain policy clarity. I mean to be honest, [the behavior of the

> Department of] Housing in recent years has looked like sort of shots in the dark. There hasn't been a sense of a sort of master policy plan, as opposed to firing off shots. And this is the next shot to fire. (Interviewee 11a)

Another housing and lending specialist agreed that the Home Loan and Mortgage Disclosure Act and draft Community Reinvestment Bill were ill suited to one another. This interviewee believed that the mismatch was the result of procedural confusion in the Department of Housing. This individual stated,

> [w]e do everything backwards. There should have been a policy process that resulted in a policy framework document and then, following that,…the two pieces of legislation should have been drafted sort of in parallel, because the regulations for one really affect what's happened in the other. We haven't followed that at all. [The Department of Housing] just said, 'Do this,' and then 'Do this,' and so there are a whole lot of gaps …. You know, there's no capacity in the Department [of Housing]. Zero. (Interviewee 7)

Several interviewees felt that the timing of the release of these two pieces of legislation was problematic. These individuals believed that the appropriate procedure for creating reinvestment legislation would have been as follows: pass a Home Loan and Mortgage Disclosure Act, write effective regulations for this Act, begin to gather lending data, analyze the data to assess for patterns of exclusion or discrimination, and then structure a Community Reinvestment Act to redress the problems identified through analysis of HLMDA data. When asked why the Department of Housing had not done this, interviewees again pointed to limited capacity within the Department of Housing. According to one housing and lending specialist,

> …to be frank, I think it was pure lack of capacity in the Department of Housing, in the management of processes. For example, you know that the HLMDA law is ineffective without regulations. Now, I was party to discussions 18 months ago around regulations, but nothing's

> happened…. That's a capacity issue in the Department, to actually take those through to regulations that can be signed into law effectively and then implemented. (Interviewee 11b)

A government employee agreed that the draft Community Reinvestment Bill would have been a stronger piece of legislation had the government first gathered and analyzed HLMDA data and then based its draft Community Reinvestment Bill on them. According to this interviewee, if the government had followed that process,

> [i]t would have made a big difference, it would have been first class. Because now you're making decisions based on accurate facts about your market. And unfortunately we don't have that data…. [The process did not occur in this way because of] bureaucratic bungling up. Because it was planned [to happen in this way]…. But I think it just was bungling up. (Interviewee 2b)

Another government employee supported this view, adding that the government's unwillingness to wait for analysis of HLMDA data before drafting a Community Reinvestment Bill had weakened the government's argument about the need for banks to increase their lending to lower-income people. According to this interviewee,

> [y]ou need the [HLMDA] regulations. It's trite to say it, I mean, it sounds so stupid to even say the obvious. But the obvious isn't being complied with. You need these regulations. You need the information [they] provide. If you do your data mining correctly, you will understand very clearly the patterns. Then you can draft the CRA. Because the CRA is the method you use to push where you can push, but the database from the regulations tells you where you can push. Now the banks are, in my view, in a very strong position. They're saying to the Minister 'You're like a raging bull in a china shop. You're going to destroy the banking sector in this country.' And there's nothing beyond accusing them of being capitalists and racists and rapacious that the Minister can say to them to gainsay that. On the other hand, if you have information from the regulations provided by the banks themselves, the Minister

> can say, 'Look, your own information tells us this.' What can the banks say to that? (Interviewee 19)

Why hasn't the Department of Housing recognized that HLMDA data would bolster its case for pushing banks to lend to lower-income communities? According to several interviewees, the Department is not particularly capable when it comes to data analysis. Some interviewees were concerned about the effect that this might have on the Department of Housing's ability to manipulate and disclose the data made available by the Home Loan and Mortgage Disclosure Act. According to one housing and lending specialist, the banks might do a better job of analyzing their own HLMDA data. This person stated,

> [i]f the banks do it themselves and then hand it over, the one advantage of that is they have the infrastructure and the capacity to do it. You know, if it gets all handed over to government, there may not be the capacity and the infrastructure to do it.… [M]y experience with the government Housing Department and its information side has been very negative. (Interviewee 18)

Another housing and lending specialist shared this concern, remarking that "[The Department of] Housing has been useless…and this is with their own subsidy data. Their core business is distributing housing subsidies. They're no good at that." (Interviewee 11a) When pushed to explain why this was so, this individual stated that,

> …skills in the area of accurately manipulating data are not in large supply in this country, and therefore attracting the skills that there are into the public sector is not easy, given public sector conditions of service and ethos. And the Department of Housing is just not a very effective department in any way right now, I'm afraid. And so the likelihood of attracting good people in there is not going to be easy. (Interviewee 11a)

Several interviewees worried about the government's ability to follow through on CRA should it be enacted. They offered as evidence of the Department's inability to fulfill its current mandates the fact that the Department of Housing is unable to spend its budget each year. While this consideration does not directly affect the process of enacting reinvestment legislation in South Africa, it does affect the strength of government's argument that bank involvement is needed to increase the flow of funds into previously marginalized areas. It also affect's other parties' ability to take the Department of Housing seriously when it says it will implement and monitor compliance with reinvestment legislation. According to one housing and lending specialist, "they can't spend their own annual budget…. The Department of Housing has a roll-over budget every year…. There's no mechanism. The whole problem is not the money. There's *plenty* of money, and you don't arguably have to even get the banks to come and lend." (Interviewee 5)

Concerns about the government's ability to deliver on the ground were shared by many interviewees. The same interviewee noted that

> …this is the age old problem in South Africa; this is the ridiculous thing: money is not the issue… How do you get the money out in the appropriate means on the ground? And where is that capacity there? And that is going to be the problem…how you're going to develop that capacity down there…. So wholesale funding is never the issue. It's how do you get it out. (Interviewee 5)

A community representative echoed these concerns about the government's ability to follow through on enforcing CRA should it become law. According to this interviewee, "capacity is not in those government departments to follow up on each and every thing. So in those areas I feel it's still very weak…." (Interviewee 21) Indeed, some interviewees felt that government's inability to follow through upon HLMDA and create the regulations that would give the Act procedural teeth had affected how seriously banks were taking South Africa's reinvestment legislation efforts. As a housing and lending specialist noted,

> [the release of the Community Reinvestment Bill] did give a certain jolt. Unfortunately, though, the longer it delays and in the absence of the HLMDA data and all this stuff, the impact trails off. I think there would be certain banks who last year might have had quite a fright and started to stare things in the face, who [now] start to say, 'Well, you know, business as usual.' You know, that's the risk…. I think in the absence of a coordinated follow-through where there is accountability monitoring, I think over time the impact will dissipate substantially. (Interviewee 11b)

Two bankers' statements would seem to prove this individual correct.

According to one banker,

> I think that [HLMDA] was promulgated right at about July last year, and we still haven't received the regulations. So we have no idea of what they want us to report on…. They seem to be rushing through all of this, or trying to rush through all of this legislation, but then the follow-through in terms of implementing it, it just seems to fall away. (Interviewee 6)

Another banker noted that

> …the [Home Loan and Mortgage Disclosure] Bill was put together and we again gave substantial input into the Bill. Some of it was accepted, some of it wasn't. Generally we were happy with the final product. The problem we have…and this is a general problem unfortunately with government at the moment, we go through all this process and we put the legislation in place and then it collects dust. Up 'til now there have been no regulations to actually implement the thing. (Interviewee 3a)

It seems clear that limited capacity has affected the Department of Housing's ability to draft, enact, and create regulations for HLMDA and CRA. What might account for this limited capacity? Several factors help explain this phenomenon.

First, limited capacity might be the result of turmoil that resulted from turn over of staff following South Africa's political transition. Under apartheid, government jobs were reserved for white South Africans. Following South Africa's transition to a multiracial democracy and the implementation of a rigorous affirmative action program, there has been a rapid changeover in government departments as older white civil servants retire and a new generation of black employees takes over these previously inaccessible posts. As a new generation of civil servants takes over jobs for the first time ever, the learning curve is bound to be steep and this is likely to be reflected in government's abilities.

Several interviewees commented on this. According to one housing and lending specialist, "…departments have been in a lot of turmoil as the result of necessary transformation over time, which has left a lot of under-capacity, unfilled posts…." (Interviewee 11a) Another commented that,

> …the Director General [of Housing] and some of the people that she's employed are very clever people, but that doesn't translate into enough sophisticated capacity…. You know, there's just a lack of experience. How do you use legislation to achieve social goals? It's a whole new generation of civil servants in there, and what [they] think is a good idea may have unintended consequences…. (Interviewee 12)

One banker voiced similar concerns, stating that "[there's] probably still a bit of political immaturity, if you consider most of the ministers in the current portfolios are the first ministers that were appointed [after apartheid]. Their director generals or their heads of department are also first appointments. So there's a huge learning going on out there." (Interviewee 6)

Second, in the case of the Department of Housing, rapid turnover at the ministerial level has undoubtedly affected policy cohesiveness and procedural ability. The first Minister of Housing following South Africa's democratic elections in 1994 was Joe Slovo. He held the post until his death in 1995. Following Slovo's death, Sankie Mthembi-Mahanyele became Minister of Housing. Mthembi-Mahanyele initiated the Department of Housing's reinvestment legislation efforts and was a very vocal proponent of such legislation. However, she left office to become Deputy Secretary General of the ANC in 2003. Brigitte Mabandla, who had until then been Deputy Minister of Arts and Culture and had limited experience in housing issues, took over the position of Minister of Housing. Despite her lack of housing experience, Mabandla was also a vocal advocate for reinvestment legislation and continued the fight for such legislation. However, her reign at the Department of Housing was brief. In early 2004, Mabandla became Minister of Justice and Constitutional Development and the post of Housing Minister went to Lindiwe Sisulu, previously Minister of Intelligence and, like Mabandla before her, with limited experience in housing issues.

Certainly four housing ministers in a ten-year period is bound to lead to some degree of intra-departmental turmoil, especially when two of the new ministers have almost no housing experience before assuming their posts. Such frequent transitions are likely to make themselves evident in a certain level of procedural confusion. When a new minister enters a department, policy processes are put on hold until that minister becomes familiar with his or her new job and can choose which projects to proceed with.

A third factor that might affect the ANC-led government's capacity as it seeks to create legislation that will help remedy the lingering effects of apartheid is that the newer members of South Africa's government have not experienced decent, fair legislative processes before. These new civil servants were not in charge of such processes under apartheid, and they certainly were not on the receiving end of legitimate political processes under apartheid. One community representative commented on this fact when considering limited capacity within government:

> …maybe it's understandable. You had a new government that had come into power, and people had no direct experience of government at all. And not just direct experience of government in the sense of being governors, but actually no direct experience of that sort of local governance as recipients. Because in the townships, when people lived in the townships, governance was minimal…. So I think that, people who went into government [and] who came from the townships actually had no experience of that sort of governance, even being recipients of that sort of governance. (Interviewee 24)

Regardless of the reasons for the Department of Housing's limited capacity, it is clear that this diminished capacity has affected several things: the government's ability to create solid and coordinated reinvestment legislation, the government's ability to make a solid argument about the need for such legislation, and the government's ability to follow through on the creation of such legislation in a timely fashion. In addition, interviewees were concerned that the government lacks sufficient capacity to implement and enforce reinvestment legislation should it be successfully created and enacted. For the most part, the consensus amongst interviewees was that limited capacity at the Department of Housing was having a negative effect on South Africa's reinvestment legislation process.

4.2.2 The Department of Housing and Other Departments

Exacerbating the effect that limited capacity might be having on the Department of Housing's efforts to enact community reinvestment legislation are the effects of the Department's relationships with other government agencies. The four agencies most concerned with the enactment of community reinvestment legislation in South Africa are the Department of Housing, the Department of Trade and Industry, the National Treasury, and the Reserve Bank.[224] There are two main ways in which relations between these actors are hindering South Africa's reinvestment legislation process. First, these agencies hold very different views about which aspects of South Africa's economic development are most important; stemming from these differences is disagreement about the potential effect reinvestment legislation might have on South Africa's economy. Second, communication between these departments is poor and this leads to duplicated efforts and to these agencies' working at cross purposes.

Interviewees were quick to point out that the Department of Housing, National Treasury, the Department of Trade and Industry, and the Reserve Bank hold very different views about which aspects of South Africa's economic

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[224] The South African Reserve Bank is the central bank of South Africa. The Reserve Bank has always been privately owned, with some 650 shareholders today. The Bank has a 14-person board, with seven members elected by government and seven directors (one represents agriculture, two industry, and four commerce or finance) elected by the Bank's shareholders. Despite its private ownership, the Reserve Bank serves a public purpose, i.e. "the achievement and maintenance of financial stability" in South Africa. Interviewees discussed the Reserve Bank as if it were a public agency, which is not surprising since the Reserve Bank works hand-in-hand with National Treasury to achieve its goal of maintaining financial stability and since the surplus of the Bank's earnings (following payment of operational costs, taxes on profits, transfers to reserves, and dividend payments to shareholders of not more than ten cents per share) is paid to government. Because it serves a public purpose, because it is so closely intertwined with government, and because interviewees discussed the Bank as if it were a public agency, this study includes the Reserve Bank in the group of public actors who are affecting the Department of Housing's efforts to enact Community Reinvestment Legislation.

development are most important. These differences have led to conflicts between the four agencies over the appropriateness of reinvestment legislation for South Africa.

What are the differences in outlook among these four agencies? In essence, the Department of Housing is concerned with "housing the nation," that is, with the housing needs of South Africans. This means that the Department of Housing has a internal, national focus as it conducts its work. The three other agencies, however, are concerned with promoting the growth of the South African economy, and are particularly concerned about South Africa's role in the global economy. As a result, Trade and Industry, National Finance, and the Reserve Bank are focused both nationally and internationally. Naturally this makes these three agencies extremely concerned about CRA's effect on South Africa's international standing, and in particular about the effect that the Community Reinvestment Bill's targeted lending requirements might have on this standing.

While the Department of Housing sees targeted lending as a means to ensure finance flows to marginalized communities, the internationally focused departments think this requirement amounts to forcing banks to engage in risky business. Trade and Industry, National Treasury and the Reserve Bank all worry that this will jeopardize the banking sector and tarnish its international reputation. As one banker stated,

> [t]he Reserve Bank and the Department of Finance are trying to maintain the international credibility of South African banks…. And obviously the higher the risk that one takes…your international bank rating could be jeopardized by that. So there's a whole lot of implications on our international banking which are of concern. (Interviewee 6)

One housing and lending specialist recognized this concern on the part of the banks. This interviewee emphasized that South Africa's marginal role in the international economy prevents it from being able to adopt policies that might be perceived as a threat to its financial sector. According to this individual,

> [t]he Department of Finance and Trade and Industry, are obviously very, very keen that there be an international perception that South Africa has a successful banking industry with integrity that has a good infrastructure, is able to operate commercially and according to sound commercial principles, and doesn't have a kind of political stick over its head all the time…. (Interviewee 12)

One banker commented that the Department of Housing should have acknowledged the difference in focus between itself and other government agencies before embarking on its legislative efforts. This interviewee felt the Department should have ensured that other departments were on its side if it were going to make the reinvestment legislation process work. According to this individual,

> [the Department of Housing is not] playing their cards too wisely. They should have had the Reserve Bank on their side. They should have had Treasury on their side. They should have [the Department of Trade and Industry] on their side. But that's not what I see happening. And I'm told that [when] they went to see Treasury, they didn't even show them the new version the [Community Reinvestment Bill]. They said, 'No, it's still under wraps.' Treasury said, 'Well how do you expect us to give you some comments on this thing?' (Interviewee 25)

This brings us to a second way in which relations between departments is negatively affecting South Africa's community reinvestment legislation efforts. Communication between the Department of Housing, the Reserve Bank, the Department of Trade and Industry, and National Treasury is poor, and this leads to duplicated efforts and to these departments working at cross purposes.

One government employee pointed out that this lack of communication and coordination has led to duplicated effort in South Africa's reinvestment legislation process in particular. This individual commented that

> [w]hen [reinvestment legislation] was discussed seriously for the first time in the Department [of Housing], it was decided that they would actually have a trilogy of legislation. Following the US pattern, there would be a Fair Lending Act, then there would be the Disclosure Act, then there would be the Community Reinvestment Act. [The Department of Housing] did also liaise at that stage very closely with National Treasury as well the Department of Trade and Industry…. The Reserve Bank came in as well. And the reason why they had to liaise with the Department of Trade and Industry was that [the Department of Trade and Industry] were doing a similar exercise…. To cut a very long story short, [the Department of Housing's fair lending] Bill eventually got to cabinet, having been approved by both the Director General [of Housing] and the Minister [of Housing]. And cabinet took the decision that they would request the Minister [of Housing] to withdraw the Bill on the grounds that the Department of Trade and Industry were doing a similar piece of legislation called the Consumer Credit Bill. Now, since 1998 [the Department of Housing has] been asking the Department of Trade and Industry for a copy of that Bill…and to this day I don't think they can come up with a copy at all. (Interviewee 9a)

Other interviewees agreed that communication between the Department of Housing and other government departments had affected the ability of the Department of Housing to create viable legislation. One banker noted that the lack of communication between the Department of Housing and other actors was slowing the passage of CRA. According to this individual,

> [t]he Department of Housing hasn't sufficiently consulted either the Department of Finance or the Reserve Bank on [the Community Reinvestment Bill]. And we know for a fact that the Reserve Bank has made a submission [that is] very critical of the Bill. We know for a fact

> that the Department of Finance will not be happy with aspects of the Bill. So I think that there would be a view from the Department of Housing to try and rush [the Community Reinvestment Bill] through, but I don't think it's going to have a very plain sailing. (Interviewee 3a)

The banking sector has found the lack of coordination and communication amongst government departments frustrating. HLMDA and CRA would require banks to alter their data gathering and lending practices, and banks have been eager to determine what changes these laws would require of banks and what the costs of these changes might be. According to one banker,

> ...it's a bit of a joke within the financial circles that the Minister of Finance doesn't speak to the Minister of Housing who doesn't speak to the Governor of the Reserve Bank. Because they all have their little games that they play. So what then happens is one of the Departments will put a piece of paper on the table. It takes the private sector then to inform that politician's colleagues of what they've put on the table. (Interviewee 6)

Bankers refuse to take responsibility for coordinating government in its efforts, however. According to one interviewee,

> …what we don't see is some sort of coordination amongst departments to actually begin to have a strategic plan...which is something else that we've been pushing for a long time. We say it needs an inter-ministerial effort, including the private sector, and we're prepared to be party to that…. [However], it's not our role to coordinate government. (Interviewee 3b)

In the year following the August 2002 withdrawal and redrafting of the Community Reinvestment Bill, there were some efforts to improve communication and coordination amongst various government departments. This has been a broad effort, not one solely limited to South Africa's community reinvestment legislation process. According to one government employee,

> [o]ur government has fairly recently, in the last year or two, decided that there's not enough talking between the state departments. In other words, one department will do its own thing which might even conflict with the work of another state department. So we've formed clusters, and housing as far as I understand belongs to two main clusters. One is the social cluster and the other is the economic cluster…. [So the Community Reinvestment Bill] will have to go to the social and economic housing [clusters, who] will then look at it, and then when it goes to cabinet, it will have the green light from that cluster. Because without the green light from that cluster…it wouldn't even be discussed…. (Interviewee I9b)

However, a community representative had not noticed that the cluster process was producing any improvement in communication amongst government departments. This individual commented that "they're supposed to work in clusters; that's not really working too well…. [Communication] still happens kind of seemingly on an ad hoc basis." (Interviewee 26)

It is clear that the Department of Housing's relationships with other government agencies has had a negative effect on South Africa's reinvestment legislation process. The Department of Housing, the Department of Trade and Industry, National Treasury, and the Reserve Bank hold very different views about which aspects of South Africa's economic development are most important. Because of their different concerns, these actors also disagree strongly about the potential effect reinvestment legislation might have on South Africa's economy. In addition, poor communication between the Department of Housing and the other departments has led to duplicated and conflicting efforts. These factors have contributed to a protracted and unresolved legislative process.

4.2.3 International Pressures

The preceding section noted that the international focus of banks, the Department of Trade and Industry, National Treasury, and the Reserve Bank have affected the willingness of these actors to accept the Department of Housing's proposed community reinvestment legislation. The effect of international pressures on the reinvestment legislation process will be examined more extensively here.

The African National Congress's Freedom Charter of 1955 asserted that "the mineral wealth beneath the soil, the banks and the monopoly industry shall be transferred to the ownership of the people as a whole."[225] When the ANC took over the government of South Africa in 1994, however, such changes were not made. The Freedom Charter was drafted at a time when South Africa's economy was fairly insulated from the effects of the world economy. By 1994, South Africa had an economy that was fundamentally tied into the global economic system and was susceptible to shifts and trends in that system. For this reason, since it took over the reins of government, the ANC has concentrated on growing South Africa's economy within the constraints of the global economic system.

As the South African government works to grow the national economy, it is particularly concerned with the role international investment can play in this process. Like many developing nations, South Africa is keen on attracting foreign investment. The desire to remain attractive to international investors makes bankers, National Treasury, and the Reserve Bank determined to protect South Africa's international reputation. These actors are concerned in particular with South Africa's international ratings, financial institutions'

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[225] As quoted in Thompson, p. 209.

compliance with the Basel II requirements, and the immediate, short-term profitability of the country's banks. Each of these concerns will be discussed briefly here.

The desire to attract international investors means the Reserve Bank, National Treasury, and financial institutions are extremely concerned with South Africa's international ratings. According to one government employee, this affects banks' willingness to disclose the information required under the Home Loan and Mortgage Disclosure Act. As this employee noted,

> …until very recently…no one would say what the default rate is. They wouldn't say it because, 'Hell, we don't want a bad credit rating.' I mean, if Standard and Poor give South Africa a credit rating, we don't want to say to them, 'Hey, you've got to look at the default rate on home loans.' We want to say, 'Look, in the general perspective, in the general scheme of things, the default rate on banks' mortgage loan books is…within the parameters of what's acceptable…' But if you isolate out the previously-disadvantaged township areas and say, 'Well, what's the default rate there,' you know, it's maybe between fifteen and twenty percent…. Now, you go back to Morgan Stanley and Standard and Poor and whoever else, you tell them that, and what are the chances of a bank getting a [good] rating? There's no chance. (Interviewee 14)

Bankers referred often to the need for good credit ratings; they also frequently mentioned their concern that reinvestment legislation might hurt the South African banking sector's ratings. As one banker said,

> …if [CRA] went in right now, I think based on the proposed targets that they're putting in, you would actually undermine all of banking in the country. Within a year or two of the implementation of it, we would probably lose our international ratings, [because] we wouldn't be from day one complying with the Basel requirements. So at that point you destroy your total bank infrastructure. (Interviewee 6)

The second concern of those in the financial sector, driven by the desire for good international ratings, is the need to adhere strictly to the Basel Accord on capital requirements for internationally active banks (Basel II was instituted in 2004; Basel I has been in place since 1988). South Africa's banks are determined to be world class institutions. They want to be the best in Africa, but they also want to be as good as banks in developed nations. For this reason, the South African financial sector has decided not only to adhere to the Basel Accord requirements, but to do so to the highest extent possible. According to one banker,

> [b]oth [the] regulators and the National Treasury have basically taken the decision that not only will the banks in South Africa meet international best practice, but [they] will be at the cutting edge of international best practice. So when the Basel committee for bank supervision decided that capital and liquidity requirements should be put up as a guideline, the regulators here said we are going to meet the top end of those capital requirements. (Interviewee 3b)

Bankers believe that the risk associated with CRA's targeted lending requirements would affect their adherence to the Basel requirements. According to one banker,

> [a]s part of the international community, we have a huge number of international regulations which we've now got to put into place, which are mainly driven by the Basel Accord. And that's to do with capital adequacy, weightings, and so on. And obviously the higher the risk that one takes, the more capital adequacy one has to have, and your international bank rating could be jeopardized by that. So there's a whole lot of implications on our international banking which are of concern. (Interviewee 6)

The third concern of those in the financial sector is with the short-term profitability of the country's banks. As has been mentioned, South Africa's financial institutions are concerned with attracting foreign investment into the country. The astonishing mobility of investment capital these days means that South Africa's banks are competing for these limited funds with other investment opportunities around the world. This increased competition means South Africa's banks are keen to show immediate, quarterly profits.

The desire to show increased profits each quarter affects banks' willingness to become involved in reinvestment legislation activities in two main ways. First, the focus on immediate gains makes banks reluctant to embark on projects, such as lending to low- or medium-income populations, that might only show profits in the long run. As one housing and lending specialist put it, "the sort of pressures of globalization say, 'This quarter's results are critical to our share price, and therefore we're not going to take on any business that requires a five-year lead time to develop and turn into a profitable business.' [This] is the kind of constraint that the major banks are in…." (Interviewee 12) Second, because banks want to show profits each quarter, they want to focus their efforts on attracting high-end, profitable customers; they don't want to add low-yield customers to their portfolios. As one community representative noted, "…the banks are opening up now to international competition, globalization, and they really want to focus on the top end of the market. That's where they make their profits from." (Interviewee 26)

In fact, banks' intense concern over their international competitiveness ultimately played a role in the withdrawal of the draft Community Reinvestment Bill. Bankers stated in the media that the Bill had had a negative effect on international investment in the country and that the Bill had been withdrawn as a result. A government employee confirmed that banks thought this was the case. According to this individual,

> I think [bankers] had a valid concern that they don't know what [the] targeting is going to be like. You know, was it going to be totally unrealistic? And the Banking Council told [the Department of Housing] that CRA is doing a lot of damage to the foreign investor in this country. And therefore [the Department] had to do some damage control. I was told that x-number of million rand went out of the property market within a certain time period…and I don't know if this was based on fact or whether it was just a rough guesstimate as to what was happening, but [the Department] had been told that there are serious problems if [the Bill is] going through in [its original] form. (Interviewee 9b)

This brings us to the question raised in Chapter One concerning national autonomy within our global economic system, specifically, what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery?[226] As developing countries become more and more reliant on international capital for their economic growth, how free are their governments to enact progressive policies that might benefit citizens on the one hand but be seen as a threat to foreign investors on the other? As one housing and lending specialist noted, the ANC-led government's power in this regard is limited. This person believes that,

> [f]rom [the Department of Trade and Industry and National Treasury's] point of view it's very important that the integrity of the banking system is seen internationally to be sound, that we don't embark on all the kind of nasty socialist interventions in the capitalist system that get you a bad reputation in the capital markets and the investment community. So…I don't think that [reinvestment legislation] can be wielded with great power. (Interviewee 12)

This interviewee would appear to be correct. The general consensus amongst interviewees was that economic considerations were always going to be given primacy in the government's decision making processes; since the draft Community Reinvestment Bill was seen as a potential threat to South

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[226] This question will be considered at length in Chapter Five.

Africa's position in the world economy, it was unlikely that the Bill (in its original form, at any rate) would be allowed to pass. As one government employee concluded,

> [w]hat's happening here is we're in a massive bun fight.[227] The Reserve Bank talks to [National Treasury, which] is the flagship department. It has enormous power and influence in government. [National Treasury] go to Thabo [Mbeki][228] and they say, 'Look, Housing is going to kill the golden goose.' Housing is stymied because of that, and we're back to square one. (Interviewee 19)

4.2.4 The Banking Sector's Power

The fourth factor affecting the Department of Housing's reinvestment legislation efforts is the power of the banking sector relative to that of the Department of Housing. South Africa's financial system is under the joint management of the South African Reserve Bank and the National Treasury. The National Treasury is a government department whose role is defined in South Africa's constitution and in the Public Finance Management Act as that of "promoting the national Government's fiscal policy framework and coordinating macroeconomic policy."[229] The National Treasury is responsible for the government's fiscal processes, including management of the budget preparation process and oversight of the implementation of the annual national budget.

The South African Reserve Bank, on the other hand, is a private agency that serves as the central bank of the country.[230] The main objective of

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[227] A colloquial expression meaning "a squabble."
[228] The current president of South Africa
[229] National Treasury. National Treasury Strategic Plan: 2004 - 2007. Pretoria: National Treasury, 2004.
[230] The Reserve Bank has always been privately owned, with some 650 shareholders today. The Bank has a 14-person Board, with seven members elected by government and seven directors (one represents agriculture, two industry, and four commerce or finance) elected by

the Reserve Bank is "the achievement and maintenance of financial stability."[231] Some of the main functions of the Reserve Bank are to: issue currency, act as a banker to government and to other banks, act as lender of last resort,[232] supervise banks,[233] monitor financial stability,[234] and formulate and implement monetary and exchange rate policies in cooperation with National Treasury.[235] In accordance with the Constitution of the Republic of South Africa (Act No. 108 of 1996), "[t]he South African Reserve Bank, in pursuit of its primary object, must perform its functions independently and without fear, favour or prejudice, but there must be regular consultation between the Bank and the Cabinet Minister responsible for national financial matters."[236] From the mid-1990s, the Bank has been particularly concerned with controlling South Africa's inflation rate. A target for inflation was set for the first time in 2000; this rate was between three- and six-percent. In 2004 this target rate was lowered to between three- and five-percent.

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the Bank's shareholders. Despite its private ownership, the Reserve Bank serves a public purpose, i.e. "the achievement and maintenance of financial stability" in South Africa. Interviewees discussed the Reserve Bank as if it were a public agency, which is not surprising since the Reserve Bank works hand-in-hand with National Treasury to achieve its goal of maintaining financial stability and since the surplus of the Bank's earnings (following payment of operational costs, taxes on profits, transfers to reserves, and dividend payments to shareholders of no more than ten cents per share) is paid to government.

[231] South African Reserve Bank website, www.reservebank.co.za, September 2004.

[232] According to the South African Reserve Bank website, "in terms of its 'lender-of-last-resort activities' the Bank may in certain circumstances provide liquidity to banks experiencing liquidity problems."

[233] The purpose of such supervision "is to achieve a sound, effective banking system in the interest of depositors of banks and the economy as a whole." (South African Reserve Bank website.)

[234] "[I]n view of the interrelationship between price stability and financial system stability, the Bank monitors the macroprudential aspects of the domestic financial system. The objective of financial stability is to prevent costly disruptions in the financial system of the country." (South African Reserve Bank website.)

[235] Some of this list is taken from Fourie, L.J., H.B. Falkena, and W.J. Kok, eds. Student Guide to the South African Financial System. Cape Town: Oxford University Press, 2001.

[236] South African Reserve Bank website.

The mandate of South Africa's Reserve Bank and of its National Treasury and the profit-motive of the country's private banks give these various actors a shared goal, i.e. maintaining and enhancing the profitability of the country's financial sector. This alliance of interests means that when the Department of Housing challenged the banking sector with its proposed Community Reinvestment Bill, it was by proxy challenging the Reserve Bank and National Treasury. In short, what the Department of Housing thought was an issue between itself and private banks in fact became a fight against a formidable alliance that the Department of Housing could not beat.

Most interviewees were aware of the alliance between the banks, National Treasury, and the Reserve Bank, and several felt that this alliance was directly responsible for the withdrawal of the draft Community Reinvestment Bill. According to one banker, the Community Reinvestment Bill, "was withdrawn primarily because a number of critical stakeholders expressed serious reservations about it. Not just [the banking sector], but also the Reserve Bank, the [National Treasury], and to a certain extent the Minister of Trade and Industry." (Interviewee 3b) This interviewee also stated that, "Christo Wiese, who's the banking regulator…was extremely vociferous in his views on CRA. He said that CRA is totally unacceptable as far as he is concerned…. So there's been a hell of a lot of pressure, we believe, on the Department of Housing [to withdraw the Bill]." (Interviewee 3b) A housing and lending specialist agreed with this assessment. According to this interviewee,

> [w]hat happened was that the government felt that the NEDLAC agreements[237] in some ways had achieved [government's] immediate

[237] The National Economic Development and Labour Council (NEDLAC) Financial Sector Summit is discussed extensively in Section 4.3.6 of this chapter.

> objective of the banking industry's making some quite far reaching commitments…. And I think that's why they then agreed to, in a sense, to pay heed to the very real criticisms that were made of the draft Bill, and pressure was put on Housing then to take it off [the table]…. Treasury's never been that enthusiastic [about the Bill] in the first place because of the systemic stability issues in a concentrated banking system. (Interviewee 11b)

A government employee acknowledged that government's financial departments might have put pressure on the Department of Housing to withdraw the Bill, stating that "the banks are up in arms [about CRA] and they're speaking to the connections in Treasury…. [I]n other words they're using Treasury…to put pressure on Housing to back off." (Interviewee 19) This same interviewee gave the banks credit for taking advantage of their connections in the financial departments to combat CRA, stating that "…they're actually being very clever to go to the Reserve Bank, because they're literally using government to fight government, which is a very strategic move." (Interviewee 19)

Another government employee stated that it is sometimes hard to tell the banks and government financial departments apart, so closely aligned are they in their views, and especially their views about CRA. According to this individual, "I know that the banks have been speaking to National Treasury on a fairly regular basis. And [when you're] reading letters or documents from National Treasury, sometimes you feel that it's not them writing the letter, it's the Banking Council.[238] So I feel there must be something going on between them…." (Interviewee 9b)

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[238] A private agency that serves as the representative voice of South Africa's commercial banks

Most interviewees agreed that disagreement between the Department of Housing and the government's financial departments would always be resolved in the financial departments' favor. According to one banker,

> …what you're going to find is that the government is not going to be [in agreement] on [CRA]. You're going to have different views within the government. Reserve Bank, which is a state institution,[239] [will be] saying, 'Can't do this in the banks.' Treasury has expectations that the banking sector in South Africa, which employs 250,000 people, maybe more, must continue to be the best in the world if it can be. Because in the context of development in Africa, they want to create this as a financial center. So do you undermine it because you want to meet the [mortgage finance] needs for ten-percent of the population? I don't think that you can, [I don't think] that [CRA] is going to be such a big thing. (Interviewee 25)

The tight alliance between South Africa's banks and the public institutions that monitor and regulate them means that it is unlikely South Africa's banks will ever be subject to the Department of Housing's community reinvestment legislation. Power in South Africa's government lies with those who determine the country's economic policy, and any attempt to disturb the current configuration of the economy is likely to be squelched by the government's financial departments. As one interviewee commented,

> South Africa's a very interesting case study in political transition, because an essentially socialist political movement has swallowed the Washington consensus wisdom with great enthusiasm…. [And so] there's no doubt that in the long run, on any issue which affects South Africa's international financial standing, the power in government lies with those whose instinct is to be conservative rather than those who are into social spending. (Interviewee 12)

The tumultuous and stymied effort to pass community reinvestment legislation in South Africa certainly offers evidence in support of this claim.

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[239] See earlier footnotes for an explanation of the private Reserve Bank's public mandate.

4.3 Why CRA at This Point in Time?

Chapter Three demonstrated that South Africa's draft Community Reinvestment Bill would not have been an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa. If enacted, the draft Bill would not have been likely to result in increased access to South Africa's banks nor would it have resulted in a dramatic increase in the flow of mortgage finance to previously marginalized communities.

This chapter has shown that certain political and economic factors served to hinder South Africa's reinvestment legislation process. Four factors – the Department of Housing's capacity, the Department of Housing's difficult relationships with other government departments, international pressures on South Africa's economy and on its banking sector, and the financial sector's power in South Africa – made it unlikely that the Department of Housing would be able to create and enact rigorous community reinvestment legislation.

Given both the structural failures of the draft Community Reinvestment Bill and the procedural flaws attending this piece of proposed legislation, an interesting question arises: why did South Africa's Department of Housing attempt to introduce this piece of legislation at this particular point in time? It is to this question that the analysis now turns.

4.3.1 Multiple Streams Theory

In order to explain the intricacies of South Africa's reinvestment legislation process, the study makes use of "multiple streams theory," a theory of agenda setting developed by John Kingdon.[240] Kingdon is interested in the

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[240] Kingdon, J. Agendas, Alternatives, and Public Policies (Second Edition). New York: Longman Classics in Political Science, 2003.

issue of policy formation and focuses in particular on pre-decision making processes.[241] His main concerns are with the establishment of agendas and the specification of alternatives from which policies might be selected. An "agenda" is "the list of subjects or problems to which governmental officials, and people outside of government closely associated with those officials, are paying serious attention at any given time."[242]

Kingdon draws a distinction between the broader "governmental agenda," that is, "the list of subjects that are getting attention," and the narrower "decision agenda," or "the list of subjects within the governmental agenda that are up for active decision."[243] Multiple streams theory will help explain the process through which access to formal housing finance came to hold such a prominent place on the governmental agenda in South Africa. It will also help explain how a Community Reinvestment Act came to be a prominent item on the decision agenda.

Before moving on, a brief overview of multiple streams theory is required.[244] In his work, Kingdon focuses on the "organized anarchy" of the

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[241] Kingdon's approach helps explain the two relevant aspects of South Africa's community reinvestment legislation process, that is, how limited access to housing finance became an agenda item and how CRA was specified as a potential solution to that problem. Multiple streams theory is not concerned with either how a choice is made from the specified alternatives nor with how that choice is implemented. In the end, since the Community Reinvestment Bill was not the chosen solution to South Africa's housing finance problem (the Bill was withdrawn before it could move beyond the housing portfolio committee in parliament), and since the draft Bill was never actually enacted, CRA's implementation in South Africa is a non-issue. The framework Kingdon sets up is therefore relevant for examining the CRA process in South Africa.

[242] Kingdon, p. 3.

[243] Kingdon, p. 4.

[244] The starting point for the theory is the "garbage can model of choice" developed by Cohen, March, and Olsen in the early 1970s. (Cohen, M., J. March, and J. Olsen. "A Garbage Can Model of Organizational Choice." Administrative Science Quarterly 17.1 (1972): 1-25.) These social scientists worked to understand organizations they deemed "organized anarchies" (universities, as it turns out) that have three shared properties: problematic preferences, unclear technology, and fluid participation. Under the Cohen, March, and Olsen model, when an opportunity to make a choice arises, this opportunity is "a garbage can into

United States' federal government,[245] which he believes suffers from problematic preferences (that is, poorly defined or conflicting goals), unclear technology (unclear organizational processes), and fluid participation (frequent changes in participants). Three separate streams run through the processes of federal government agenda setting: problems, policies, and politics.[246] When these streams come together at critical times, during what Kingdon calls "policy windows," their confluence produces the greatest agenda change.

Having presented a brief overview of multiple streams theory, the study now turns to applying the theory to South Africa's reinvestment legislation process. The next three sections of this chapter will consider how each of the three streams, that is, problems, policies, and politics, contributed to the Department of Housing's ability to advance its case for the need for community reinvestment legislation. Following this comes an analysis of how the three streams merged in the right way at the right time in order to push the

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which various kinds of problems and solutions are dumped by participants as they are generated." (Cohen, et al., p. 2.) By this theory, decision making is neither rational nor comprehensive nor incremental, but is instead haphazard and piecemeal, depending on which problems, solutions, and participants come together when an opportunity for a choice occurs. Under this model, "solutions and problems have equal status as separate streams in the system, and the popularity of a given solution at a given point in time often affects the problems that come up for consideration." (Kingdon, p. 86.) Kingdon adapts Cohen, March, and Olsen's "garbage can model of choice" to arrive at his multiple streams theory.

[245] Nikolaos Zahariadis expands upon Kingdon's work by considering both agenda setting (pre-decision making processes) and the decision making process itself. Zahariadis further extends Kingdon's work by considering these processes within parliamentary systems. (See Zahariadis, N. Ambiguity and Choice in Public Policy: Political Decision Making in Modern Democracies. Washington, DC: Georgetown University Press, 2003.) Although South Africa has a parliamentary system, it is unlike many parliamentary systems in that South Africa has a president and is a constitutional democracy (within which the decisions of those in power can be tested by the highest court in the land in order to assess whether or not they conform to the nation's constitution). South Africa is, in these respects, more like the US than it is, say, like Britain; i.e., South Africa's parliament functions more like congress than it does like Britain's parliament. For this reason, the analysis relies more upon the work of Kingdon than it does on the work of Zahariadis.

[246] In this way, Kingdon's model differs from that of Cohen, March, and Olsen, who delineate four separate streams in the decision mix: problems, solutions, participants, and choice opportunities.

draft Community Reinvestment Bill into a place of prominence on South Africa's decision agenda.

4.3.2 Problems

The underlying rationale for community reinvestment legislation in South Africa was a lack of access to housing finance by lower income South Africans. This was seen to stem from banks' unwillingness to "come to the party" and commit themselves to helping South Africa achieve its post-apartheid economic transformation. How did limited access to mortgage finance and banks' intransigence come to be seen as problems in need of remedy?

According to Kingdon, three of the factors that can help direct attention to a specific problem are indicators (numbers, statistics, or figures), focusing events (crises, disasters, or symbols), and feedback (information on the operation of existing programs). Indicators and focusing events were particularly important in helping direct attention to the problem of a lack of access to affordable housing finance in South Africa and to banks' perceived unwillingness to release such finance. Indicators and focusing events will be discussed in turn here.

Indicators can help direct attention to a problem by demonstrating the magnitude of a problem or by making officials aware of a change in an existing condition (the change being perceived as a problem). Although people might already be intuitively aware of the existence of a problem, an indicator can function as an index of how severe or urgent a problem is and enable it to capture attention. Two indicators played a role in helping the Department of Housing define a lack of access to housing finance as a problem: the banking sector's failure to meet the goals it agreed to under the Record of

Understanding and the proportion of government housing subsidies that were linked to credit.

As mentioned in Chapter Two, a Record of Understanding (ROU) was negotiated between the Department of Housing and the Association of Mortgage Lenders in the mid-1990s. This was intended to help renew mortgage lending in South Africa's townships. Under the ROU, South Africa's banking sector agreed to issue 150,000 new affordable home loans over a three year period. One of the first indicators used to demonstrate that there was a problem regarding access to affordable housing finance in South Africa was banks' failure to fulfill the lending obligation agreed to in the ROU.

As early as 1999, before the introduction of either the Home Loan and Mortgage Disclosure Act or the draft Community Reinvestment Bill, Minister of Housing Sankie Mthembi-Mahanyele presented this failure as an indication that there was a problem with banks' involvement in affordable housing finance. According to one news article at the time, "Housing Minister Sankie Mthembi-Mahanyele said banks had failed to honour an agreement that they provide 150,000 loans over a three-year period to low-income earners at the top end of the government housing subsidy scheme."[247] Interestingly, the extent of the shortfall was never precisely defined by the Department of Housing; rather, the failure of banks to fulfill this obligation in full was treated as evidence that banks were unwilling to "come to the party"[248] and reengage with low-income communities.

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[247] Bateman, C. "Poor to get foot in door at banks." Independent Online, May 8, 1999.

[248] This phrase is used often to describe the perceived reluctance of banks to reengage with lending to lower-income communities. See, for instance, Jenvey, N. "Banks must accept low earners." Business Day, September 28, 2001; Mthembi-Mahanyele, "High Time"; Rust.

The interviews conducted for this study confirmed that banks did indeed fall short of the lending goal agreed to in the Record of Understanding. However, the shortfall was never as dire as the Department of Housing made it sound in the media. According to bankers interviewed for this study, banks provided as many as 146,000 new loans in accordance with the Record of Understanding. Unfortunately for the banking sector, bankers only released this statistic late in the CRA process. In 2002, Bob Tucker, Chief Executive of the Banking Council, stated in a public letter to the Minister of Housing that "[i]t is not useful to place blame on the banks for having granted 146,000 loans out of the 150,000 target set for the three-year term of the Record of Understanding (before it was terminated by you)."[249] By this point, however, the indicator had already served the purpose intended by the Minister of Housing. Use of this indicator had already helped focus attention on what she perceived as a lack of access to affordable housing finance in post-apartheid South Africa and a lack of commitment on the part of the country's banks.

A second indicator that played a role in helping the Department of Housing draw attention to a lack of access to housing finance was the percent of government housing subsidies issued for housing that was also receiving bank finance. Kingdon notes that "[p]olicy makers consider a change in an indicator to be a change in the state of a system; this they define as a problem."[250] Accordingly, indicators referring to a drop in the percentage of credit-linked subsidies were used frequently to defend the need for both the Home Loan and Mortgage Disclosure Act and a Community Reinvestment Act. In March of 1999 and in February of 2000, the Department of Housing

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[249] Tucker, B. "Homeownership will flourish as part of a range of choices." Independent Online, August 6, 2002.
[250] Kingdon, p. 92.

asserted that 14-percent of its subsidies were credit-linked.[251] In March of 2000, this figure had risen to 16-percent.[252] By September of 2001, however, a news story reported that "less than 1% of the 1.35-million housing subsidies delivered by April this year were linked to credit."[253] In May of 2002, a government employee was quoted as saying that "in 1994, 6% of all housing subsidies were credit-linked. This has steadily dropped to less than 2% at present."[254] In May of 2003, the Director General of the Department of Housing was quoted as saying that "[i]n 1996, 14-percent of people who had received housing grants managed to get additional bank financing…. By 1998 the figure had fallen to 2 percent."[255]

Despite the fact that these figures were released by the Department of Housing (the department in charge of the subsidy program), it isn't clear exactly what percentage of subsidies were in fact credit-linked nor what the change in this figure has been over time. As Kingdon notes, "[t]he need for…indicators can make people grasp for indicators with serious deficiencies."[256] This would seem to be the case with the subsidy figures. However, despite confusion around the actual level of housing subsidies that are linked to credit and despite glaring inconsistencies in claims about the change in this level over time, the indicator served its purpose: it helped rally attention to the problem of a lack of affordable housing finance in South Africa and it implied that the cause of the problem was banks' withdrawal from such

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[251] Greybe, D. "Forced disclosure on cards for banks." Business Day, March 10, 1999; Greybe, D. "New law will force banks to publish home loan decisions." Business Day, February 16, 2000.
[252] Anon. "Bill seeks colour-blind loans." Business Day, March 8, 2000.
[253] Jenvey.
[254] Cook, L. "Draft law will compel banks to lend to poor." Business Day, May 21, 2002.
[255] Bloomberg [sic]. "Housing access bill this year." Business Report, May 20, 2003.
[256] Kingdon, p. 93.

lending. As the Director General of Housing asserted in September of 2000 during a briefing for the Home Loan and Mortgage Disclosure Bill in South Africa's National Assembly, "lending for such housing had fallen from 15-percent of the total three years ago to about 4-percent today and there [is] nothing to suggest that banks would change their attitude unless government intervened."[257]

The second factor that helped direct attention to the problem of a lack of access to affordable housing finance in South Africa was what Kingdon would call "focusing events." A focusing event – a crisis, disaster, or symbol – helps reinforce perceptions and indicators, and in doing so it helps turn a "condition" into a "problem" to be addressed via policy. In the case of community reinvestment legislation and the lack of access to finance for affordable housing, two powerful focusing events directed the country's attention to the need for financial sector reform: the issue of "AIDS orphans" and the land reform crisis in Zimbabwe.

There is no question that AIDS is having a devastating effect on South Africa. The rate of infection in the country is estimated at approximately 22-percent,[258] and the life expectancy of the average South African has been reduced from a pre-AIDS estimate of 65[259] to the current estimate of 44 years.[260] In late 2001 and early 2002, the issue of AIDS got linked to the issue of housing finance through several news stories concerning "AIDS orphans."[261]

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[257] This is a quotation from the article, not from the Director General. See Loxton, L. "MPs told banks won't change unless forced to." Independent Online, September 28, 2000.
[258] Central Intelligence Agency.
[259] Anon. "Life expectancy in Africa cut short by AIDS." CNN Interactive, March 18, 1999.
[260] Central Intelligence Agency.
[261] Anon. "Government welcomes bank's decision not to evict HIV/Aids orphans." BuaNews, December 12, 2001; Anon. "Banks claim HIV/Aids orphans' houses." Mail & Guardian, May 17, 2002.

In several instances, payment on mortgages ceased, and after unsuccessful attempts to contact bondholders, banks would send someone to investigate these situations. What banks found in some instances was households containing only children, households in which all of the adults had died of AIDS. Banks had two choices in these situations: they could either write off the debts and let the children remain in the homes (and thereby improve their own reputations) or they could evict the children in order to resell the homes (and thereby damage their reputations). Unfortunately, in some instances, banks chose the latter. One banker attempted to explain this decision during an interview:

> [w]e had a case last year where the father died of AIDS and the mother died of AIDS, and we repossessed the house because that's the way we do it. If that's our security, you settle the debt, sell in execution, limit our losses. And it was a huge rigmarole in the newspapers, and it's becoming a huge reputational and image risk for the bank. But we've got shareholders; we're not a welfare organization. (Interviewee 16)

The image of banks putting helpless children out on the street increased perception that banks were unwilling to behave as required by the needs of people in post-apartheid South Africa. In essence, the AIDS orphans stories increased the perception that banks were not demonstrating the level of social commitment required of them in post-apartheid South Africa. As one government employee commented,

> …a social mandate is imperative in any given society…. For First National Bank and ABSA, what's [the social mandate], sponsoring cricket and rugby? That's not social obligation…. They want to be seen to be untouchable, and that's not on. Because every one of us, I mean every single South African citizen, has to bear some pain in trying to make this transformation. And they too must bear the pain. (Interviewee 20)

The AIDS orphans cases, coming as close as they did to the release of the draft Community Reinvestment Bill, undoubtedly strengthened the government's argument that reform was needed if the financial sector was going to behave as required by the needs of post-apartheid South Africa. Banks' seeming heartlessness in these situations also strengthened the case that such reform would have to come from outside of the banking sector, that is, that by their very nature, banks were incapable of reforming themselves.

According to Kingdon, focusing events serve three purposes: they reinforce some existing perception of a problem (this was the case with the AIDS orphans), they serve as an early warning of a worse problem, and they can affect problem definition when they are combined with other events. One focusing event that served as an early warning of a worse problem was the land reform process initiated in Zimbabwe in mid-2000. Just at the time that South Africa's Home Loan and Mortgage Disclosure Act was being debated, supporters of Zimbabwe's President Robert Mugabe began occupying white-owned farms and demanding that they be redistributed to landless blacks. In only 18 months, some 1,700 white-owned farms were occupied in an often violent process.[262] As one South African news story reported at the time, the Zimbabwe crisis was "perceived to be the consequence of not having followed up liberation with economic change."[263] South Africa, Zimbabwe's neighbor, was acutely aware of these processes, and the ANC's concurrent interest in "black economic empowerment" (a government initiative intended as a means for redistributing economic resources to those who had been marginalized

[262] BBC. "Court backs Mugabe land reforms." BBC News, December 4, 2001.
[263] Bulger, P. "Storming the Bastille of economic power." Business Day, August 7, 2002.

under apartheid) was fueled in part by awareness of the crisis in Zimbabwe.[264] Financial sector reform, and in particular, access to the means of property finance, came to be seen as an important part of this process.

One final point concerning the problem of a lack of access to affordable housing finance and the perceived reluctance of banks to become involved in such finance concerns the issue of how "problems" become defined as such. Kingdon points out that there is a difference between a "condition," a state of affairs that we are used to, and a "problem," a state of affairs that we feel we should do something about. What pushes stakeholders from accepting a condition to viewing that condition as a problem? Values, comparisons, and categories play a role here. In the South African reinvestment legislation process, comparisons and categories were particularly important.

As concerns comparisons, Kingdon notes that if one believes in equality, then relative disadvantage constitutes a problem. One doesn't have to look far to locate relative disadvantage in post-apartheid South Africa, where political resources have been redistributed but economic resources have remained mainly in the same hands as under apartheid. Apartheid era inequalities are especially evident in the current distribution of housing in South Africa; as has been mentioned, as of 2000, some 2.5 to 3 million South

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[264] The concept of Black Economic Empowerment has been discussed in South Africa since the late-1990s. According to the Broad-Based Black Economic Empowerment Act, black economic empowerment can be defined as "the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to: increasing the number of black people that manage, own and control enterprises and productive assets; facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; human resource and skills development; achieving equitable representation in all occupational categories and levels in the workforce; preferential procurement; and investment in enterprises that are owned or managed by black people." (Republic of South Africa. "No. 53 of 2003: Broad-Based Black Economic Empowerment Act, 2003." Government Gazette 463.25899 (2004).)

African households were unhoused or underhoused.[265] Minister of Housing Mthembi-Mahanyele looked at this “condition” and found the inequality it represented unacceptable. She was then able to isolate factors she felt were contributing to this condition: in her view, unequal access to housing stemmed in part from unequal access to housing finance. In order for unequal access to housing to be addressed, therefore, unequal access to housing finance would have to be remedied.

The Minister’s conception of the problem, its causes, and a solution brings in the issue of categories. Kingdon rightly notes that people see a problem in accordance with the category used to classify it, that is, people see a problem differently if it is categorized one way rather than another. Minister Mthembi-Mahanyele defined a lack of access to housing finance as a problem and felt this stemmed from banks’ intransigence. CRA was needed in order to push banks to desist from discriminatory and racist practices adopted under apartheid; CRA would be part of a process of financial sector reform.

The Minister’s definition of the problem helped sway public opinion in favor of reinvestment legislation. Had a lack of access to finance been seen to stem from unemployment or from inadequate borrower education, then the indicators and symbols used to advance the case for CRA would not have been as meaningful or powerful as they were. By defining the problem as resulting from banks’ intransigence, Minister Mthembi-Mahanyele helped people see access to housing finance as an issue of economic justice, an issue of righting past wrongs. Kingdon states that “linking a proposal to a problem that is perceived as real and important does enhance that proposal’s

[265] Porteous and Naicker.

prospects for moving up on the agenda."[266] This was undoubtedly the case with South Africa's community reinvestment legislation.

4.3.3 Policies

The policy stream involves "the processes by which proposals are generated, debated, redrafted, and accepted for serious consideration."[267] In South Africa, the policies prescribed by the Department of Housing to redress unequal access to housing finance, and thereby unequal access to housing, included two pieces of reinvestment legislation: the Home Loan and Mortgage Disclosure Act and the draft Community Reinvestment Bill. How did these two pieces of legislation come to be proposed as solutions to the housing and housing finance problems defined by the Minister of Housing? This section will answer these questions and will do so by providing a detailed timeline of South Africa's reinvestment legislation process. The timeline presents an overview of how South Africa's reinvestment legislation was generated, debated, redrafted, and accepted (or not, as the case may be) for serious consideration.

Although reports of proposed disclosure legislation (not yet called the "Home Loan and Mortgage Disclosure Act") began to appear in South Africa's newspapers in 1999, the Ministry of Housing had been considering such legislation for several years by that point. According to a 1999 newspaper article, "…the government plans to force financial institutions to disclose full details of their home loan operations. The move, the housing department's top legislative priority after the elections, is designed to discourage banks from discriminating against prospective home buyers from lower income groups."[268]

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[266] Kingdon, p. 115.
[267] Kingdon, p. 143.
[268] Greybe, "Forced disclosure."

One important point made by this article is that the disclosure legislation is "linked to [a] US-SA bi-national commission and its housing programme." In fact, the US-SA bi-national commission seems to have provided the impetus for South Africa's reinvestment legislation efforts. One interviewee who was involved in the commission, when asked about what generated South Africa's reinvestment legislation efforts, stated,

> …I would probably date that back to 1997. In the days of the bi-national commission between South Africa and the US, housing was one of the working groups. There was a meeting in Washington that the Minister, Sankie [Mthembi-Mahanyele], attended. And at that thing, Fannie Mae and others all gave presentations. [It was] organized by HUD, mainly. And they showcased what they saw to be the good results of CRA-type of things. And I think…in the Minister's mind [that] was the beginning of dawning awareness of the possibilities. I remember they wheeled out someone from Citibank who ran the Citibank program, and then they wheeled out some of the NGOs that had benefited from bank funding as the result of CRA pressures, and they wheeled out one of the CRA pressure groups. So they gave a sort of a showcase. It wasn't actually, to be fair to them, it wasn't sort of, 'Let us supply this to you.' It was, 'This is what we do.' And I think the Minister's mind started working. (Interviewee 11a)

Other interviewees confirmed that the bi-national commission led to the generation of South Africa's reinvestment legislation process. According to one housing and lending specialist,

> …there was a bi-lateral agreement between the South African government and the United States, and it had a whole bunch of planks, and one was around sort of housing and urban issues. I recall, in fact, Cuomo, I believe, came out here…. US-AID was out here all the time trying to say to the banks, 'Do you want us to send people over? Do you want to learn more about this?' Talking to government, 'Do you want to learn more about this CRA?' But government never really engaged US-AID. They always said, 'If we're going to do this, it's going to be bi-lateral, ministerial to ministerial.' …[D]uring the bi-lateral [commission], the Minister [of Housing] met with Cuomo, and in fact our

> Minister has gone over now [to the United States] a couple of times and the Director General [of Housing has] been over. And so, flowing out of that was the offer to help. And subsequently the Home Loan Mortgage Disclosure Bill was passed in 2000, it must have come out around 1999, and now [CRA]. (Interviewee 7)

Contact between policy makers in the United States and high-ups in the Department of Housing seems to have provided the impetus for South Africa's community reinvestment legislation efforts. However, as Kingdon has noted, in order to get the policy community to consider a new idea, there must be a long period of "softening up," that is, a period of working to get stakeholders and the general public to accept an idea. During the softening up process, "ideas are floated, bills introduced, speeches made; proposals are drafted, then amended in response to reaction and floated again."[269] Media can play important roles in the softening up process, since those who want their ideas accepted can use the media to garner support from the general public and the policy community itself. It is interesting, therefore, to provide a brief overview of the "softening up" process around the Home Loan and Mortgage Disclosure Bill and the draft Community Reinvestment Bill, focusing in particular on media coverage of these pieces of legislation.

By May of 1999, South Africa's newspapers were reporting that the Housing Ministry was processing a "Home Loan Disclosure Bill." The Bill was said to be "the result of public anger at banks slamming their doors in the faces of the poor and forcing poor households into the arms of loan sharks."[270] In February of 2000, newspapers reported that the draft Home Loan and Mortgage Disclosure Bill was about to be presented to a cabinet committee; by March the Bill had received committee approval. At this point the papers

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[269] Kingdon, p. 117.
[270] Bateman.

reported that the Bill would "give the housing minister power to introduce regulations to boost the provision of home loans to underserviced people."[271] For their part, the Banking Council was reported to believe that "the principle of the draft legislation was sound," and was quoted as saying that they "[looked] forward to engaging the housing department on the way forward."[272]

In some of the articles appearing around this time, the indicator regarding the percentage of credit-linked subsidies was used to defend the need for government intervention in the housing finance sector.[273] Other articles claimed that

> [g]overnment deems the [HLMDA] legislation necessary to remedy SA's apartheid past and the obvious ramifications of these policies on home ownership patterns. In addition, a limited amount of formal bank lending has taken place in the low-cost housing market over the past five years. This is of great concern to government, as banks have failed to meet past lending promises.[274]

It is clear that the government's chosen indicators not only played a role in the process of problem definition, but were used to help sway public opinion in favor of disclosure legislation.

By July of 2000, efforts to soften up the public around the issue of community reinvestment legislation had become more determined and, as a result, the tone of arguments in defense of reinvestment legislation were becoming more strident. In one article published at that time, economic transformation committee head Max Sisulu was quoted as saying that intervention in the financial sector was needed because the sector was

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[271] Chalmers, R. "Bill will ferret out discriminatory lenders." Business Day, March 3, 2000.
[272] Chalmers.
[273] Greybe, "New law."
[274] Anon., "Bill seeks."

"extremely conservative and sometimes even racist."[275] According to this article, "Sisulu said the ANC had appealed to the 'conscience' of financial institutions to make more funds available for the upliftment of blacks. They had not done so, forcing the ANC to consider intervening in the sector."[276]

In December of 2000, the Home Loan and Mortgage Disclosure Act was passed into law (with very little objection from the financial sector) and Minister of Housing Mthembi-Mahanyele began the task of "softening up" the general public and the policy community around a Community Reinvestment Act. The more forceful tone adopted during the later part of the HLMDA process did not abate at this point, but rather intensified. For example, one article published in February of 2001 quotes the Minister of Housing as saying that, "we will be following [HLMDA] up with the Community Reinvestment Bill, aimed at opening up the tight and almost impenetrable barriers which have a stronghold on access to finance for housing development."[277] By June of 2000, the Minister had defined the problem underpinning South Africa's affordable housing backlog, stating that "access to finance remained the greatest challenge facing low-income housing development."[278]

It should have come as no surprise to anyone, therefore, when in May of 2002, South Africa's Department of Housing issued its draft Community Reinvestment Bill. The Department had been considering CRA since 1997 and had been mentioning its intention to release the Bill since the passage of HLMDA in late 2000. In addition, the Department had referred frequently to

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[275] Chothia, F. "ANC wants to transform finance sector." Business Day, July 17, 2000.
[276] Chothia.
[277] Anon. "R15bn spent on housing since 1994." WOZA Internet, February 15, 2001.
[278] Van Zyl, D. "Minister briefs media on housing "backlog," challenges." SAPA (Internet Version), June 9, 2001.

both the legislation and the need for such legislation during parliamentary media briefings.

Following the release of CRA, debate (the second step in Kingdon's four stage policy stream) around the draft Community Reinvestment Bill took place. One unusual aspect about the effort to advance South Africa's draft Community Reinvestment Bill concerns the manner in which this debate took place. The debate over CRA was conducted mainly in the media, with both the Department of Housing and the Banking Council working to shift general opinion to their point of view.

The banks used the media to indicate that CRA would be harmful to the general public (those whose money was kept within the banks, anyway) and to the economy of South Africa as a whole. Banks reminded the public that it would be depositors' money the Minister of Housing would pump into the low-income housing market; they pointed out that only ten-percent of banks' assets belong to shareholders, while 90-percent belong to depositors.[279] Those writing in support of the banks' position quoted the Basel Committee on Banking as saying "market signals can be distorted and discipline undermined if governments seek to influence or override commercial decisions, particularly lending decisions, to achieve public policy objectives."[280] Financial analysts reported that foreign investors were being driven out of South Africa's markets because of fear over the proposed legislation.[281]

The Minister of Housing used the media to drive home her belief that banks would not change if they were not forced to change. According to one

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[279] Gebhart, M. "Banks fear to tread where the state is rushing in." Independent Online, July 19, 2002.
[280] Gebhart, "Banks fear."
[281] Gebhart, M. "Prospect of regulation adds kindling to share burnout." Independent Online, August 6, 2002.

article, the Minister announced plans to launch a campaign that would drive people out of their shacks and into the banks to apply for loans. The Minister was said to believe that this would allow the Department of Housing to assess whether banks were unfairly discriminating against potential borrowers. According to this article, Minister Mthembi-Mahanyele said of the banks, "we have given them a number of incentives, but they have not come forward…. We even signed an accord where they promised to cooperate, but they have not played their part." The article stated that the Minister "would go to any length to ensure that banks lend to those in the low-income housing market."[282]

In the three months between the draft Community Reinvestment Bill's release and its withdrawal, there was little if any direct communication between the Department of Housing and the Banking Council. For this reason, debate in the media became even more intense, with the main stakeholders addressing one another directly in the press. On August 6, 2002, Bob Tucker, Chief Executive of the Banking Council, issued a public letter to the Minister of Housing. He defended his decision to communicate in this manner by stating,

> as you know, the banking industry responded in detail to the proposed Community Reinvestment Bill on June 20. We have not heard from the Department of Housing since then, and were somewhat surprised at the extensive public comment you have given on the subject. We therefore consider it appropriate to respond in the media.[283]

Tucker's letter insisted that South Africa's banks are committed to addressing South Africa's socioeconomic problems by identifying and

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[282] Radebe, S. "Minister wants people out of shacks, bugging banks." Business Day, July 30, 2002.
[283] Tucker.

addressing the causes of these problems and by partnering with government to do so. However, he insisted that an emphasis on homeownership and a reliance on mortgage finance to get people there was the wrong solution for South Africa's affordable housing crisis. The draft Community Reinvestment Bill, Tucker stated, would "perpetuate a failed strategy, inducing the poor to take loans that they cannot repay and to invest in houses that will decline in value." Tucker went on to point out that the draft Community Reinvestment Bill bore little relation to its US namesake, which has no targets, no compulsory lending, and no criminal sanctions for non-compliance.

Tucker asserted that worldwide experience has demonstrated that the best means to achieve credit provision for the poor is through disclosure and competition. This, he stated, is why banks supported HLMDA's enactment in 2000. Where, he proceeds to ask, are the regulations that would make HLMDA a viable piece of legislation? Tucker ended by stating that South Africa's banks and government must work together to address the country's affordable housing finance problems and by telling the Minister of Housing that her suggestion that the poor should flood the banks to apply for loans they can't afford was not in keeping with sound business practices nor good governance.

The Minster of Housing responded to Tucker's letter on August 14 during a media briefing in parliament. Her briefing took place just days after reports began to appear in the papers saying that South Africa's draft Community Reinvestment Legislation was scaring off foreign investors.[284] Interestingly, the Minister's normally forceful tone was somewhat subdued in this public reply to the Banking Council. She stated that she was happy that

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[284] Gebhart, "Prospect."

all sectors, government, individuals, communities, NGOs, and the private sector, had demonstrated a willingness to contribute to housing the nation, though she believed there was a long way to go in meeting this goal. According to Mthembi-Mahanyele,

> …this is why we continue to engage the banks in a dialogue around their contribution to housing stability and sustainability. I may point out to you that this is nothing new. Among the first things that my department did after the elections in 1994 was to engage the banks on a range of issues from bad debts to redlining and subsidy-linked bonds. In the eight years since then, we have made every endeavor to respond to the issues raised by the major banks…. The entire history of our interaction with the banks and the private sector as a whole in the sphere of housing is a history of working for cooperation for the good of the country. We have always sought dialogue over confrontation. We have always worked for constructive solutions to the challenges facing us jointly…. I believe the banks are interested in a more just, stable and sustainable society because it is good for business. And so I must believe that they will not only understand where this government is coming from with its calls for transformation. I must believe that they will choose to be willing partners in transformation rather than reluctant participants who have to be carried to the party.[285]

The day after this media briefing, an article appeared in *Business Day* indicating that the draft Community Reinvestment Bill would be amended to take into account the proposals submitted by various parties.[286] Just a few days later the Minister of Housing confirmed that the draft Community Reinvestment Bill had been withdrawn from the parliamentary portfolio committee, though she stated that she was confident it would be presented in

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[285] Mthembi-Mahanyele, S. Remarks by the Minister of Housing, Sankie Mthembi-Mahanyele, at the Parliamentary Media Briefing, Cape Town, 14 August 2002. South African Government Information, 2002.
[286] Ensor, L. "Approach loans creatively housing minister." Business Day, August 15, 2002.

an amended form before the end of 2002.[287] In an article she wrote for Business Day at this time, Minister Mthembi-Mahanyele stated,

> [I]et me be very clear about one point: this government is and remains completely committed to the market economy and to the role of independent banks within that economy. There is no intention to coerce banks into unsound business practices. There is, however, every intention of encouraging banks to comprehend and integrate into their business attitudes and practices the challenges inherent in a society moving away from the racially and geographically exclusionary practices of the past.[288]

In accordance with Kingdon's overview of the policy process, South Africa's draft Community Reinvestment Bill was generated, debated, and was withdrawn for redrafting. In November of 2002, the Minister of Housing stated that a Community Reinvestment Bill would probably pass into law in 2003.[289] In January of 2003, the Department of Housing issued a statement saying that the final draft of the Community Reinvestment Bill was complete and would be submitted to cabinet within the month and then proceed to parliament as soon as possible after that.[290] In February of 2003, Sankie Mthembi-Mahanyele left the Department of Housing to take the position of Deputy Secretary General of the ANC and Brigitte Mabandla was sworn in as the new Minister of Housing.

In May of 2003, the press reported that the new draft Community Reinvestment Bill would be submitted to parliament in September of that year.[291] In August, it was reported that cabinet had decided to await enactment of the Draft Community Reinvestment Bill until the financial sector's

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[287] Anon. "Government takes another look at community re-investment bill." Financialweb, August 20, 2002.
[288] Mthembi-Mahanyele, "High time."
[289] Masango, G. "Changed home loans bill 'will satisfy stakeholders.'" Independent Online, November 5, 2002.
[290] Anon. "Controversial bill is back, but with options." Business Day, January 14, 2003.
[291] Paton, C. "Brand new laws for business." Financial Mail, May 16, 2003.

Charter process was complete.[292] One month later, Minister Mabandla reiterated the Department of Housing's commitment to "freeing up more funds for housing,"[293] and while acknowledging that the draft Community Reinvestment Bill's release was being delayed pending finalization of the financial sector's Charter, she insisted that the regulations for the Home Loan and Mortgage Disclosure Act would be released by the end of 2003.[294]

This was the last time South Africa's reinvestment legislation was mentioned in the news, and neither the regulations for HLMDA nor the draft Community Reinvestment Bill has ever been submitted for parliamentary debate. By Kingdon's schema, South Africa's draft Community Reinvestment Bill didn't complete its journey through the policy stream: it was generated, debated, and redrafted, but following this, it was never accepted for serious consideration.

4.3.4 Politics

The third stream in Kingdon's theory is the political stream, which he takes to include such things as the public mood, pressure group campaigns, election results, ideological distributions in government, and changes in administration. This section will consider which factors in the political stream helped advance South Africa's community reinvestment legislation process. In particular, two factors will be examined. One is the pressure exerted on government and banks via the Campaign for the Transformation and Diversification of the Financial Sector (which was significant both as a pressure campaign and as an indication of national mood). The other factor is the ANC's awareness of the national elections set to take place in 2004.

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[292] The Charter is discussed extensively in Section 4.3.6 of this chapter.
[293] Loxton, "Empowerment clock."
[294] Anon. "Full steam ahead on disclosure regulations." Business Day, September 4, 2003.

Kingdon notes that interest groups can have great influence on the governmental agenda, that is, the list of subjects to which people in and around government are paying attention. One of the factors that can make an interest group powerful is its perceived cohesiveness. According to Kingdon, "[p]art of a group's stock in trade in affecting all phases of policy making – agendas, decisions, or implementation – is its ability to convince governmental officials that it speaks with one voice and truly represents the preferences of its members."[295] This was undoubtedly true of the Campaign for the Transformation and Diversification of the Financial Sector and the resulting Red October march. This campaign helped situate the need for financial sector reform firmly on the South African government's agenda. How did this happen?

In 2000, the South African Communist Party (SACP), the Congress of South African Trade Unions (COSATU), and various community groups launched the Campaign for the Transformation and Diversification of the Financial Sector, whose slogan was "Make the Banks Serve the People."[296] As part of this Campaign, participating organizations mobilized over 40,000 people throughout South Africa to take part in a march on October 21, the point of the march being to demand financial sector reform. The South African Communist Party (SACP) received much of the credit for "spearheading" this mass action,[297] which was known as the "Red October" march.

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[295] Kingdon, p. 52.
[296] National Economic Development and Labour Council Community Constituency. First Draft Discussion Paper on the Transformation and Diversification of the Financial Sector by Nedlac Community Constituency. Johannesburg: Campaign Forum to Make the Banks Serve the People, 2001.
[297] Anon. "Council urges banks to root out racism." Independent Online, August 25, 2000.

Before discussing the effects of the campaign and resultant march, it bears mentioning that the Communist Party is, of course, more than an interest group. In South Africa the Communist Party is a viable political party, one that has joined with the African National Congress and the Congress of South African Trade Unions (COSATU) in what is known as the "tripartite alliance." This alliance of interests was formed after the ANC was unbanned in the 1990s with the intention of creating a coalition to oversee South Africa's transition to democracy; the coalition has lasted into the post-apartheid era. This alliance can be a fragile one, however, since the three actors hold widely divergent views on certain topics, for example, economic reform.[298] Given this, one role of the Communist Party and COSATU within the tripartite alliance is to ensure that their members' concerns are understood and responded to by the dominant ANC. In this way, the Communist Party and COSATU can act like interest groups, exerting pressure on the ANC to protect their members' interests.

The Red October march on the banks culminated in the presentation of a list of demands to both the South African government and to the Banking Council. The demands concerned the need for banks to invest in affordable housing, provide credit to small, medium, and micro-enterprises (SMMEs), and provide finance for infrastructure in black areas. In addition, the Campaign called for diversification of the financial sector through the establishment of community-based banks (such as co-ops and credit unions). According to Communist Party General Secretary Blade Nzimande, "[t]he campaign should

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[298] For example, During the ANC's 51st conference in December of 2002, President Thabo Mbeki (ANC) conducted an attack on the ultra-left, whom he accused of trying to impose a socialist agenda on the ANC. Mbeki is reported to have reminded conference attendees that "[t]he ANC is a national liberation movement. It has never been a socialist movement." (Anon. "Discord, delivery to top ANC indaba." SAPA (Internet version), December 13, 2002.)

be seen as an integral component of building a cooperative movement and a strong cooperative sector in our economy. This is a campaign for building a people's economy."[299]

Mention of the Campaign for the Transformation and Diversification of the Financial Sector and the Red October march appeared frequently in South Africa's newspapers in the months preceding the march, with SACP General Secretary Nzimande urging workers to "reclaim their stokvel[300] moneys, insurance investments and their provident funds to be used for the benefit of the people themselves."[301] The General Secretary accused banks of being "nothing other than instruments of capitalist power, economic oligarchies whose purpose is to finance white luxuries and greed, using black workers' money. Their practices are not only racist, but continue to foster poverty among black people, entrenchment of racial inequalities, and racism itself."[302] In response to these statements, the Banking Council denied that banks receive more money from low-income communities than they invest in these communities, but acknowledged that there were "problems with the structure of the financial services sector."[303] Interestingly, banks and community groups were in agreement about the need for the creation of new types of institutions that might serve communities more effectively than the big four banks were doing.

The Campaign for the Transformation and Diversification of the Financial Sector continued to make headlines after the actual Red October

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[299] Jayiya, E. "Blade slashes at banks boosting 'white greed.'" The Star, September 19, 2000.
[300] A rotating credit scheme established amongst friends.
[301] Anon., "Council urges."
[302] Jayiya.
[303] Anon. "Banking industry willing to discuss transformation." SAPA (Internet version), October 5, 2000.

march took place. In February of 2001, the Banking Council and South African Communist Party met to discuss the list of demands issued at the end of the Red October march. The two parties maintained their agreement over the need for legislation to regularize stokvels, credit unions, and co-operatives, and they pledged to meet further to discuss these topics.[304] At this point the Communist Party expressed a desire to meet with the banks within the forum of the National Economic, Development, and Labour Council (NEDLAC) with the Banking Council expressing some reservation about meeting the Communist Party within this particular forum.[305]

The Communist Party and COSATU's campaign for financial sector reform undoubtedly helped push this issue to prominence on the governmental agenda. As Kingdon has noted, if disparate interest groups are pushing for the same thing, those in government pay attention. The fact that both of the ANC's tripartite alliance members were pushing for financial sector reform made the ANC take greater notice of the issue. In addition, the Red October march demonstrated strong cohesiveness amongst each groups members and further provided tangible evidence that the Communist Party and COSATU were able to mobilize their members throughout the country when the need arose. Each of these factors made the ANC pay greater attention to the demands put forth during the Campaign for the Transformation and Diversification of the Financial Sector, and each of these factors influenced the force with which the Department of Housing eventually pushed for CRA. As one interviewee commented, "There is, I think, a need for government to defend itself against accusations that it's being soft on key institutions in the

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[304] Anon. "Communist Party, Banking Council meet; urge dramatic change in banking." SAPA (Internet version), February 5, 2001.
[305] Klein, M. "SACP, bankers agree to explore issues." Business Day, February 6, 2001.

delivery process, like banks. And pushing, ramrod-ing through legislation like [CRA] would help defend against those accusations from the SACP and the unions." (Interviewee 11a)

A second factor that plays a role in the political stream of Kingdon's theory of agenda setting is concern with elections. The ANC's awareness of its electoral support certainly played a role in the community reinvestment legislation process. This was true of both the efforts to pass the Home Loan and Mortgage Disclosure Act and the draft Community Reinvestment Bill, but was perhaps a more compelling factor where the draft Bill was concerned, given that the draft Bill held a prominent place on the agenda from May of 2002 into late-2003, with national elections set to take place in 2004. The ANC's concerns about electoral support and about the 2004 elections in particular were mentioned often by interviewees when discussing the reinvestment legislation process and will be considered briefly here.

According to one interviewee, it is clear that the prominent placement of reinvestment legislation on the governmental agenda was motivated by the government's desire to increase its electoral support base. This individual explained,

> … the market [in South Africa] is segmented into what are called 'LSMs,' living standard measures, that relate very much to physical goods possession. And the LSM measures go from one to ten, ten being essentially wealthy suburban, still majority white, although increasingly black as well. One [is] almost entirely black, mainly rural, extremely poor. And although it's not directly an income measure, it proxies income…. [T]hey ask as they survey people [within LSMs] every year, 'What, what are the biggest pressing issues on the national agenda?' And the answers differ…. If you talk about the people at the very low end, the most pressing issues are employment; they say, 'We want money.' Housing is way down on the list for them…. As you move up the LSMs, and you move into four, five, six, which is the

> middle of the market, these are people who…have some formal employment or part-time employment or whatever, housing starts to move up [as an] issue, and it becomes number two or something on the list. As you move beyond that into seven, eight, nine, ten, which is middle class and then upper class, housing falls off. It's not even an issue. And so really what [this] says is housing is a concern to, guess what, government's support base, and guess what, the unions' base. 'Cause that's where you find the blue collar worker group. And it's a very narrow part of the market, actually…. So it's that slice which is actually determining, to a large extent, the focus of *these* types of initiatives, the finance-driven initiatives. (Interviewee 11a)

Some interviewees were blatant about stating that the draft Community Reinvestment Bill was being used as a tool to garner support for the ANC in advance of the 2004 elections. One housing and lending specialist commented on this specifically, stating that "…the reality is we're now in a pre-election mode here; general elections next year, probably June, so a year to go. And to be frank I think that the politics of a pre-election year will require that government is seen to be passing something like CRA." (Interviewee 11b) A government employee agreed with this assessment, stating that "I can understand why the Department [of Housing] is doing this, because of the political pressure to show delivery, to force the banks to give loans to people they otherwise would not give loans to." (Interviewee 19) Not surprisingly, bankers agreed with this assessment. As one banker put it simply, "You know what it is? It's a ploy. It's a political ploy." (Interviewee 25)

South Africa's newspapers concurred that CRA was at least in part motivated by the government's concerns over the 2004 elections. One reporter stated that, "it is common cause among parliamentary observers that 2003 – with important national and provincial elections due next year – will almost certainly be dominated by the urgency of job-creation and the elimination of wealth disparities." The article concludes that the ANC wants to be seen as the party of transformation, and that the push for a Community Reinvestment Act is part of this effort.[306] Another commentator noted that "[i]n just 12 months, South Africans go to the polls again. …[C]omments by housing minister Brigitte Mabandla that 'redlining'…will be banned by the end of the year [by promulgation of the Community Reinvestment Bill] must be understood in this context."[307]

Kingdon concludes his discussion of the political stream by stating that

> [w]e have been equating the various political forces – national mood, organized interests, election repercussions, [and] the orientations of elected officials – with each other…. [T]he forces are not equal in practice. In particular, the complex of national mood and elections seems to create extremely powerful impact on policy agendas….[308]

This would seem to be the case with the political factors that provided fertile ground for the Department of Housing's reinvestment legislation efforts. The Campaign for the Transformation and Diversification of the Financial Sector put pressure on the ANC-led government to attend to the interests of members of the Communist Party and COSATU. Because of wide membership in these organizations, it also provided the government with a measure of the national mood as concerned the prominence of financial sector reform as a public interest. The ANC-led government's sense of the national mood fed into its concern about maintaining and enhancing its support base in advance of the 2004 elections. South Africa's community reinvestment legislation, and in particular its draft Community Reinvestment Bill, rose to prominence on the governmental and decision agendas in part for these two reasons: national

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[306] Wilhelm, P. "The ANC keeps its eye on the 2004 elections." Financial Mail, January 31, 2003.
[307] Anon. "Bashing the banks won't solve the problem." Financial Mail, May 23, 2003.
[308] Kingdon, pp. 163-4.

mood supported reform of the financial sector and attention to this issue would bolster government's popular support in advance of forthcoming national elections.

4.3.5 Confluence of the Streams: A Policy Window Opens

Finally we turn to the joining of the three streams, the heart of Kingdon's multiple streams theory. What does it mean for the three streams to join? "A problem is recognized, a solution is developed and available in the policy community, a political change makes it the right time for policy change…."[309] When this happens, Kingdon believes a "policy window" is open.

"Policy windows" are "opportunities for action on given initiatives."[310] They open rarely and remain open only for short periods of time. When a window opens, "participants dump their conceptions of problems, their proposals, and political forces into the choice opportunity, and the outcomes depend on the mix of elements present and how the various elements are coupled."[311] The concern of this section will be to show how a window opened in South Africa to allow the Department of Housing's draft Community Reinvestment Bill to rise to prominence onto the governmental and decision agendas.

One of the main factors facilitating the opening of a window for the draft Community Reinvestment Bill was that legislation was in the works well before the political and problem streams were ready for it. Kingdon believes that "advocates lie in wait in and around government with their solutions at hand, waiting for problems to float by to which they can attach their solutions, waiting for a development in the political stream they can use to their advantage."

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[309] Kingdon, p.165.
[310] Kingdon, p.166.
[311] Kingdon, p.166.

This is certainly true of Minister of Housing Mthembi-Mahanyele and her draft Community Reinvestment Bill.

It will be recalled that the Minister began to consider community reinvestment legislation as far back as 1997 when she first discussed the idea with members of the US housing policy community; this was five years before the draft Community Reinvestment Bill was actually released for public comment. As early as September 2000, several months before HLMDA was enacted and almost two years before the draft Community Reinvestment Bill was issued, the Department of Housing mentioned in the press its intentions to put "a Community Reinvestment Bill in place as soon as possible."[312] As Kingdon might say, CRA was a solution waiting for a problem to attach itself to; beyond a problem to attach itself to, CRA needed a shift in the political stream to support its rise to prominence.

The necessary shift in the political stream preceded the required shift in the problem stream. As has been documented, the joint Communist Party/COSATU Campaign for the Transformation and Diversification of the Financial Sector increased in pitch and intensity throughout 2000 and continued into 2001. This effort to "Make the Banks Serve the People" helped create a groundswell of support for financial sector reform. The central focus of this campaign was on achieving two changes: increasing the availability of finance for small, medium, and micro-enterprises and developing legislation that would allow for the growth of alternative, community-based financial institutions. While "community reinvestment" was mentioned in this campaign,

[312] Loxton, "MPs told."

the phrase referred mainly to the need for funds for the development of businesses and infrastructure.[313]

Despite the fact that the demands made during Campaign for the Transformation and Diversification of the Financial Sector were not centered on housing finance, this shift in the political stream provided the Minister of Housing with the popular support she needed to promote her draft Community Reinvestment Bill. The popular belief was that it was time for South Africa's banks to reform in order to serve the needs of lower-income South Africans; the Minister of Housing determined that a Community Reinvestment Bill would be a part of this necessary process.

Popular support for financial sector reform gave Minister Mthembi-Mahanyele insight into how to shift the problem stream so that her draft Community Reinvestment Bill might be advanced. The Minister of Housing united the support for financial sector reform to the central problem her Department was charged with, namely, "housing the nation." She did this by linking the lack of affordable housing in post-apartheid South Africa to the need for financial sector reform, stating that the main obstacle to the development of such housing was the stubborn refusal of banks to provide affordable housing finance. The solution to this problem, of course, was her draft Community Reinvestment Bill, a piece of legislation she had been considering since 1997. A Community Reinvestment Act would solve two problems at once: it would force banks to change the racist and discriminatory

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[313] Later in the community reinvestment process another political shift helped keep CRA afloat. The ANC-led government's Black Economic Empowerment effort began in earnest in 2002 and that campaign, which called for reform of several key sectors (including the financial sector), helped keep CRA a viable item on the decision agenda.

patterns of behavior adhered to under apartheid and it would provide low-income South Africans with the homes they needed.

Minister of Housing Mthembi-Mahanyele is presented here as a pivotal figure in South Africa's community reinvestment legislation process. There is a case to be made in support of this contention. According to John Kingdon, the most influential element in the uniting of the problem, policy, and political streams are "policy entrepreneurs," those advocates who are willing to "invest their resources – time, energy, reputation, and sometimes money – in the hope of future return."[314] What role do entrepreneurs play in the agenda setting process? Quite simply, they couple the three streams: entrepreneurs "hook solutions to problems, proposals to political momentum, and political events to policy problems."[315] Without an entrepreneur, the linking of the three streams might not take place.

Kingdon's research demonstrates that three qualities contribute to an entrepreneur's success in pushing items to prominence on the governmental and decision agendas. First, the likelihood of success is enhanced if the entrepreneur has a "claim to a hearing," that is, expertise, a leadership role, or is in a position to make decisions. Each of these factors is true of Minister Mthembi-Mahanyele, who had led the Department of Housing since 1996. This long-held position had made her an affordable housing expert, placed her in a leadership role, and gave her power to make and follow through on decisions. The second quality that contributes to an entrepreneur's likelihood of success is political connections. Minister Mthembi-Mahanyele clearly possessed such connections, built up through her years of service as Minister

[314] Kingdon, p. 122.
[315] Kingdon, p. 182.

of Housing and through her prominence as a member of the ANC. The third, and Kingdon believes most important, quality of an entrepreneur is persistence, a quality that the former Minister of Housing possessed in abundance. Minister Mthembi-Mahanyele pushed for reinvestment legislation against vocal and prolonged opposition from the banks; she pushed for CRA in the face of resistance from other government agencies. The Minister was tireless in her efforts to promote CRA as an agenda item in South Africa, as even a cursory glance at the history of media coverage of the legislation will show.

What are some implications of the importance of entrepreneurs in the agenda setting process? Kingdon concludes that the right person at the right time does in fact matter. While entrepreneurs do not create the external conditions that make it the right time to advance a proposal, they are the ones who seize the opportunity presented and keep the process moving along. Entrepreneurs aren't masters of the situation, however, but rather benefit or suffer from external conditions over which they have no control. In South Africa's reinvestment legislation process, these conditions ultimately served to thwart the process and close CRA's window of opportunity. How this took place will be discussed in the next section.

4.3.6 A Policy Window Closes

Kingdon states that when a policy window opens, "participants dump their conceptions of problems, their proposals, and political forces into the choice opportunity, and the outcomes depend on the mix of elements present and how the various elements are coupled."[316] In the case of South Africa's draft Community Reinvestment Bill, several factors in the multiple streams

[316] Kingdon, p.166.

served to hinder the enactment of the draft Bill, thereby removing the Bill from the decision agenda; in fact, these factors ultimately served to remove the Bill from the governmental agenda as well. What are these factors?

One factor that pushed CRA from consideration was the development of the Financial Sector Charter. Kingdon points out that windows sometimes close because participants in the process believe a problem has been addressed by means of an alternative solution. There is no doubt that the issuance of a Financial Sector Charter served to make CRA seem unnecessary. The Charter process will be reviewed here.

The Charter process began when banks entered into negotiation with government, labor, and community representatives within the forum of the National Economic, Development and Labour Council (NEDLAC).[317] It may be recalled that the Communist Party had been exerting pressure on the banks to enter a NEDLAC summit on financial sector reform since October of 2000, the height of the Campaign for the Transformation and Diversification of the Financial Sector. While the banks had expressed a willingness to discuss financial sector reform with concerned parties, they were reluctant to do so within NEDLAC. However, the combined pressure created by the CRA process and the black economic empowerment process, and the introduction by government of a Mining Sector Charter,[318] demonstrated to banks that

[317] NEDLAC is a forum within which business, labor, government, and community can meet to discuss issues of social and economic policy.

[318] One banker commented that the Mining Sector Charter had had direct influence on the banking sector's willingness to reform itself. According to this person, "I think the one thing that certainly influenced [our Charter process] was the Mining Charter. We felt quite clearly that we don't want that sort of debacle in the financial sector. And we felt that one of the reasons why there was that problem in the Mining Charter was that it was a government initiated issue. I mean, the Minister of Energy pushed very hard and she was very proactive on this and very vocal on this and so on. We felt that we want to control the agenda for this thing. For a whole range of reasons. One, it puts us in a position to actually influence [the outcome]. Two, unlike the mining sector where you've got sort of physical assets there in the

reform of the financial sector was imminent, whether they wanted it or not. Once they recognized this, the banks were interested in controlling the reform process; accordingly, they entered a NEDLAC summit. A brief overview of the outcomes of the NEDLAC Financial Sector Summit is presented here.

The NEDLAC Financial Sector Summit took place in August of 2002. The meeting resulted in a signed framework agreement on transformation of the financial services sector, by which was meant enacting changes that would "ensure that the financial sector contributes more to development."[319] The framework agreement focused on: the regulation of credit bureaus, the establishment of enabling legislation for the promotion of cooperative banks, the creation of other types of support for cooperative banks and non-profit micro-credit schemes, the enactment of measures to end discrimination, the promotion of access to basic financial services for the majority of South Africans, the creation of ways to promote investment into development projects, an assessment of how state-owned financial institutions might contribute more to development, the regulation of the financial sector in its development role, and the creation of initiatives to promote savings.

The NEDLAC framework agreement on transformation of the financial services sector is not a binding agreement. Rather, it can be seen as a successful attempt by disparate parties to come together, determine what issues were blocking South Africa's financial sector from being an effective player in the country's development, and determine how such issues might be addressed in future. NEDLAC provides these parties with a forum within

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ground, the financial sector works on confidence, works on perception, works on rumors. And we felt at that time that if you don't manage the process well, you could create havoc in the sector." (Interviewee 3b)

[319] National Economic Development and Labour Council. Agreements for the Financial Sector Summit: August 1, 2002. NEDLAC: Johannesburg, 2002.

which they might continue to discuss transformation of the financial services sector. The real work of this transformation, however, would be undertaken outside of the NEDLAC Summit. Financial sector representatives attending the Summit committed themselves to developing a Black Economic Empowerment Charter for the financial sector. Approximately one year later, in October of 2003, the resulting Financial Sector Charter was released.

The Financial Sector Charter is a substantive attempt on the part of the South African financial sector to enact some of the changes discussed during the NEDLAC summit and during the debates over the draft Community Reinvestment Bill. Unlike the NEDLAC framework agreement, the Financial Sector Charter was negotiated solely by members of the financial services industry. The document contains an outline of precise steps that members of the financial services industry will take to ensure transformation of the sector. The Charter also includes targets that industry member will aim to achieve.

The Financial Sector Charter went into effect on January 1 of 2004 and runs until 2014. It commits members of the financial sector to: promote human resource development; engage in targeted procurement practices; foster new and develop existing black economic empowerment accredited companies; promote access to financial services; mobilize resources for empowerment financing; transfer ownership in the sector with the ultimate target of at least 25-percent black ownership; increase black representation on the boards of directors and at the executive level of financial institutions; promote shareholder involvement in the financial sector; engage in corporate social investment; and work to change regulation of the financial sector so that it promotes the Charter's objectives.

The Charter pledges that financial institutions will increase access to their services. Financial institutions will strive to provide access to first-order retail financial services, which include transaction services, savings schemes, credit for small and micro-enterprise development, credit for low-income housing, and insurance products. Increased access is taken to refer to both physical access (proximity of services) and appropriateness or relevance of product design. To increase access, financial institutions also pledge to engage in targeted investment, defined as "debt financing of, or other form or credit extension to, or equity investment in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions." Such investment will be targeted at four different areas: infrastructure projects; agricultural development; low-income housing (defined as housing for those with "a stable income in excess of R1,500 per month and less than R7,500 per month"); and black-owned small and micro-enterprises.

Like the NEDLAC framework agreement, the Financial Sector Charter has no legal standing and is non-binding. However, a newly established Charter Council will be responsible for defining specific goals to be met under targeted investment, reviewing financial institutions' progress in meeting the goals established in the Charter, and issuing a scorecard on each institution's success in doing so. The scorecard will be used as a basis for self-assessment by each institution, as a means for the Charter Council to evaluate black economic empowerment progress in the financial sector, by government who might, if it wishes, award contracts based on compliance with the Charter, and by the private sector as it makes its decisions to award contracts to financial institutions.

The new Charter Council was originally designed to have 21 seats, 16 of which would be occupied by members of the financial sector and six of which would be occupied by other players in the NEDLAC Financial Sector Summit process, i.e. community, labor, and government. After protest over this arrangement by South Africa's Communist Party and after renewed deliberation, a new power-sharing arrangement was arrived at. The restructured Council will provide six seats to members of the financial services industry, three seats to the black business group the Association for Black Securities and Investment Professionals, four seats to government, four to labor, and four to community groups.

The Financial Sector Charter was able to rise to prominence on the governmental agenda in part because of the Department of Housing's perceived unwillingness to negotiate with the banks about the draft Community Reinvestment Bill. Kingdon notes that

> [w]hen an issue isn't really hot, advocates hold firmly to their extreme positions. But when the issue has a serious chance of legislative or other action, then advocates become more flexible, bargaining from their previously rigid positions, compromising in order to be in the game…. [O]ne stakes out an extreme position early, then compromises when the window opens.[320]

Unfortunately, the Department of Housing did not seem willing to compromise about the draft Community Reinvestment Bill. As one government employee put it,

> [the Department of Housing] didn't get into too much discussion with the Banking Council...for the simple reason that the idea was that [the Department] would manage this thing and run it. You know, [they] didn't want to be side tracked…. [The Banking Council has] their own

[320] Kingdon, p. 167-8.

> agendas and [The Department of Housing] has [theirs]. So that is why [the Department] kept a healthy distance from [the Council]. (Interviewee 9a)

Unfortunately for the Department of Housing, this determination to run the show single-handedly had a detrimental effect on the reinvestment legislation process. Kingdon states that

> [t]he time comes when rigid adherence to one's original position would cost one dearly. These times are the real opportunities for passage…when compromise is in the air. At these times, participants of all types conclude that the bandwagon is rolling, and that they should be active in shaping the outcome. Advocates of change push hard for their proposals. Even enemies of change introduce their own proposals in an attempt to bend the outcomes as much as they can to their own purposes.[321]

The Department of Housing displayed an unwillingness to compromise on its community reinvestment legislation. This refusal to compromise with the banks delayed the community reinvestment legislation process; the Bill couldn't go through as originally drafted, yet the Department of Housing's unwillingness to meet with banks and negotiate over the provisions of the Bill was delaying the issuance of a new piece of legislation.[322] This delay gave the banks time to do exactly what Kingdon predicts of those who are opposed to change: they introduced their own proposals in an attempt to bend the outcomes of financial sector reform as much as they could to their own purposes.

Further supporting the Charter's rise to prominence was the fact that the Financial Sector Charter stemmed from an agenda developed between the

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[321] Kingdon, p. 161.

[322] In fairness to the Department of Housing, they had received written comments from the banking sector on the draft Bill, and government employees said that these comments were being taken into consideration in the redrafting process.

banking, community, labor, and government representatives who met at NEDLAC, and the fact that these parties would continue to have input as the Financial Sector worked to achieve its goals. This gave the Charter a level of backing that CRA never had. In addition, the Charter was created relatively quickly; approximately 14 months after the NEDLAC Summit, the Charter was ready for issuance. For these reasons, the Charter helped push aside the draft Community Reinvestment Bill from both the governmental and decision agendas.

The development of the Financial Sector Charter has been identified as one factor that pushed CRA from consideration. What other factors served to remove the Bill from both the decision and governmental agendas? A second factor was the perception in the financial industry that the Department of Housing was overstepping its mandate by trying to regulate the banks. Kingdon points out that "…agenda setting is affected by battles over turf, and some items are ignored because they are 'defined away' by the drawing of jurisdictional boundaries."[323] Several bankers interviewed for this study felt the Department of Housing had no business interfering in the financial sector, that such a task was outside of the Department's jurisdiction. That the draft Community Reinvestment Bill was put on hold by a parliamentary committee until the Charter process was completed suggests that some members of government shared this view.

A third factor that helped close the CRA window of opportunity was the extent to which the community reinvestment legislation process dragged out. Kingdon points out that some problems fall from prominence because the proposed solution isn't getting anywhere:

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[323] Kingdon, p. 155.

> [f]ailure to solve or even address a problem… may result in its demise as a prominent agenda item. It takes time, effort, mobilization of many actors, and the expenditure of political resources to keep an item prominent on the agenda. If it appears, even after a short time, that the subject will not result in legislation… participants quickly cease to invest in it.[324]

The main push for CRA took place during the three months between the Bill's issuance and its withdrawal. Although the Department of Housing continued to mention the legislation in the media and although members of government continued to redraft the Bill and work toward the creation of regulations for the HLMDA, it was clear during the interviews conducted for this study that government officials were increasingly unsure about whether or not the draft Bill would be accepted. Financial sector reform was being undertaken by other actors, and the Department of Housing's attention gradually shifted away from CRA.

Related to the Department of Housing's gradual loss of interest in CRA is a decline in other stakeholders' interest in the legislation. As Kingdon points out, interesting items remain on the governmental and decision agendas; less interesting items either never reach the agenda or get dropped from the agenda. Initial interest in South Africa's community reinvestment legislation was high; this was fueled by the Minister of Housing's firm stance on the topic and her powerful use of the media to convince the public of the need for CRA. However, as has been noted in Section 4.2.1 of this chapter, the lack of follow through on the Department of Housing's part and the constant and lengthy delays in the process made stakeholders take CRA less seriously as a potential agenda item. Eventually interest in the topic dwindled.

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[324] Kingdon, p. 104.

A fourth factor that served to close the CRA window was changes in leadership at the Department of Housing. Kingdon's research shows that such changes can have a devastating effect on policy processes: "…if a change in personnel opens a window, the personnel may change again. People in key positions come and go, and so do the opportunities that their presence furnishes."[325] As has been mentioned, in early 2003 Minister of Housing Mthembi-Mahanyele left the Department of Housing to assume the position of Deputy Secretary General of the African National Congress. The Minister was clearly a central figure in uniting the problem, policy, and political streams to push CRA to the top of the government's decision agenda.[326] Minister Mthembi-Mahanyele was replaced by Brigitte Mabandla, who had limited experience in housing issues. Despite her lack of experience, Minister Mabandla did attempt to continue the fight for community reinvestment legislation, though far less stridently than her predecessor. In early 2004, Minister Mabandla became Minister of Justice and Constitutional Development, and the post of Housing Minister was taken over by Lindiwe Sisulu. Minister Sisulu, who assumed her new post with limited experience in housing issues, has not mentioned the issue of reinvestment legislation since assuming leadership of the Department of Housing.

The change in leadership at the Department of Housing warrants a deeper look. Sankie Mthembi-Mahanyele, the Minister who can be considered the "entrepreneur" behind CRA, was appointed to office by Nelson Mandela, the first president of a democratic South Africa. The central initiative of the Mandela government was the Reconstruction and Development Program

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[325] Kingdon, p. 169.
[326] This is not to imply that Minister Mthembi-Mahanyele was the only influential figure in the CRA process, but she certainly was a central and crucial figure.

(RDP), a people-centered program upheld by six basic principles: integration and sustainability, a people-driven process, peace and security for all, nation-building, linking reconstruction and development, and democratization.[327] Minister Mthembi-Mahanyele's replacements are appointees of Thabo Mbeki, the Deputy President under Nelson Mandela and the President of South Africa since 1999. Mbeki is more often associated with South Africa's Growth, Employment and Redistribution (GEAR) strategy than he is with the RDP. GEAR has been referred to as South Africa's "home-grown structural adjustment programme."[328] Its focus is on achieving cuts in the budget deficit, a tight monetary policy, the gradual elimination of exchange controls, and the privatization of state assets.[329] As Kingdon notes, one factor in the political stream that can have dramatic effects on agenda setting is changes in administration. It should not be surprising that President Mandela's appointees would promote people-centered economic policies, while President Mbeki's appointees would support his more fiscally conservative programs. Transition at the Department of Housing from leadership under a Mandela appointee to leadership under appointees of Mbeki certainly decreased the extent to which the Department of Housing advocated its community reinvestment legislation.

A fifth factor in the closure of the CRA window of opportunity was the basic fact that mortgage finance wasn't a pressing issue for the majority of South Africans. Kingdon states that opportunities to advance specific policies close when the crisis or focusing event leading to the generation of that policy

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[327] Cameron.
[328] Hlatshwayo, Z. "Mbeki figures given in state of nation address said false." Business Day, February 16, 2001.
[329] Matthews, R. "South African unions attack economic policy." Financial Times (London, England), July 23, 1996; Anon., "Discord, delivery."

passes. In the case of CRA, while a lack of access to housing finance was and still is a problem in South Africa, this problem was never perceived by the general public to be a crisis to the extent that Minister Mthembi-Mahanyele claimed it was. As has been pointed out, the Minister had CRA waiting in the wings as a policy; all she needed was a problem to attach it to. The Communist Party/COSATU campaign to transform the financial sector gave her a problem to link her solution to. However, those involved in the campaign weren't pushing for access to mortgage finance, but were rather pressing for the creation of a new tier of financial institutions that would be community-centered and cater to the business and infrastructure finance needs of communities. Basic access to financial services was more important to the majority of South Africans than access to mortgage finance was. While the need for financial sector reform remained a pressing problem in South Africa, the need for mortgage finance was not seen as the most crucial component of this reform process. The reforms that the banking sector agreed to in the NEDLAC summit were more in keeping with what community groups wanted, and this helped shift attention away from CRA and toward the NEDLAC Framework Agreement and the resulting Financial Sector Charter.

The final factor that led to the decline and demise of South Africa's reinvestment legislation process was the passing of the 2004 elections. When the ANC was in "pre-election mode," it was important for the party to be seen as being aggressive about redistributing resources and protecting the interests of the least well off in South Africa; in essence, the ANC wanted to be seen as the "party of transformation." The push for CRA and HLMDA's regulations improved the ANC's image in just this way. Once the elections ended, however, and especially in light of the fact that the financial sector was in the process of reforming itself, CRA was no longer politically useful. The pre-election period passed and CRA and HLMDA went with it.

4.4 Summary of Chapter Four

This chapter assessed the various political and economic factors that led to the withdrawal of South Africa's draft Community Reinvestment Bill. Four factors in particular had a negative effect on the passage of South Africa's draft Community Reinvestment Bill: limited capacity within the Department of Housing, the Department of Housing's relationships with other government departments, international pressures on South Africa's economy and on its financial sector, and the banking sector's power vis-à-vis that of the Department of Housing.

The chapter concluded by asking why, given the inappropriate structure of the draft Community Reinvestment Bill (detailed in Chapter Three) and the limited likelihood that the Bill would be accepted by the necessary range of actors in South Africa, the Department of Housing chose to attempt the passage of a Community Reinvestment Act at all. John Kingdon's multiple streams theory was used to provide a framework for considering the confluence of problems, politics, and policies that led the Department of Housing to embark on its community reinvestment legislation process; the theory also provided useful insight into what factors in the problem, policy, and political streams contributed to the draft Community Reinvestment Bill's withdrawal from the legislative agenda.

The next and final chapter of the dissertation provides a conclusion to the study. It reiterates the main findings from the research and then moves on to consider three broader questions raised by South Africa's community reinvestment legislation process. First, can legislative efforts be as effective when used to promote access to resources and opportunity as they are when used to bar access to resources and opportunity? Second, what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? Third, can the tools of capitalism be used to correct the inequitable distribution of resources that apartheid's form of racial capitalism resulted in? The dissertation concludes by assessing whether or not South Africa's reinvestment legislation process can be considered a success in any sense.

Chapter Five: Conclusion

5.1 Review of Findings and Overview of Chapter Five

The dissertation has considered the following question: is a Community Reinvestment Act (CRA) an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid South Africa? The study concluded that South Africa's draft Community Reinvestment Bill would not have been an effective means through which to redress unequal access to housing finance, and therefore it would have had little effect on access to housing. The Bill would not have broadened access to housing finance for two main reasons.

First, the draft Community Reinvestment Bill didn't identify accurately the barriers to access to affordable housing finance. The draft Bill identified income discrimination and institutional inertia as the main obstacles preventing lower-income people from obtaining mortgage finance. The study revealed that in fact four additional factors inhibit lower-income people's use of such finance. These are a lack of law and order, persistent poverty, high rates of unemployment, and a poorly functioning affordable housing market. Because it addressed only a small part of what stands in the way of lower-income people's access to mortgage finance, the draft Community Reinvestment Bill would have been unlikely to result in an increase in effective access to such finance.

Second, the draft Bill didn't contain provisions that would increase the flow of housing funds into previously marginalized communities (whether or not banks were the ones issuing such finance). The draft Community Reinvestment Bill attempted to increase the flow of housing finance to underserved communities by addressing geographic discrimination in lending and by channeling funding to those institutions currently serving lower-income communities. As concerns the effort to address geographic discrimination in lending, analysis of census and deed transfer data revealed that the Department of Housing misunderstood the relationship between geography and lending in post-apartheid South Africa; this means that the draft Community Reinvestment Bill wasn't structured to remedy the actual linkage that exists between geography and lending in South Africa today. As for channeling funding to those institutions currently serving lower-income communities, the draft Community Reinvestment Bill assumed that non-bank lenders have greater capacity and reach than they actually have. Channeling additional funds to these parties would have been unlikely to result in an increased flow of funds into previously marginalized communities.

The study concluded that CRA suffered from structural failures, that is, that the assumptions underlying the Bill were inaccurate and, as a result, the provisions of the Bill would not have resulted in either increased access to South Africa's banks or in an increased flow of funds into previously marginalized communities. As structured, South Africa's draft Community Reinvestment Bill would have done little to increase real access to housing finance in post-apartheid South Africa.

To return to the image presented in the Introduction (Figure 5.1), the draft Bill would not have pushed black South Africans from Quadrant I to Quadrant II. Formal, legal access to institutions might have been promoted by passage of the draft Community Reinvestment Bill, but black South Africans had already obtained such access as a result of the dissolution of apartheid's discriminatory legislation and policies. The goal of the South African government in passing CRA was to increase effective access to housing finance in post-apartheid South Africa, that is, to move currently underserved individuals from Quadrant I to Quadrant II. As structured, the draft Community Reinvestment Bill would not have achieved this shift. It would instead have left black South Africans right where they are, with limited real access to affordable housing finance.

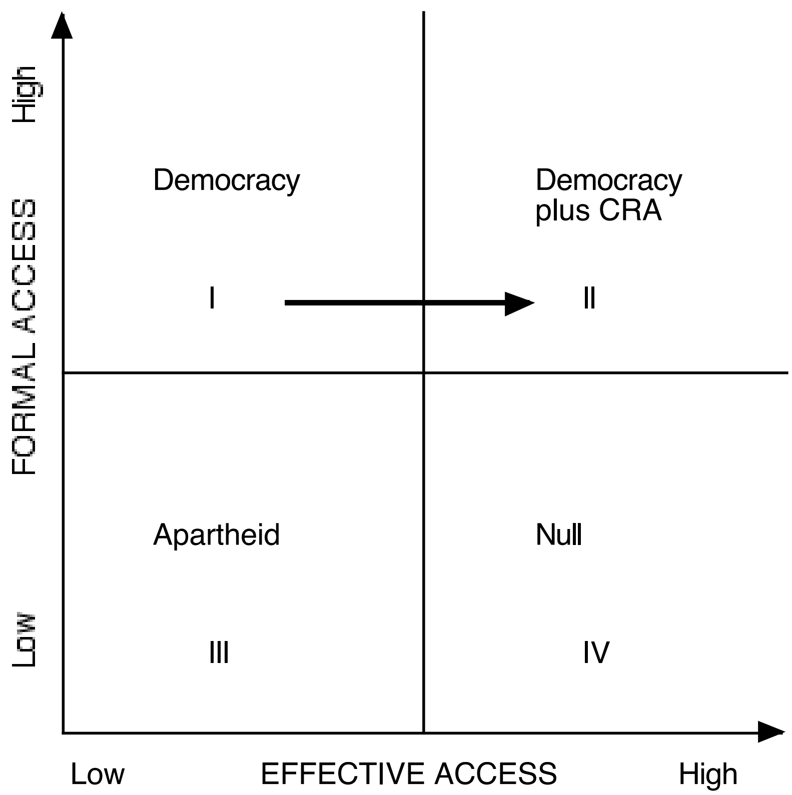

Figure 5.1: The Goal of Increased Access to Mortgage Finance in Post-Apartheid South Africa

In addition to examining the content of the draft Community Reinvestment Bill and assessing whether or not this piece of legislation would have been an effective means through which to redress unequal access to housing finance, and thereby unequal access to housing, in post-apartheid

South Africa, the study also considered the reinvestment legislation process in South Africa and concluded that South Africa's reinvestment legislation suffered from procedural failures. It was determined that four factors contributed to the Bill's procedural failure: limited capacity within the Department of Housing, the Department of Housing's relationships with other government departments, international pressures on South Africa's economy and on its financial sector, and the banking sector's power vis-à-vis that of the Department of Housing. The study then moved on to ask why, given the inappropriate structure of the draft Community Reinvestment Bill and given the limited likelihood that the Bill would have been accepted by a broad range of political and economic actors in South Africa, South Africa's Department of Housing chose to attempt the passage of a Community Reinvestment Act at all. John Kingdon's multiple streams theory provided a framework for considering the confluence of problems, politics, and policies that led the Department of Housing to push for a Community Reinvestment Act. The same theory was also used to assess what factors in the problem, policy, and political streams contributed to the removal of the draft Community Reinvestment Bill from South Africa's legislative agenda.

The study now concludes by considering three broader questions raised by South Africa's community reinvestment legislation process. First, examination of CRA in the South African context provides an entry point through which to consider the efficacy of using legislation to promote access: can legislative efforts be as effective when used to promote access to resources and opportunity as they are when used to bar access to resources and opportunity? Second, examination of the CRA process in South Africa helps shed light on a question concerning national autonomy within our global economic system, specifically, what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? Third, the study of South Africa's CRA process has bearing on an ongoing debate in economic development theory: can the tools of capitalism be used to correct the inequitable distribution of resources that apartheid's form of racial capitalism resulted in? It is to these three questions that the study now turns.

5.2 The Efficacy of Using Legislation to Promote Access

As documented in Chapter Two, the apartheid government displayed consummate skill in using legislation to deny access to resources and opportunities to black South Africans, thereby reserving such access for South Africa's white citizens. The ANC-led government is now attempting to use legislation such as CRA in an effort to remedy this situation. This endeavor raises an interesting question: can legislative efforts ever be as effective when used to promote access to resources and opportunity as they are when used to bar access to resources and opportunity? If not, what does this tell us about the use of legislation as a means to promote access?

It would seem from analysis of South Africa's community reinvestment legislation that in fact legislation is much more effective when used as a means to bar access to resources than it is when used as a means to promote such access. Why is this so? When legislation is used to bar access to resources and opportunity, all that is required is the cooperation of various institutions to enforce that restriction. For example, when South Africa's Group Areas Act created a system under which one's ability to hold property, reside, or trade in certain areas was contingent on one's being a member of a specific racial group, the cooperation of the police and the court system ensured that the Act worked as intended. When legislation is used to restrict access, active effort on the part of the individuals whose access is being restricted is not required; penalties for failure to adhere to the restriction are often sufficient to ensure that these individuals obey the law. In this way, legislation to restrict access is a fairly straightforward affair: the law defines whose access is restricted, the collaboration of various official agents ensures that the restriction is followed through upon, and the threat of a fine or jail time can help secure the passive compliance of those to whom the law applies.

The use of legislation to promote access is a somewhat more complicated affair. Why should this be the case? Because the dynamics of promoting access are different from the dynamics of restricting access (Table 21). Promoting access requires a good deal more than simply passing a law

Table 21: The Dynamics of Access

Party	Requirements for Restricting Access	Requirements for Promoting Access
People who are targets of legislation	• Fear of repercussions • Passive compliance	• Knowledge of opportunity • Desire to partake • Ability to partake • Active participation
Agents and institutions enforcing legislation	• Create restriction • Develop penalties • Enforce penalties	• Create opportunity • Inform likely participants • Provide assistance that enables participation (remove psychological, social, and physical obstacles; enhance people's abilities)

that compels an institution to serve a previously excluded population. For access to be promoted, previously excluded populations must be aware of the new opportunity available to them. Following this, they must possess a desire to partake of the new opportunity. Desire alone is not sufficient, however; they must also have the ability to partake of the new opportunity. Finally, the active participation of previously excluded people is required as they avail themselves of access to formerly exclusive institutions. On the part of actors who seek to promote access to institutions, the first requirement is that they provide a real opportunity for access that people can take advantage of. Following this, they must inform previously excluded populations that the opportunity exists. Finally, they must provide assistance that enables participation; this assistance might involve removing psychological, social, and physical obstacles to access and also might include providing people with the skills required to ensure real participation.

This final point, i.e. that the promotion of access will involve removing psychological, social, and physical obstacles to access and also will include providing people with the skills required to ensure real participation, is particularly relevant where access to banks and to finance in South Africa is concerned. Access to bank finance requires, among other things, that people be educated enough to use credit, that people be credit worthy (employed, have collateral, have a decent credit record), and that people have banks nearby to use. Apartheid's racist legislation put black South Africans at a distinct disadvantage in each of these areas. To help overcome this disadvantage, legislation that will promote real access to the country's banks must to do more than simply place an obligation on banks to lend to lower-income people; the legislation must enable participation by previously marginalized populations. How might the draft Community Reinvestment Bill have been structured to achieve this? It should have been drafted with an emphasis on "advertising and outreach."

Chapter Three introduced readers to Yinger's[330] assessment of discrimination in the mortgage lending process. According to Yinger, lender involvement in the mortgage loan process can be broken into five distinct steps, any of which might be the locus of discriminatory behavior. These five steps are: advertising and outreach, application procedures, acceptance or denial of the home loan application, determination of loan terms, and loan administration. South Africa's draft Community Reinvestment Bill targeted four of these five: application procedures, acceptance or denial of the home loan application, determination of loan terms, and loan administration. Conspicuously absent from the list is the issue of "advertising and outreach." It is here that the Department of Housing might have begun in order to increase effective access to affordable housing finance. In particular, community reinvestment legislation would have had the greatest chance of broadening access to the services of South Africa's banks if it had focused on four factors related to marketing and outreach, namely: proximity, familiarity, affinity, and relevancy. Each of these will be considered briefly here.

"Proximity" addresses the very basic issue of physical accessibility to South Africa's banks. It goes without saying that you can't make use of financial services if you can't reach them physically. At present, most township residents have a difficult time reaching bank branches. This is due in part to the fact that banks pulled out of the townships in the 1980s and early 1990s because of concerns over political upheaval. As one community

[330] Yinger, "Discrimination."

representative put it, “in 1990 [the banks] probably had several dozen township branches. By ’92 there was about one or two left in the townships; they had closed them all….” (Interviewee 17) Another community member explained that “for the…poorer communities and rural communities…there’s no services around. And at one stage, a lot of the banks pulled out of the township areas…. They closed their operations….” (Interviewee 21)

The other reason that banks have reduced their operations in the townships has to do with the trend in banking to reduce costs and increase profits via a reduction in bricks-and-mortar operations. One government official stated that,

> …over the last five years, banks have moved away to higher end businesses, high net worth people where you’re using a lot of technology and you are reducing costs by cutting down on branch infrastructure. So you’re not really, you haven’t penetrated really [lower-income] communities. You haven’t penetrated the banking infrastructure into these communities…. You need to have a branch infrastructure in a township. (Interviewee 2b)

The lack of branch infrastructure in the townships makes it difficult for lower-income customers to avail themselves of banks’ services. For those who do have accounts or loans with the major banks, branch location makes use of these services difficult. As one housing and lending specialist explained,

> [t]he sort of main street banks are not well positioned to deal with the customers, they’ve all pretty much decimated their capacity to deal with the townships. Generally they don’t have the positioning nor the capacity to deal with the people. Particularly where people run into difficulties. [The banks have all] sort of centralized their credit control functions into the center of the towns…. [For example with] one bank, NBS, [it] didn’t matter where you lived [in the Johannesburg region], [if] you had a problem with your bond, you had to go to Bryanston…. So if

> you lived in Vosloorus, which is [a township] forty kilometers [outside of Johannesburg]…and you had a difficulty with your bond and you wanted to speak to somebody, you had to go all the way into the center of Johannesburg and then find your way to Bryanston, which is a mission[331]…. So [the banks] don't have either the positioning, the locality, or the staffing to deal with people like that anymore. (Interviewee 5)

Obviously access to financial services begins with physical access. South Africa's draft Community Reinvestment Bill should have included the promotion of such access as one of its core components.

A second important component of access to financial services is "familiarity," used here to mean an awareness and understanding of financial services. Obviously, one can't make use of services one doesn't know about. If access to financial services in South Africa is to be broadened, then a wider range of potential customers must know what banks have to offer, where to find branch locations, when to obtain services, and how to begin the process of interacting with banks. At present, banks' marketing efforts are targeted at the wealthiest minority of South Africans. As one government employee put it, "the banks are failing dismally…[in]…their outreach…. [T]heir marketing strategies [are] pathetic in terms of reaching the masses." (Interviewee 20) South Africa's draft Community Reinvestment Bill might therefore have included the requirement that banks undertake community education on banking services and that they develop advertising campaigns targeting underserved populations.

As a further step toward promoting the use of financial services by previously marginalized communities, South African banks might have been pushed to address the issue of "affinity," a term used here to refer to cultural accessibility. In US reinvestment circles, there has been some discussion of

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[331] Colloquial expression meaning "major journey"

the “cultural affinity hypothesis.” According to Longhofer[332] this involves the suggestion “that lenders find it easier (or less costly) to evaluate the creditworthiness of applicants with whom they have a common experiential background….”[333] Whether or not cultural affinity makes it easier or less costly for bankers to deal with their customers, it is likely that cultural affinity will make it easier for previously excluded South Africans to enter banks and interact with bank employees.

The issue of affinity is important in South Africa, where for years lower-income (i.e. African) customers were excluded from using banks’ services. As banks begin to reestablish branch networks in the townships (in accordance with a rewritten Community Reinvestment Act), those branches need to be welcoming to new customers. One way to achieve this is to ensure that bank employees are representative of the populations being served in each region (for example, that they come from the region within which a branch is located and speak languages spoken in that region). Not only would such a change make new customers feel welcome in these formerly exclusive institutions, but it would help promote employment; as one community activist put it,

> …there’s a particular type of employment that’s created when you have say, for instance, Standard Bank or First National Bank having offices in the township. First they have to employ people from the…township itself. You train them so that there’s the skills that’s emerging within that community. And they get paid, they can support their families and the local economy benefits. (Interviewee 22)

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[332] Longhofer, S. “Cultural Affinity and Mortgage Discrimination.” Economic Review - Federal Reserve Bank of Cleveland 32.2 (1996): 12-24.
[333] Longhofer, p. 12.

In addition to hiring from the regions surrounding new branches, banks should develop marketing and informational materials in whichever of South Africa's eleven official languages predominate there.

Finally there is the issue of "relevancy." Many interviewees spoke about the inappropriateness of the mortgage instrument as a solution to South Africa's affordable housing finance needs. For those who are not living below the poverty line, for those who have jobs and a steady, though low, income, mortgage finance is still very expensive in South Africa. As mentioned in Chapter Three, sudden changes in the interest rates on South Africa's variable rate mortgages can have devastating effects on low-income homeowners. "Relevancy," therefore, addresses the issue of practical accessibility to banks' services: lower-income South Africans won't make use of services they don't need or can't afford. As part of South Africa's Community Reinvestment Act, banks should have been pushed to develop products that were needed by and truly useful to South Africa's underserved populations.

Even if South Africa's CRA were meticulously drafted to address the specific problems at hand, could the law do much more than promote equality of opportunity? Would an initiative like CRA ever result in a real redistribution of resources in post-apartheid South Africa? The next section takes up this question.

5.3 Redistribution on the Capitalist Periphery

A second question raised by examination of South Africa's reinvestment legislation process is the following: what are the real possibilities of effecting a redistribution of resources in a society on the capitalist periphery? This question will be considered here.

The introduction to this study suggested that one way to examine South Africa's situation is through the lens of dependency theory. Dependency theorists divide the world into two camps: poorer "peripheral" nations whose economic well-being relies heavily on the export of primary commodities, and industrialized, wealthy "central" nations that extract resources from poorer nations and market the resulting goods back to those nations.[334] While South Africa has a higher gross national income per capita than many developing countries (and is therefore classified under the World Bank's three-tier system as an upper-middle income country[335]) in terms of the global economic system, South Africa is still a peripheral player.

In addition to South Africa's being a peripheral player within the global economic system, however, in the years leading up to and including apartheid rule, the country was divided internally into a center and periphery, a situation

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[334] While dependency theorists divide the world into two groups of countries, i.e. central and peripheral, world-system theorists add a third category to this schema, that is, semi-peripheral countries. Semi-peripheral countries lie somewhere between central and peripheral countries in terms of: the types of products they export, the wage levels they offer, the profits they are capable of realizing, they types of countries they trade with (both center and periphery), and the fact that they manufacture goods for their own market. Because of its overall wealth, its first world financial sector, and its power within the African context, it is probably more accurate to consider South Africa a semi-peripheral nation than a peripheral nation. Whether South Africa is considered semi-peripheral or peripheral, however, the important point for this study is that South Africa is *not* a high-income, central country and is therefore situated somewhere on the outskirts of the global economic system. (For a thorough overview of the differences between dependency and world-system theories, see So, A. Social Change and Development: Modernization, Dependency, and World-System Theories. Newbury Park: SAGE Publications, Inc., 1990.)

[335] The World Bank has developed a three-tier system for classifying where countries fall within the global economy. Countries are either low-, medium-, or high-income, depending on their gross national income per capita. According to the World Bank's "Country Brief" for South Africa, the South African gross national income per capita is $3,630, which makes South Africa "one of the few African countries to have joined the group of upper middle income countries." (World Bank. Country Brief: South Africa. Washington, DC: World Bank, 2005.) Obviously, as this study has already documented at length, the distribution of income in South Africa is skewed enough to make this classification almost meaningless for the majority of South Africans.

sometimes referred to as “internal colonialism.”[336] As demonstrated in Chapter Two, this internal division resulted in the creation of destitute townships and homelands where black South Africans lived and economically viable developed areas where white South Africans lived. The ANC-led government now faces a complicated task: the government is attempting to correct an extreme, racially-biased distribution of resources within the country while simultaneously grappling with South Africa’s subordinate role in the global economic system. What does South Africa’s CRA process demonstrate about the likelihood that a government on the capitalist periphery can effect a redistribution of resources?

As mentioned in the Introduction, under the dependency theory model, peripheral countries exist in a subordinate relationship to central countries and this dynamic is reinforced via the many means through which central countries advance their economic interests: tariffs on imports, foreign aid and the resultant debt burden, international institutions (the World Bank and IMF) and their conditional assistance, the mobility of capital, and the global reach of multinational corporations. The case of South Africa and its CRA demonstrates two ways in which countries on the periphery are constrained as they attempt to address the needs of their citizenry through the use of progressive policy. First, these countries are constrained by the dictates of what is commonly referred to as the “Washington consensus.” Second, these

[336] Dependency theory does capture this phenomenon. According to So, Andre Gunder Frank has noted that just as the world is divided into “metropolis” and “satellite” countries in order to facilitate the transfer of wealth to the colonizing world, so are “satellite” countries divided internally. “Therefore, just as the national cities have become the satellites of the Western metropolises, so these satellites immediately become the colonial metropolises with respect to the provincial cities, which in turn have local cities as satellites surrounding them.” (So, p. 97.)

countries are inhibited by their governments' desire to compete for increasingly mobile short-term capital. Each constraint will be examined here.

According to Joseph Stiglitz, the term "Washington Consensus"

> …has come to refer to development strategies focusing around privatization, liberalization, and macrostability (meaning mostly price stability); a set of policies predicated upon a strong faith…in unfettered markets and aimed at reducing, or even minimizing, the role of government.[337]

Because of their global reach and because of their emphasis on such development strategies in the 1980s and 1990s, the World Bank and International Monetary Fund have been seen as two of the main exporters of the Washington consensus; yet in today's competitive economic environment, countries also choose on their own to adhere to the dictates of the Washington consensus in order to attract foreign investment. How did the South African government adopt the dictates of the Washington consensus and what effect has this had on the government's development strategies?

At the beginning of its rule, the African National Congress-led government adopted a public stance that South Africa would keep international financial institutions at bay, relying on them only in ways truly beneficial to all South Africans. In the Reconstruction and Development Programme policy document, the ANC, COSATU, and SACP stated that,

> [r]elationships with international financial institutions such as the World Bank and International Monetary Fund must be conducted in such a way as to protect the integrity of domestic policy formulation and promote the interests of the South African population and the economy. Above all, we must pursue policies that enhance national self-sufficiency and enable us to reduce dependence on international

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[337] Stiglitz as quoted by Noman, A. "Scoring the Millennium Goals: Economic Growth Versus the Washington Consensus." Journal of International Affairs 58.2 (1995): 233-45, p. 234.

> financial institutions. Further, we must introduce measures to ensure that foreign governmental and non-governmental aid supports the RDP.[338]

This statement pledged that any and all aid accepted by the South African government would support the six principles of the RDP, that is, integration and sustainability, a people-driven process, peace and security for all, nation-building, linking reconstruction and development, and democratization. In addition, this statement meant that foreign aid would be accepted on the condition that it would advance the four main programs of the RDP which were meeting basic needs, developing human resources, building the economy, and democratizing the state and society.

Unfortunately, by the time the policy document of the Reconstruction and Development Programme was issued in 1994, South Africa's leaders had already accepted the dictates of the Washington consensus by borrowing money from the International Monetary Fund in order to carry the country through financial difficulties. At the end of apartheid, South Africa's economy was in dire straits. As an economist advising the ANC leadership at the time of the transition summarized the situation, "[the economy] hadn't been growing since 1984…. The tax base wasn't growing, there had been disinvestment and boycotts, all of which meant the economy had gone through ten years of fiscal crunch. Now the ANC inherited that crunch."[339]

Terreblanche (2002) describes the process surrounding acceptance of assistance from the IMF as follows:

> [i]n 1993 the corporate sector and core ANC leaders reached a hugely important elite compromise. This happened before the transitional

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[338] African National Congress, et al., Section 6.5.16.

[339] Iraj Abedian as quoted by Sparks, A. Beyond the Miracle: Inside the New South Africa. Jeppestown: Jonathan Ball Publishers (Pty) Ltd., 2003, p. 188.

> executive council (TEC)[340] accepted a secret $850 million loan from the IMF to help tide the country over balance of payment difficulties in November 1993. Before the TEC signed the loan agreement, the corporate sector and NP government on the one hand and ANC leaders on the other signed a secret protocol on economic policy. In the 'Statement on economic policies' agreed with the IMF, the TEC committed itself to a neoliberal, export-oriented economic policy, and a 'redistribution through growth' strategy.[341]

Despite the ANC-led government's public assertion in the Reconstruction and Development Programme policy document that it would only accept foreign aid insofar as that aid advanced the government's progressive, people-centered policies, by the time the new government took office, South Africa's leaders had already committed the country to a neoliberal growth path. They had done so by accepting aid conditional upon a set of practices demanded by the IMF. Like most countries that accept aid from the IMF and World Bank,[342] South Africa found itself bound by the dictates of these institutions and, as a result, restricted in the economic policies it could consider.

It is not surprising, therefore, that the Reconstruction and Development Programme was quickly supplanted by a new economic strategy known as

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[340] In 1993 South Africa's parliament created a multiparty Transitional Executive Council that would be responsible for overseeing South Africa's transition to democracy. For details, see Thompson.

[341] Terreblanche, S. A History of Inequality in South Africa, 1652-2002. Pietermaritzburg: University of Natal Press, 2002, p. 96. Bond describes the situation as follows: "…the very first act of South Africa's interim multi-party government – the December 1993-April 1994 Transitional Executive Council – was an application for an $850 million IMF loan purportedly for drought relief but in reality aimed at servicing part of the apartheid foreign debt which had been renegotiated on surprisingly onerous terms a couple of months before." (Bond, Elite Transition, p. 176.)

[342] South Africa's involvement with the World Bank came somewhat later. According to Bond, "…the first World Bank loan to democratic South Africa – worth R340 million [approximately $62 million]– was only granted in 1997" (Bond, Elite Transition, p. 160). The World Bank provides a current figure of South Africa's borrowing. "As of February 2005, the World Bank had approved 13 loans for South Africa for a total amount of approximately US $302.8 million."

Growth, Employment and Redistribution (GEAR).[343] According to Sparks, GEAR is "an unvarnished free-market programme, directly in line with the neo-liberal agenda, or what is known as the 'Washington consensus,' a combination of relaxed exchange rates, privatization, fiscal discipline and collaboration with the private sector to produce export-driven growth."[344] The ANC-led government's adoption of a neo-liberal growth strategy wasn't simply the result of its having borrowed conditional money from the IMF and World Bank. When members from South Africa's public financial institutions traveled overseas at the end of apartheid, they discovered that "the international finance markets…had one overriding concern: they wanted to know whether this new [leadership] would be able to get the country's macroeconomic balances right."[345]

Once a peripheral country becomes bound by the dictates of the Washington consensus, the likelihood that the country will be able to enact progressive economic policies appears to be nil. South Africa's community reinvestment legislation process seems to provide an example that this is the case. As one interviewee commented,

> …if you're the United States, you can introduce a whole lot of market interfering legislation and activities. If you do that in a developing economy, the World Bank and the IMF say that you're not friendly to investors, the rating agencies all downgrade your currency and your institutions, and bang, your currency goes for a loop. (Interviewee 12)

The issue of international financial markets raises a second way in which countries on the periphery are constrained as they attempt to address the needs of their citizenry through the use of progressive policy: they are

[343] See Sparks for full details of GEAR's development.
[344] Sparks, p. 193.
[345] Sparks, pp. 192-3.

inhibited by their governments' desire to compete for increasingly mobile short-term capital. The discussion in Chapter Four indicated that the desire to remain attractive to international investors makes South Africa's bankers, National Treasury, and the Reserve Bank determined to protect South Africa's international reputation. These actors are concerned in particular with South Africa's international ratings, financial institutions' compliance with the Basel II requirements, and the immediate, short-term profitability of the country's banks. As demonstrated in Chapter Four, the draft Community Reinvestment Bill was seen as a threat to each of these things and was consequently seen as a threat to international investment in South Africa. In fact, as was explained earlier in the study, the Bill was withdrawn after bankers stated in the media that its release was having a negative effect on international investment in the country.

What explains these facts? How does the desire for foreign capital constrain the policy options of countries on the periphery? Held provides a concise answer to this question:

> [w]hile free capital markets and the cross-border flows of financial resources do not shape the terms of national economic policy in a straightforward way, they can radically alter the costs of particular policy options and, crucially, policy-makers' perceptions of costs and risks. Perhaps a key difficulty for policy-makers in these new circumstances is the uncertainty surrounding market responses. There has been a growth of perceived risk in this regard because markets are more liquid than ever before and are an enhanced source of instability. Accordingly, the costs and benefits of pursuing certain policies become fuzzier, and this encourages political caution and 'adaptive policies' – economic and social policies which seek to anticipate market responses.[346]

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[346] Held, D. Global Covenant: The Social Democratic Alternative to the Washington Consensus. Malden: Polity Press, 2004, p. 26.

In short, countries in the developing world that set their sights on foreign investment as an instrument of economic growth and development become cautious about adopting policies that might affect their attractiveness as sites of investment. This makes policy development in the periphery a reactive, adaptive process. South Africa's draft Community Reinvestment Bill illustrates just this point. The Department of Housing developed a piece of legislation that was expected to redistribute access to resources and opportunity.[347] The Bill was accordingly perceived by the country's bankers as a threat to foreign investment in the country, and the bankers convinced actors in National Treasury and the Reserve Bank that this was the case. These individuals put pressure on other members of government, and the Bill was withdrawn as a result. South Africa's reinvestment legislation process demonstrates that countries on the periphery are currently more beholden to the demands of international investors than they are to the demands of their worst off citizens.

5.4 Capitalist Tools and Redistribution

The third issue raised by South Africa's reinvestment legislation process concerns an ongoing debate in economic development theory. Can capitalist tools be used to correct the inequitable distribution of resources that capitalism inevitably results in?

Some theorists believe the answer to this question is a firm "no." David Harvey, for example, has said that "programmes which seek to alter distribution without altering the capitalist market structure within which income

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[347] Of course, the analysis presented in Chapter Three demonstrated that this would have been an unlikely outcome. The perception at the time of the draft Bill's issuance, however, was that CRA would indeed result in a redistribution of banks' resources. CRA was therefore perceived as a threat to the status quo.

and wealth are generated and distributed are doomed to failure."[348] More recently, however, economic development theorists have been arguing that the key to enriching underdeveloped areas, whether those areas are less-developed countries[349] or central cities in the developed world,[350] is more – and more refined – capitalism. What light does South Africa's community reinvestment legislation process shed on this debate?

Although the South African financial sector responded to the draft Community Reinvestment Bill as if it were some type of radical socialist experiment, in fact the legislation's primary goal was to increase participation in South Africa's capitalist economic system. What gets redistributed under CRA-type initiatives is not money or goods, but market opportunities. CRA serves as a form of market intervention whose intent is to broaden access to mortgage and housing markets. This type of legislation does not seek to alter the capitalist market structure within which income and wealth are generated

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[348] Harvey, p. 110.

[349] De Soto, for example, argues that capitalism fails in developing countries because these countries lack the legal structures needed to turn their assets into capital. Capitalism fails in developing countries not because of a lack of initiative or because of a lack of wealth, but because "the firm foundations of formal property" (p. 210) are not yet in place. Without these legal foundations, the theory goes, assets cannot be used to generate additional wealth. The underlying assumption, of course, is that capitalism, correctly installed, will be the key to economic development in less developed countries. See De Soto, H. The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else. New York: Basic Books, 2000.

[350] Porter, M. On Competition. Boston: Harvard Business School Publishing, 1998. This book, a series of essays by Porter, contains his famous article, "The Competitive Advantage of the Inner City," first published in 1995 in Harvard Business Review. In this work, Porter argues that a "sustainable economic base *can* be created in the inner city, but only as it has been created elsewhere: through private, for-profit initiatives and investment based on economic self-interest and genuine competitive advantage – not through artificial inducements, charity, or government mandates" (p. 378, emphasis Porter's). In Porter's theory, the four attributes that give central cities a competitive advantage are: strategic location, local market demand, integration with regional clusters (defined as "critical masses of skill, information, relationships, and infrastructure in a given field" (p. 380)), and human resources. Again, it is assumed that capitalism, properly adhered to, is the key to economic development in underdeveloped areas.

and distributed, but rather seeks to make that system more inclusive. Such legislation is enacted not in an effort to destroy and replace capitalist market structures, but in an effort to make such structures function more effectively; in essence, CRA leads to more, and better, capitalism.

Would South Africa's draft Community Reinvestment Bill have been successful in this effort, i.e. would the Bill have brought about a redistribution of economic opportunity in post-apartheid South Africa? The analysis presented in Chapter Three determined that the answer to this question was "no." South Africa's draft Community Reinvestment Bill would not have broadened access to the country's banks and it would not have significantly increased the flow of funds into previously marginalized communities. An obvious suggestion that follows from this conclusion, and one already discussed at length in Section 5.2 of this chapter, is that the draft Community Reinvestment Bill simply needed to be restructured in order to achieve a real redistribution of opportunity in post-apartheid South Africa.

A restructured draft Community Reinvestment Bill might indeed have broadened access to South Africa's banks and increased the flow of funds into previously marginalized communities. It would seem from this that capitalist tools, when designed appropriately and wielded carefully, can in fact result in a redistribution of opportunity within capitalist systems. However, when David Harvey said that "programmes which seek to alter distribution without altering the capitalist market structure within which income and wealth are generated and distributed are doomed to failure," he is not so much concerned with the distribution of economic opportunity as he is with the distribution of income and wealth. This concern was shared by South Africa's Department of Housing as it sought to enact its reinvestment legislation. The Department introduced its draft Community Reinvestment Bill not only because it would redistribute economic opportunity, but because this redistribution of economic opportunity was seen as a means through which to redistribute wealth in the form of decent housing. Would South Africa's CRA have achieved this particular shift?

Unfortunately, the answer to this question, as David Harvey has suggested, is "no." While South Africa's community reinvestment legislation might have resulted in a redistribution of economic opportunity, it is unlikely that this shift would have been followed by a sudden change in the distribution of wealth in the country. In response to a redrafted CRA, South Africa's banks would likely have developed products to allow lower-income people to borrow for some rudimentary form of housing or for serviced plots – "toilets-in-the-veld"[351] as South Africa's sites and service schemes have been called – but this is a far cry from the standard of housing initially deemed desirable under the country's Reconstruction and Development Program[352] and from the four-room home the government initially declared each low-income household should have.[353] While possession of a serviced plot or a small starter home might indeed achieve a material improvement in many lower-income South African's lives, it is still a far cry from a genuine redistribution of wealth.

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[351] A disparaging description, literally "toilets in the field." As quoted by Bond, P. <u>Cities of Gold, Townships of Coal</u>. Trenton: Africa World Press, Inc., 2000, p. 259.

[352] The African National Congress initially defined housing standards as follows: "[a]t a minimum, all housing must provide protection from weather, a durable structure, and reasonable living space and privacy. A house must include sanitary facilities, storm-water drainage, a household energy supply (whether linked to grid electricity supply or derived from other sources, such as solar energy), and convenient access to clean water. Moreover, it must provide for secure tenure in a variety of forms. Upgrading of existing housing must be accomplished with these minimum standards in mind." African National Congress, et al., Section 2.5.7.

[353] The government's original promise of what it would provide, a four-room home, has since been reduced to a one-room starter home.

Instead, CRA would likely have resulted in the same type of racialized housing finance system the United States has been accused of having, that is, a dual housing finance system, separated on racial lines.[354] CRA's implementation would have continued the racially divided housing markets developed before and during apartheid, within which white South Africans had access to excellent housing and the black mass market had access to far worse.

Why isn't market intervention like CRA sufficient to achieve a genuine redistribution of income and wealth in a case like South Africa's? The answer to this question is that in a situation in which access to markets already suffers from extreme racial bias, the introduction of market reinforcing legislation will only serve to reinforce that bias. As scholarship has shown, market systems tend to reinforce rather than alleviate inequality.[355] CRA-type initiatives fail to redress inequality because they do nothing to attack structural inequality, i.e. inequality that has become embedded in an economic system and is reinforced over time through practices such as inheritance and through the

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[354] See Chapter Two for details. See also Bradford and Cincotta.

[355] See, for example, Li, H., L. Squire, and H. Zou. "Explaining International and Intertemporal Variations in Income Inequality." The Economic Journal 108.446 (1998): 24-43. These authors determine that the combined effect of two factors, i.e. political power of the rich and market imperfections that limit the ability of the poor to accumulate capital, reinforce an unequal distribution of income over time. Other authors argue that unequal access to one market (for example, the labor market) will affect equality of access to other markets (for example, credit markets) and that the inequalities generated thereby will only worsen over time. See, for example, Dymski, G. "The Theory of Bank Redlining and Discrimination: an Exploration." Review of Black Political Economy 23.3 (1995): 37-75 and Palmer, I. "Gender Equity and Economic Efficiency in Adjustment Programmes." Women and Adjustment Policies in the Third World. Eds. H. Afshar and C. Dennis. New York: St. Martin's Press, 1992. 69-83. Still other authors argue that, contrary to the neo-liberal economic view, economic growth does not "trickle down" to alleviate inequality, but instead an initial state of inequality in a market system will have the effect of retarding overall growth. See, for instance, Alesina, A. and D. Rodrik. "Distributive Politics and Economic Growth." The Quarterly Journal of Economics 109.2 (1994): 465-490 and Clarke, G. "More Evidence on Income Distribution and Growth." Journal of Development Economics 47.2 (1995): 403-427.

costs associated with market entry.[356] Without a dramatic shift in the initial financial position of all South Africans, that is, without an overhaul of the distribution of income and wealth in post-apartheid South Africa, the tools of capitalism will only ever serve to reinforce the system of racial capitalism that the ANC-led government inherited from its predecessors.

5.5 Can the CRA Process Be Considered a Success in Any Sense?

This study has determined that South Africa's draft Community Reinvestment Bill failed on several fronts. First, the Bill suffered from structural failures: as drafted, the Bill would have been unlikely to result in either increased access to South Africa's banks or in an increased flow of funds into previously marginalized communities. Second, the Bill suffered from procedural failures due to limited capacity within the Department of Housing, the Department of Housing's relationships with other government departments, international pressures on South Africa's economy and on its financial sector, and the banking sector's power vis-à-vis that of the Department of Housing. Given these factors, it is possible to consider South Africa's reinvestment legislation process a success in any sense?

It was suggested in Chapter Four that the pressure exerted by the Department of Housing's reinvestment legislation efforts were partly responsible for the banking sector's willingness to enter into negotiations over, and ultimately commit to, financial sector reform. The question that might reasonably be asked, of course, is how deliberate was this push toward reform on the part of the Department of Housing? Was the Department actually

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[356] For an excellent discussion of why the goal of achieving equality of opportunity will never lead to a just distribution of resources, and how single-minded focus on this goal will in fact ultimately increase inequality, see Isbister, J. Capitalism and Justice: Envisioning Social and Economic Fairness. Bloomfield: Kumarian Press, Inc., 2001.

interested in enacting community reinvestment legislation or was the reinvestment legislation effort intended primarily as a means through which to push banks to commit themselves to transformation?

If one looks at the methods used by the Department of Housing in its reinvestment legislation process, it is hard to see how the Department of Housing thought its efforts might result in the enactment of reinvestment legislation. Members of the Department of Housing worked on the draft Community Reinvestment Bill in isolation. They engaged in limited consultation with those who might be affected by community reinvestment legislation, whether these parties were members of the commercial financial sector or government. One banker summed up the views of many interviewees, stating that, "…our Department [of Housing] doesn't have the habit of consulting very proactively, particularly with the financial sector. They would rather choose a public platform to criticize than sit around a table and try and discuss." (Interviewee 15)

The choice not to engage with other stakeholders almost certainly meant that the Department of Housing would design reinvestment legislation that other parties had a difficult time accepting. While this choice might reflect a lack of capacity on the part of the Department of Housing, it might instead stem from a keen strategic intelligence. The strategy undertaken by the Department of Housing might have been chosen to inspire the greatest amount of anxiety on the part of the financial sector, pushing members to begin efforts toward sectoral reform. One housing and lending specialist who was critical of the actual Community Reinvestment Bill thought the process the government was undertaking might actually have just this benefit. According to this interviewee,

> I think it's a poor piece of legislation as it stands today. However, I think it's actually a worthwhile institutional jolt, to use the words I heard a US academic use about the CRA in the US. Because it's got the banks scrambling around saying, 'Wow. Gee. Wow. We hate this; don't like this. But we better do something. What?' And that's useful, to be frank. (Interviewee 11a)

A government employee agreed with this assessment, stating that, "…after the pressure from the CRA-type legislation, the Financial Sector Charter was put on the table, largely…by the private sector role players, because they saw it coming…." (Interviewee 2b)

One housing and lending specialist came to believe that government had in fact used the reinvestment legislation process in order to jolt banks into action. According to this person,

> I think government has played its political cards quite well. The early draft of the CRA…was, for a number of reasons, a defective and poor draft. What it did though was to frighten the banks…. In the investment markets, people were taking seriously the draft legislation and assessing its impact on banks and changing their investment recommendations as a result. So the point is that firing that as a shot last year was quite effective in scaring elements of the banking sector, which then led into the willingness to sign the NEDLAC agreements and so on. What I think happened was that the government felt that the NEDLAC agreements in some ways had achieved their immediate objective of the banking industry making some quite far reaching commitments…. And I think that's why they then agreed to in a sense pay heed to the very real criticisms that were made of the draft Bill, and pressure was put on Housing then to take it off, if you like. So they played a sort of bad cop-good cop game. You know, bad cop, [Department of] Housing, shoot this thing through, quite severe, everyone gets frightened; then Treasury comes in and sort of smoothes the waves…. Smooth the waters, sign the declaration, all of a sudden the banking sector and government are friends…. (Interviewee 11b)

Whether or not it was a calculated strategy on the part of the Department of Housing, South Africa's community reinvestment legislation process can be considered a success in the following way: it played a part in pushing the financial sector to reform itself, and as a result it would appear that real access to financial services, including housing finance, in post-apartheid South Africa might actually increase. True, such reform is hardly a radical overhaul of the current distribution of resources in South Africa, but given South Africa's capitalist orientation and the country's peripheral role in the global capitalist system, initiatives like CRA, which help redistribute some level of economic opportunity, might be the most that lower-income South Africans can currently hope for.

Appendix A: Qualitative Methods

This appendix discusses sources and uses of qualitative data in the dissertation. Four sources of qualitative data were incorporated into the study: interview data, newspaper articles, formal releases from different agencies, and secondary sources of information. Before each source is discussed, it is important to explain why these data were selected for inclusion in the study.

The dissertation is, at heart, an analysis of the current efforts of a government to redress past injustices through legislative means. This means that the dissertation is more practical than theoretical; it is an examination of the efficacy of using reinvestment legislation in a particular context to achieve a particular goal. In order to tell this story, it is necessary to situate the ANC-led government's legislative efforts within the context of South Africa's history and within South Africa's current social, political, and economic setting.

Qualitative data are incorporated into the study in much the same way they are in Clavel's The Progressive City.[357] Clavel's book "takes a reporting approach," by which he means an approach that seeks to lay out the basics of a complicated story without much theoretical analysis on the part of the author. Clavel's approach allows one to develop a thorough overview of complicated socio-political phenomena and assess the complexity of people's "inventing a new form of social organization."[358] For this reason it seemed an appropriate choice for this study. The approach used in this dissertation differs from Clavel's in one main way, however: it will in fact offer a theoretical assessment of the use of reinvestment legislation in post-apartheid South Africa and is therefore not primarily a piece of reporting.

[357] Clavel, P. The Progressive City. New Brunswick: Rutgers University Press, 1989.
[358] Clavel, p. xi.

The dissertation makes use of multiple sources of qualitative data, a method referred to as "triangulation of sources."[359] Triangulation of data sources has the following benefits: it allows one to compare what interviewees say in public to what they say in private; it allows one to compare observations with interviewees' statements; it allows one to compare the perspectives of people from different viewpoints; and it allows one to check interview findings against program documents and other written evidence.[360] Combining multiple sources of qualitative data also allows one to create a full picture of the context within which socio-political change is taking place. As Bosworth noted in his study on the role of courts in promoting public school finance equity, "a wide range of sources is necessary for…approaching an event from multiple angles to best assess the full story."[361]

Each of the sources of qualitative data incorporated in the study will be discussed at this point.

Interviews

Three main parties are involved in or would be affected by the passage of reinvestment legislation in South Africa: government, banks, and lower-income communities. Accordingly, via a method of chain sampling (see below), stakeholders from each of these sectors were selected to be interviewed for the study. Because the goal was to obtain as clear a picture as possible about lending for affordable housing in post-apartheid South Africa, housing and lending specialists who either work for public/private partnerships, NGOs, or private consultancies were also interviewed. The net result was that

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[359] See Patton, M.Q. Qualitative Evaluation and Research Methods. Thousand Oaks: Sage Publications, 2002.
[360] Patton.
[361] Bosworth, M. Courts as Catalysts: State Supreme Courts and Public School Finance Equity. Albany: State University of New York Press, 2001, p. 55.

26 people were interviewed for the study; since four individuals were re-interviewed during the second research trip to South Africa, 30 interviews were conducted for the study in total. Table 22 shows the total number of interviews (including re-interviews) conducted for the study, and the organizations from which individuals were selected.

Interviewees were selected via a method of chain sampling, "an approach for locating information-rich key informants."[362] The researcher begins this technique by asking well-situated individuals about whom to speak with regarding the topic under investigation. The researcher then speaks with

Table 22: Interviews Conducted in South Africa, 2002 and 2003

Category	Agency	Total
Government	Department of Housing	7
	National Housing Finance Corp.	2
	Micro Finance Regulatory Council	1
Banking Sector	Standard Bank of South Africa	2
	ABSA	2
	Nedcor	2
	The Banking Council South Africa	3
Community	Individual Community Leaders	3
	South African Communist Party	1
	SACCOL[363]	1
Housing/Lending Experts	NURCHA[364]	1
	Servcon Housing Solutions	1
	Small Housing/Lending Agencies[365]	4
		N = 30

the designated individuals, asking each one for the names of other people who might be knowledgeable about the topic under consideration.

[362] Patton, p. 237.
[363] Savings and Credit Cooperative League of South Africa
[364] National Urban Reconstruction and Housing Agency
[365] These agencies are small enough that identifying them would reveal these interviewees' identities.

The sampling chain for this study began with a professor in Cornell's City and Regional Planning department who recommended speaking with a planning academic at the University of Witwatersrand in Johannesburg. This individual recommended speaking with an employee at South Africa's Department of Housing, and from there the chain grew to include members of the Banking Council, community activists, and housing and lending specialists, among others. It was clear that this sampling method was rigorous (that is, that a core group of individuals knowledgeable about community reinvestment legislation had been identified and interviewed) when the same names came up over and over and when later interviewees recommended speaking with individuals who had already been interviewed.

How were the actual interviews structured? During the preliminary set of 18 interviews, conducted during July of 2002, each interviewee was asked a standardized series of questions[366] about mortgage lending, reinvestment legislation, and affordable housing finance. These questions were open-ended, allowing interviewees to express fully their opinions on the topics of interest (and, in some cases, on related topics not relevant for inclusion in the current study). The second set of 12 follow-up interviews, conducted in June and July of 2003, was intended to flesh out the story of the use of reinvestment legislation in South Africa. For this reason, the questions asked were not standardized, but were instead tailored to make best use of each interviewee's area of expertise.

Each semi-structured interview lasted between 45 and 90 minutes, and each interviewee was given a written promise of anonymity. For this reason, all interviewees are identified by a randomly assigned number. Four

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[366] See Appendix B for a copy of the interview questionnaire.

individuals were interviewed on both the first and second research trip and their quotations therefore have either an “a” or “b” following their identification number.

All interviews were recorded and were transcribed word-for-word; each transcript was double-checked against the tape recording for accuracy. Interview data were sorted and coded by theme; each interview was coded on two separate occasions in order to ensure consistency of coding. A spreadsheet of themes and frequency of mention was developed so that it became possible to assess visually the relative importance of different topics and the frequency of occurrence of different points of view.

How were themes selected for inclusion in the dissertation? Themes were selected in one of two ways. First, some themes were chosen because they were mentioned during half or more of all interviews (during 15 or more interviews). For example, an overwhelming number of interviewees identified “law and order” or “affordability” as a problem when it came to banks re-engaging in lending in the townships. Each of the themes mentioned during half or more of all interviews was explored in preparation for writing the study; that is, the different viewpoints on the topics mentioned frequently were reviewed before the analysis of data was written. However, due to the limited nature of this work, not all frequently mentioned themes are fully explored within the study.

The second way in which themes were selected for inclusion in the dissertation was through the use of common sense. In some instances a theme was not mentioned during half or more of all interviews, yet it became apparent as South Africa’s reinvestment legislation process unfolded that this theme had a legitimate place within the study. For example, the draft

Community Reinvestment Bill was withdrawn in response to international investors pulling their funds from South Africa's markets. Following this development, it became clear that the opinions of those who felt that "international pressures on the banking sector are important" should be explored, even though the majority of interviewees had not mentioned this as a factor in South Africa's community reinvestment process.

All quotations presented in this study are verbatim, with unnecessary words and phrases ("um" and "you know," for example) or repeated words ("and, and, and," for example) deleted for ease of comprehension. In some cases, where an individual has interrupted him or herself with a partial or unrelated thought in mid-sentence before completing the original sentence, the interruption has been deleted for ease of comprehension. Ellipses represent the deletion of words and phrases other than those just referred to.

Newspaper Articles

South Africa's online newspapers were checked frequently to provide information on current events in South Africa and, more specifically, on developments related to access to housing or finance within the country. Starting with 2001 editions, regular searches of South Africa's electronic newspapers (*Independent Online*, *Mail and Guardian*, and *Business Report*) were conducted. These papers were searched for articles containing the phrases "low-income" or "affordable" and "housing," "low-income" or "affordable" and "mortgage," and "banks" and "access."

Starting in 2002, bi-monthly searches of LexisNexis Academic Universe's African newspapers[367] were undertaken. These searches were restricted to articles containing "South Africa" in the headline and in the full text

[367] Access to these papers is provided under LexisNexis's "newsletter" search.

the following words and phrases: "home" and "loan," "housing" and "bill," "mortgage" and "disclosure," "redline, "red-line," "redlining," "red-lining," "reinvestment," "re-investment," "financial sector" and "charter," "Sankie Mthembi-Mahanyele," "Brigitte Mabandla," "Lindiwe Sisulu," and "bank" and "access."

Formal Releases from Different Agencies

The dissertation also incorporates analysis of formal releases from many of the agencies involved in South Africa's reinvestment debate. These documents, which can take the form of policy papers, memoranda, and other official written statements, can provide insight into several things: shifts in the South African government's priorities and policies over time, the official stated perspective of different agencies on reinvestment-related topics, and different actors' reactions to South Africa's Home Loan and Mortgage Disclosure and draft Community Reinvestment Bills. Examples of these releases include the ANC-led government's Reconstruction and Development Programme document, the Banking Council's web-posted statement regarding its position on redlining, and the Congress of South African Trade Unions' submission on the Home Loan and Mortgage Disclosure Bill.

Secondary Sources

Finally, the dissertation relies heavily on secondary sources of information. These include works on South African history, politics, and economics. All of these help provide a background for the study; without a thorough comprehension of apartheid, South Africa's recent political transition, and South Africa's socio-economic development over the past ten years, it would not be possible to situate or understand South Africa's recent reinvestment legislation processes. For its analysis of South Africa's reinvestment legislation process, the dissertation draws from more theoretical texts pertaining to the issue of governmental agenda setting.

Appendix B: Interview Questionnaire

Interview with member of:

____ Private Sector Lending
____ Public Sector Lending
____ Public Sector Housing
____ Public Sector Legislative
____ NGO Lending
____ NGO Housing
____ Political Party
____ Academia
____ Consultant (to: ____________________________)

Introduction

Thank you for agreeing to be interviewed for my dissertation. My goal is to assess the benefits and disadvantages of a Community Reinvestment Act for South Africa, with an emphasis on how such legislation might affect access to housing by lower-income South Africans. Interviews with banking officials, government officials, those working in NGOs, and those in academia are providing one source of information for this study.

This is the first of two research trips to South Africa, and during this trip I hope to narrow in on the most significant aspects of my chosen topic. For this reason, I am meeting with a broad range of individuals and am asking everyone a series of questions about reinvestment legislation, banking, and affordable housing finance. The disadvantage of using a set questionnaire across a broad range of individuals is that I might ask people questions which aren't in their area of expertise. If you'll let me know when this happens, we can simply move on to the next question.

I have two concerns as I conduct this preliminary set of interviews. My first concern is to guarantee the confidentiality of those I interview. I know that the issue of reinvestment legislation is a sensitive one, and my highest priority is to ensure that no interviewee's identity is revealed. For this reason, I will report all interview results in aggregate, and should I use an individual response at any point, I will disguise the interviewee with a pseudonym and I will not disclose organizational affiliation.

My second concern, particularly because I am from a different country, is to report accurately on the complicated issue of reinvestment legislation in South

Africa. Because I am foreign, my understanding of what is relevant is likely to be skewed, and I probably come laden with assumptions that I'm not yet fully aware of. In addition, I am used to using slightly different language around the topics we'll discuss. If I phrase a question badly, or blunder into a sensitive topic, I would appreciate your telling me so. And if I ask any question you would prefer not to answer, I would appreciate your telling me that as well and we can move on to the next question.

Because I am concerned with accuracy in reporting, I would greatly prefer to tape record our interview. This will allow me to transcribe what we've talked about and review any topics about which I am confused or have questions. I am the only one who will ever hear these tape recordings (I will do all transcribing myself), and I will destroy the tapes three years from time of transcription. Would you let me record our interview? Please be assured that we can turn the tape recorder off at any time you would like during the interview.

Do you have any questions for me before we begin?

Legislation: The Home Loan and Mortgage Disclosure Act

1) Can you explain a bit about how this piece of legislation came into being; to start with, which parties pushed for such an Act?

2) Could you tell me why these parties were pushing for such legislation – what was the rationale behind their efforts?

3) Do you happen to know who helped create the Act – who was consulted (bankers, activists) and who wrote the actual legislation?

4) Do you have any sense of how the data gathered under the Act will be used – for example, what types of analysis these data will make possible?

5) In the U.S., the Home Mortgage Disclosure Act data (which are similar to South Africa's HLMDA data) were eventually made public; do you think this will happen in South Africa?

6) What effect do you think the Home Loan and Mortgage Disclosure Act will have on the banking industry?

Legislation: The (Draft) Community Reinvestment Bill

1) Again, I'd like to understand the impetus behind such legislation. Can you tell me a bit about which parties have been pushing for community reinvestment legislation in South Africa?

2) Can you tell me what the rationale behind the Bill's creation was – for example, what arguments have been made in support of such legislation?

3) Do you happen to know who helped create the Bill – who was consulted (bankers, activists)?

4) Do you have any idea who will be involved in writing the regulations for the final Act – for example, who will determine prescribed lending targets and who will define "low" and "medium" income-levels?

5) How likely do you think it is that the final Community Reinvestment Act will be structured much as the draft Bill is structured? Do you think the final Act will be significantly different from the draft Bill? (Please elaborate…how will it be different? Why?)

6) If a Community Reinvestment Act were to follow from the Bill as written, what effect do you think the Act would have on the banking industry?

7) What effect do you think such an act would have on the National Housing Finance Corporation and on niche market lenders?

8) In your view, what effect would such an act have on low- and medium-income people's access to housing finance (from banks…from other lenders)?

9) Do you think such an act would have any benefits for banks, the NHFC, or niche lenders?

10) What about for lower-income people; do you think such an act would have benefits for lower-income people?

Relationship Between HLMDA and CRA

1) Of course the reason the Community Reinvestment Act was passed in the United States was to counteract "redlining", that is, U.S. banks' refusing to lend money in older central cities, and minority and lower-income neighborhoods. I know that there has been talk of redlining in South Africa and I'd like your feedback on this. The (draft) Community Reinvestment Bill defines redlining as the refusal to grant credit to individuals "mainly on account of the house to be financed being located in a particular geographical area or neighborhood". Do you think concerns over redlining in South Africa are legitimate?

2) I know that until they are required to disclose lending information under the Home Loan and Mortgage Disclosure Act, there is little public information available on banks' lending patterns. To the best of your knowledge, how have people been supporting the claim that banks in South Africa have been redlining (anecdotal evidence, other types of analysis, etc.)?

3) It seems to me that the HLMDA was designed to allow for analysis of lending patterns across regions, yet the (draft) Community Reinvestment Bill requires that banks lend to people in certain income groups. Do you know why South Africa's Community Reinvestment Bill targets income groups rather than regions?

4) Do you think this was the proper form for South Africa's reinvestment legislation to take, or do you think that the Community Reinvestment Bill should have been structured differently?

Banking and Home-related Lending in South Africa ("Private Sector Lending" only)

1) In the United States, bank branches have designated "service areas", that is, the area from which they draw deposits and to which they will make loans. Do your main branches have designated service areas?

2) How do your potential customers learn about you?

3) How are your bank's home loan products developed: at the national level; at the local level; at the national level with local variation allowed?

4) How is the decision to make a home loan arrived at; what factors are this decision based upon?

5) How are the terms upon which to lend arrived at; what factors are the terms of lending based upon?

6) Does your bank offer mortgage products specifically tailored to lower-income people (say, those with household incomes under R3500 per month)?

7) Do you think your bank will create new products or offer new services in response to the Community Reinvestment Bill (if it becomes law as currently structured)?

8) Do you think your bank will meet the law's requirements by giving a portion of its loan funds to niche market lenders or to the National Housing Finance Corporation?

9) One unexpected consequence of CRA in the United States is that it pushed banks into lending to new and profitable markets. Do you think that this might be the case in South Africa?

Affordable Housing and Affordable Housing Finance

1) What do you think are the greatest obstacles to lower-income people's access to housing in South Africa?

2) How do you think these obstacles might be overcome?

3) Do you think the government can and should address these obstacles via legislation?

4) Do you think a lack of access to formal finance stands in the way of lower-income people's access to housing?

5) Do you think reinvestment legislation will have an effect on lower-income people's access to housing?

6) Some people have argued that the effort put into increasing access to formal finance for lower-income people would be better expended on other solutions, say, supporting grassroots initiatives like the Homeless People's Federation? Do you think this is a legitimate argument?

7) Do you think lower-income people view access to formal finance as a priority?

8) I want to be certain that we've discussed what is important about reinvestment legislation, lending, affordable housing, and affordable housing finance. Have I neglected to ask you something important; is there anything you'd like to add at this point?

Before we conclude the interview, I wonder if you know of anyone else who might like to share their views on the topics we've discussed today. I am very concerned with presenting a thorough picture of the role of reinvestment legislation in South Africa; can you think of anyone whose point of view should be included in this study? Name/s and contact information?

Appendix C: Quantitative Methods

This appendix discusses sources and uses of quantitative data in the dissertation. Two sources of quantitative data were incorporated into the study: deed transfer data from South Africa's Deeds Office and data from South Africa's 1996 Census. Before these data are discussed, it is important to explain why they were selected for inclusion in the study.

The debate over community reinvestment legislation in South Africa has been fueled by accusations that South Africa's four main banks, ABSA, First Rand, Nedcor, and Standard Bank,[368] engage in "redlining." As defined in South Africa's draft Community Reinvestment (Housing) Bill, "redlining occurs when a financial institution does not offer a home loan to a borrower or household mainly on account of the house to be financed being located in a particular geographical area or neighbourhood."[369]

Despite accusations that South Africa's banks redline, the question has yet to be answered: exactly how does the location of the homes to be financed affect South African banks' decisions to lend? Some say that the data gathered under South Africa's Home Loan and Mortgage Disclosure Act will answer this question. However, this is a dubious assertion. The types of data to be gathered under the Act are similar to those gathered under the US Home Mortgage Disclosure Act, and the consensus in the United States is that it is difficult to identify redlining on the part of banks solely through the use of

[368] South Africa's retail banking sector is highly concentrated. Four main banks, Standard Bank of South Africa, ABSA, First Rand, and Nedcor, known collectively as the "big four" dominate the country's retail financial market. The big four are responsible for over 90-percent of mortgage lending in South Africa today. (Joffe.)
[369] Department of Housing, Draft Community Reinvestment Bill.

HMDA data.[370] This is because HMDA data do not reveal credit demand within regions, nor do they reveal differences in demand between regions, nor do they reveal differences in creditworthiness across individual applicants.

A more appropriate method through which to evaluate redlining on the part of South Africa's financial institutions might be through the use of a model advanced by Stengel and Glennon. These researchers created a bank-specific regression analysis that tested for the presence of racial discrimination in mortgage lending by incorporating the specific underwriting guidelines of three US national banks into the model. This model might have been adapted for the study, and an assessment of the differential use of South African banks' underwriting guidelines across geographic regions might have been conducted. Such an analysis would have allowed for an assessment of redlining, where redlining is defined as a bank's lending on more restrictive terms based on the location of the home in question. However, this model would have required sufficient data from South Africa's banks, and such data were not available. In advance of their being required to release information under the Home Loan and Mortgage Disclosure Act, South Africa's banks have been very guarded about the release of such data.[371]

The analysis presented in this study is an attempt to shed some light on South Africa's redlining debate and to assess the manner in which area-level variables affect lending in South Africa. Two types of regression analysis are

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[370] Schill, M. and S. Wachter. "Uses and Limitations of HMDA Data in Identifying Discrimination and Redlining." Fair Lending Analysis: A Compendium of Essays on the Use of Statistics. Ed. A. Yezer. Washington, DC: American Bankers Association, 1995. 23-28.; Evanoff and Segal.

[371] A well known figure in the South African financial sector was asked for his assistance in obtaining the lending data required from South Africa's banks in order to conduct this analysis. This individual indicated that bankers would not be willing to share their data for inclusion in the proposed model.

incorporated into the study. The first is a binary logistic regression that attempts to assess how certain area-level variables influence the odds of different institutions' lending to suburbs throughout South Africa's Gauteng Province. The second is an OLS multiple regression that assesses how certain area-level variables influence the level of lending in the Gauteng suburbs where affordable home lending has taken place. Both analyses combine deed transfer and Census data in order to model lending for affordable housing throughout the province.

The two models incorporated into the study elucidate nothing about banks' actual lending decision making processes nor about the terms upon which loans are issued to different borrowers. The analyses are also susceptible to the criticisms launched at all studies of redlining, i.e. the models do not contain information pertaining to credit demand within regions nor differences in demand between regions. However, the analyses help paint a general picture of lending in Gauteng and provide some insight into how certain area-level characteristics are related to South African banks' lending patterns; they also provide a more rigorous analysis of lending at the area level in South Africa than has been conducted to date.

Each of the sources of quantitative data incorporated in the study will be discussed at this point as will the regression analyses employed in the study.

Deed Transfer (DT) Data

This section provides a brief overview of the deed transfer data used in the study. These data were gathered on July 19, 2002 from Property24. Property24 is an agency that provides real estate information to buyers and sellers in South Africa's property market. In the words of the Property24 website, "Property24 uses technology to facilitate all interactions between homebuyers and sellers and others in the real estate fraternity, including estate agents, lenders, attorneys, insurers and home service providers."[372] As part of this work, Property24 gathers and sells data on deed transfers that have occurred throughout South Africa.

The deed transfer data that Property24 gathers and sells come directly from South Africa's Deeds Office. In the words of the Property24 employee who assisted with gathering the data for this study, "the data we get from the Deeds Office is not edited by us in any way, and the Deeds Office say that what they capture is exactly as they get it from the attorneys who do the transfers."[373] Sourcing deed transfer data from Property24 is therefore exactly like sourcing data from South Africa's Deeds Office.

The original dataset obtained from Property24 contained all deed transfers that were listed in the Property24 database on July 19, 2002 with the following characteristics:

- The transfer had occurred between January 1, 1997 and July 19, 2002[374]
- The transfer occurred in the Gauteng Province
- The transfer was linked to a mortgage bond whose value was less than or equal to R100,000

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[372] Property24 website, www.property24.co.za, May 2004.
[373] Email communication from Bob Thorsen, received June 20, 2003.
[374] It should be noted that it can take several months for the Deeds Office to enter new transfers into its database. It should also be noted that Property24 receives its data from the Deeds Office on a monthly basis with a one month lag in the data it receives; for example, in March, Property24 receives all data entered by the Deeds Office in February. Data for this study were sourced from Property24 on July 19, 2002 and the most recent transfer listed in the database at that point was for June 24, 2002. It is certain that any number of transfers from the several months preceding July, 2002 were not yet entered in the Deeds Office database and therefore were not yet available in the Property24 database on July 19, 2002.

In total, 62,991 cases were retrieved via this search. For each of these, information was gathered on the following variables:

- City within which property is located
- Suburb within which property is located
- Sold date
- Transfer date
- Sold price
- Bond amount
- Bondholder's name
- Owner's name

From this 62,991 record dataset, a subset of data related to affordable housing was extracted. The central concern of this dissertation is South Africa's draft Community Reinvestment Bill, a piece of legislation designed to increase the level of formal finance for affordable housing; the study is therefore concerned with banks' involvement in providing finance for such housing. Subsidy-linked housing (housing costing less than R30,000) and secondary or home-improvement bonds (smaller bonds on housing costing more than R100,000) were not of interest to the study.

The initial search conducted at Property24 contained records for all deed transfers listed in the database on July 19, 2002 where the transfer was linked to a mortgage bond whose value was less than or equal to R100,000. These mortgages, however, were not necessarily linked to low-cost housing. The cost of the housing linked to these title deed transfers ranged from zero rand to over R1,000,000. Affordable housing in South Africa, that is, housing that might be affordable to South Africans who are too wealthy to be eligible for a subsidy and too poor to be eligible for bank finance (i.e. households with

monthly incomes between R3,501 and R6,000) is calculated to cost between R35,000 and R100,000.[375] The pool of deed transfers linked to housing in this price range needed to be isolated for the study. This was accomplished by sorting the 62,991 deed transfer records by the variable "sold price" and selecting only the records where: R35,000 $\leq$ sold price $\leq$ R104,999.[376]
Of the original 62,991 cases in the DT dataset, some 27,318 records pertained to houses whose sold price fell within this range. After these data were cleaned,[377] 26,653 deed transfer cases remained in the dataset.

1996 Census Data

This section provides a brief overview of the Census data incorporated into the study. These data were gathered in the Government Publications Department located within the Chancellor Oppenheimer Library at the University of Cape Town. This department provides access to a computerized version of South Africa's 1996 Census from which were downloaded suburb-level data for the Gauteng Province.

Which data did were downloaded for inclusion in the study? Data related to employment, gender, housing type, income, homeownership, and race.[378] Why were 1996 Census data relevant for inclusion in the study (as opposed to more recent 2001 Census data)? It will be recalled that the deed transfer dataset contains transfers for mortgage-linked affordable housing that occurred between 1997 and mid-2002. Although South Africa conducted a Census in 2001, these data were not released until July of 2003. Therefore,

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[375] Rust.
[376] This price range was selected so that data might be broken into equal intervals, for example: R35,000-R39,999, R40,000-R44,999…R95,000-R99,999, R100,000-R104,999.
[377] See the Appendix E for a thorough explanation of the process through which the deed transfer and 1996 Census datasets were cleaned and joined.
[378] A description of each variable is found further in this section; an explanation of how each variable was calculated may be found in Appendix E.

the 1996 Census provided the most up-to-date suburb-level data available at the time the deed transfers in the dataset were made and were the most appropriate area-level data to include in the study.

Logistic Regression Analysis

Binary logistic regression is a technique that may be employed when one wishes to assess the relationship between a set of continuous independent variables (also called covariates or predictors) and a binary dependent variable. This type of regression can be used to predict the likelihood (the odds ratio) of the outcome based on the predictor variables. Binary logistic regression was incorporated into the study in order to assess the effect of continuous, area-level variables (racial composition of area, gender composition of area, housing-type in area, for example) on the odds of a binary dependent variable, that is, whether lending for affordable housing had occurred in the area. The binary dependent variable was coded “1” if affordable home lending in a suburb had occurred and “0” if it had not.

Demaris[379] delineates the basic form of binary logistic regression as follows: $\log(\pi_i/1-\pi_i) = \log O_i = a + b_1X_1 + b_2X_2 + \ldots + b_kX_k$ where (for the purposes of this study):

- π_i = the conditional probability that lending in the *i*th suburb has occurred given the independent variables
- $1-\pi_i$ = the conditional probability that lending in the *i*th suburb has not occurred given the independent variables
- O_i = the conditional odds of lending’s having occurred in the *i*th suburb given the independent variables

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379 Demaris, A. Logit Modeling: Practical Applications. Newbury Park: SAGE Publications, Inc., 1992.

- a = the constant, i.e. the expected value of the log-odds of the dependent variable when all of the predictor variables equal zero
- b_K = the change in the log odds due to a one unit change in the value of the independent variable
- X_k = the independent variables

In order to conduct the binary logistic regression analysis for this study, a dataset was created to allow for analysis of the relationship between the dependent variable concerning whether or not lending had occurred in a suburb and various independent variables. The cases within this dataset were Gauteng's suburbs; here N = 1,231,[380] i.e. the number of the suburbs demarcated for Gauteng under the 1996 Census.

The dependent variable for the binary logistic regression analysis was coded "0" if no deed transfers for houses valued between R35,000 and R104,999 that were linked to mortgages less than or equal to R100,000 were registered as having occurred within a suburb and "1" if at least one such deed transfer was registered for a suburb. (Hereafter, deed transfers linked to mortgages less than or equal to R100,000 where the house was valued between R35,000 and R104,999 will be referred to as "affordable home loans," "affordable home lending," "affordable mortgages," etc.) Whether or not affordable home lending had occurred in each suburb was determined by tallying the number of transfers registered within each suburb from the 26,653 deed transfer dataset, and then transforming these totals into the dummy variable just described. Since the lending patterns of the big four banks (ABSA, First Rand, Nedcor, and Standard Bank) and of other actors were of

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[380] See Appendix E for an explanation of why 35 of Gauteng's suburbs had to be excluded from this dataset.

interest to the study, a tally was also made of each agent's involvement in lending for affordable housing throughout Gauteng; again, the dependent variable for each institution's involvement was coded "0" if that institution had not issued affordable home loans to a suburb and "1" if the institution had issued at least one affordable home loan to a suburb.

Unlike OLS multiple regression in which one is assessing the average change in the dependent variable associated with a one unit change in the independent variable (when all other independent variables are held constant), in binary logistic regression one is assessing the change in the log odds of being in the category of interest on the dependent variable given a one-unit change in the independent variable (controlling for all other independent variables in the model). This can be somewhat difficult to interpret in plain English. For this reason, this study uses the binary logistic regression analysis in order to calculate the percentage change in the odds of being in the category of interest in the dependent variable given a one-unit increase in the independent variable. This is accomplished though use of the odds ratio, Exp(B), which is incorporated into the following calculation in order to arrive at the percentage change in the odds: 100 * [Exp(B)-1]. The results of the various models created for this study are discussed in terms of the percentage change in the odds that lending will occur in Gauteng's suburbs given a one-unit increase in the relevant independent variables (holding all other independent variables constant).

The assumptions of binary logistic regression are less stringent than those of OLS multiple regression. In particular, binary logistic regression does not assume that there is a linear relationship between the predictors and the dependent variable, it does not require normally distributed variables, and it does not assume homoskedasticity. What binary logistic regression does assume is that: the model is correctly specified, meaning that no relevant independent variables have been excluded, no irrelevant independent variables have been included, and the independent variables are measured without error; the cases are independent of one another; and there is not perfect multicollinearity amongst the independent variables.

As the data were prepared for the binary logistic regression analysis and as the various analyses were conducted, the data were checked to ensure that they conformed to the assumptions underlying this type of analysis. A description of how this was done follows.

In order to ensure there was no specification error, three things were done. First, the relevance or irrelevance of independent variables was assessed though attention to variables' Wald statistics and associated levels of significance. Where necessary, individual variables were dropped from the models (in order to create "nested" models) and then the difference in –2 log likelihood between the original and nested model was determined and the chi-square table was used to assess whether or not the dropped independent variable was important to the model. Second, to assess whether or not relevant independent variables had been excluded from the models, each model's fit and predictive ability were assessed to determine whether relevant variables had been excluded. Third, to determine whether or not the independent variables were measured accurately, attention was paid to irregularities in the data while cleaning, sorting, and matching the deed transfer and 1996 Census data.[381]

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[381] See Appendix E for a full explanation of this process.

An assessment of whether the cases in the models are independent of one another required stopping and thinking. The cases here are 1,231 of Gauteng's suburbs. There is little reason to believe that lending in one suburb will have an effect on lending in any other suburb; bankers interviewed for this study confirmed this point.

The final assumption of binary logistic regression is that there is not perfect multicollinearity amongst the independent variables, i.e., no independent variable can be perfectly correlated with another independent variable. To guard against violating this assumption, the correlation between each independent variable and every other independent variable was tested. Where the correlation coefficient came to greater than .80 (indicating unacceptably high correlation), the correlated variables were not included together in any analysis.

What dependent and independent variables were included in the binary logistic regression analysis? Six different dependent variables were created for analysis. These are:

- $LOGITDT_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage, regardless of who had made the loan
- $LOGITABS_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage made by ABSA
- $LOGITFR_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage made by First Rand
- $LOGITNED_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage made by Nedcor
- $LOGITSTD_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage made by Standard Bank

- $LOGITOTH_i$: the presence or absence of any deed transfer in suburb "i" linked to an affordable mortgage made by a party other than one of the big four banks.

The independent variables tested for significance in the various analyses were all derived from the 1996 Census data.[382] These variables are:

- $NOHHSUB_i$: number of households in the suburb "i"
- $PERHHAFR_i$: percent of households in suburb "i" where an African person was the head of household
- $PERHHNON_i$: percent of households in suburb "i" where an African, coloured, or Indian person was the head of household
- $PERHHWHI_i$: percent of households in suburb "i" where a white person was the head of household
- $PERHHFEM_i$: percent of households in suburb "i" where a female was the head of household
- $PERHHMAL_i$: percent of households in suburb "i" where a male was the head of household
- $PERHHLOW_i$: percent of households in suburb "i" where household income was between R0 and R3,500 per month
- $PERHHMED_i$: percent of households in suburb "i" where household income was between R3,501 and R6,000 per month
- $PERHHHIG_i$: percent of households in suburb "i" where household income was greater than R6,000 per month
- $PERUNEMP_i$: percent of economically active population in suburb "i" that is unemployed

[382] See Appendix E for a detailed explanation of how each of the variables derived from the 1996 Census was calculated.

- $PEREMP_i$: percent of economically active population in suburb "i" that is employed
- $PERHHSEP_i$: percent of households in suburb "i" living in houses on separate stands[383]
- $PERHHFIN_i$: percent of households in suburb "i" living in types of homes likely to receive finance from a bank
- $PERHHINF_i$: percent of households in suburb "i" living in informal housing
- $PERHHOWN_i$: percent of households in suburb "i" that own their homes

In order to choose the "best model" for capturing the change in the log odds of being in the category of interest on the dependent variable, numerous models were constructed for each dependent variable, and close attention was paid to each model's significance, its predictive ability, and its goodness of fit (as depicted by the Hosmer and Lemeshow Goodness-of-Fit test). In order to determine which particular independent variables were most relevant to each model, variables' Wald statistics and associated levels of significance were examined; in some cases, individual variables were dropped from models and then the difference in –2 log likelihood between the original and nested model was determined and the chi-square table was used to assess the importance of the dropped variable. The models presented for discussion in Chapter Three represent the best models constructed for each dependent variable given the independent variables.

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[383] It should be noted that all variables that deal with housing type are calculated at the household level, not at the level of units of housing. That is, variables concerning housing type are calculated as the percent of households living in such housing and do not provide an accurate representation of the percent of all units of a certain type since more than one household can reside in a single unit.

OLS Multiple Regression Analysis

The binary logistic regression just described was used to help elucidate which area-level variables affect the odds that different institutions will issue loans at the area level throughout Gauteng. Once the factors affecting whether or not lending will occur at the area level were better understood, it was of additional interest to try to understand how area-level variables affect the level of lending that occurs in the regions to which affordable home loans have been issued. This study incorporated OLS multiple regression in order to conduct such an analysis.

In OLS multiple regression, a dependent variable (Y_i) is seen as a linear function of more than one independent variable (X_k). The dependent variable (Y_i) in each OLS multiple regression analysis created for this study had to do with the number of loans made at the suburb level throughout Gauteng. Therefore, for the OLS regression, N = 618, since in 618 suburbs at least one affordable home loan had been issued. Sometimes the dependent variable was the total number of loans made to the area, sometimes it was the number of loans made by one of the big four financial institutions (ABSA, First Rand, Nedcor, or Standard Bank), and sometimes it was the number of loans made by individuals and entities other than the big four lenders. The independent variables incorporated into the OLS multiple regression analyses concerned area-level measures of race, income, gender, housing type, homeownership, and employment.

The basic form of multiple regression is: $Y_i = a_0 + b_1X_1 + b_2X_2 + \ldots + b_kX_k + e$ where:

- Y_i = the dependent variable
- X_K = the independent variables

- a_0 = the intercept, i.e. the average value of Y_i when each X_k equals zero
- b_k = the partial slope, i.e. the average change in Y_i associated with a one unit change in X_k when the other independent variables are held constant
- e = the error term

In order to conduct the OLS multiple regression analysis for this study, a dataset was created to allow for analysis of the relationship between the dependent variable concerning the number of loans issued at the suburb level and various independent variables. The cases within this dataset were the suburbs in Gauteng where at least one affordable loan-linked deed transfer was registered. For all of the OLS regression analyses, N = 618.

The dependent variable for the OLS regression analysis was the number of affordable home loans that had been issued at the area level. This number was determined by tallying the number of transfers from the 26,653 deed transfer dataset registered as having occurred in each suburb. Since the lending patterns of the big four banks (ABSA, First Rand, Nedcor, and Standard Bank) and of other actors were of interest to the study, a tally was made also of each agents' involvement in lending for affordable housing throughout Gauteng.

According to Lewis-Beck,[384] the underlying assumptions of OLS multiple regression analysis are as follows: there can be no specification error, that is, the relationship between X_k and Y_i must be linear, no relevant independent variables have been excluded, and no irrelevant independent variables have been included; there can be no measurement error, that is, X_k and Y_i must be

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[384] Lewis-Beck, M. Applied Regression: An Introduction. Newbury Park: SAGE Publications, Inc., 1980.

accurately measured; the error term has a zero mean, is homoskedastic (i.e. the variance of the error term is constant for all values of X_k), has no autocorrelation (i.e. the error terms are uncorrelated), is uncorrelated with the independent variable, and is normally distributed; and finally, there cannot be perfect multicollinearity among the independent variables (i.e., no independent variable can be perfectly correlated with another independent variable or with a linear combination of other independent variables).

As data were prepared for the OLS multiple regression analysis and as the various analyses were conducted, the data were checked to ensure that they conformed to the assumptions underlying such analyses. A description of how this was done follows.

In order to ensure there was no specification error, two things were done. First, scatterplots of each independent variable against the dependent variable were created to ensure that these variables held a linear relationship to one another. Where it appeared that the relationship between an independent variable and the dependent variable was not linear, the independent variable was transformed in the appropriate manner in an attempt to bring the two variables into a linear relationship with one another. The dependent variable was then regressed on both the original and transformed independent variable in order to see whether the original or transformed independent variable held a more significant relationship with the dependent variable.[385] Second, to guard against the inclusion of irrelevant independent variables and the exclusion of relevant independent variables, variables' t-statistics and associated levels of significance were used to help discern which

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[385] In the one instance where this was an issue, with the independent variable "perhhlow" (that is, percent of households in the suburb falling into the low-income category), it turned out that this variable in fact held a linear relationship with the dependent variable.

independent variables were irrelevant. The different models' R^2 statistics helped determine whether relevant variables had been excluded from the various models.

The assessment of whether or not X_k and Y_i were accurately measured occurred while cleaning, sorting, and matching the deed transfer and 1996 Census data.[386] Inaccurately measured cases were removed at this point. In addition, data manipulation was double- and triple-checked to ensure there had been no errors when sorting and tallying the variables.

The third set of assumptions in multiple regression analysis concerns the error term. The first assumption is that the error term has a zero mean. According to Lewis-Beck, this assumption

> …is of little concern because, regardless, the least squares estimate of the slope is unchanged. It is true that, if this assumption is not met, the intercept estimate will be biased. Nevertheless, since the intercept estimate is often of secondary interest in social science research, this potential source of bias is rather unimportant.[387]

Because the intercept estimate was of no interest to the study, this assumption was of little concern in the analysis.

The second assumption concerning the error term is that the residuals are homoskedastic, i.e. that the variance of the error term is constant for all values of X_k. This was checked through the creation of a scatterplot of the residuals for each analysis. In each analysis, the residuals clustered around the regression line, without fanning or bending. However, in each analysis, outliers were present and these affected each model's goodness of fit. Accordingly, each regression was run again with the most influential outliers

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[386] See Appendix E for a full description of this process.
[387] Lewis-Beck, p. 28.

(those outside of three standard deviations from the mean) removed. Residuals were plotted again. As was the case in the first set of models, the residuals tended to cluster along the regression line, without fanning or bending.

The third assumption concerning the error term is that of a lack of autocorrelation, i.e. the error corresponding to an observation is not correlated with any of the errors for the other observations. Autocorrelation is most often present in time-series data. The data included in this study were not time-series data and it is unlikely that autocorrelation was a factor in this analysis.

The fourth assumption concerning the error term is that the error term is uncorrelated with the independent variables. This concern is important because the exclusion of correlated variables from the model can make it seem that the independent variables have more explanatory power than they actually do. For example, if the independent variable "race" is correlated with the independent variable "income" but "income" is excluded from the regression analysis, then "race" will account for some of the variation in number of loans made at the suburb level that is actually a function of income differences. Through careful testing of the relationship between each independent variable and the dependent variable, and through careful testing of the relationships amongst the independent variables, it was determined that the error term is uncorrelated with the independent variables.

The final assumption concerning the error term is that it is normally distributed, with 95-percent of the observations falling within two standard deviations (plus or minus) of the mean. A histogram of the residuals from each analysis was constructed to ensure that the data conformed to this assumption. In each case, the residuals plotted as unimodal with most observations clustered at the mean (giving the histogram a sky-scraper appearance).

The final assumption for multiple regression analysis is that there cannot be perfect multicollinearity among the independent variables, i.e., no independent variable can be perfectly correlated with another independent variable or with a linear combination of other independent variables. To guard against violating this assumption, the correlation between each independent variable and every other independent variable was tested; where the correlation coefficient came to greater than .80 (indicating unacceptably high correlation), the variables were not included together in any analysis. As for whether any variable was perfectly correlated with a linear combination of the other independent variables, the signs of high multicollinearity were watched for: an overly-high R^2 combined with statistically insignificant coefficients, regression coefficients that change greatly in value when independent variables are added or dropped, the values of the coefficients generally (unexpectedly large or small), and the signs of the coefficients. Where there were doubts about problems of multicollinearity, each independent variable was regressed on all of the other independent variables; the R^2 in these equations was low enough to confirm that high or perfect multicollinearity was not a problem in the models.

What dependent variables were included in the various OLS multiple regression analyses? Six different dependent variables were created for analysis. These are:

- $NOTOTDT_i$: number of total mortgage-linked deed transfers for affordable housing registered as having occurred in suburb "i" irrespective of who had issued the loan

- $NOABSADT_i$: number of mortgage-linked deed transfers for affordable housing registered as having occurred in suburb “i” where ABSA was listed as the current bondholder
- $NOFRDT_i$: number of mortgage-linked deed transfers for affordable housing registered as having occurred in suburb “i” where First Rand was listed as the current bondholder
- $NONEDDT_i$: number of mortgage-linked deed transfers for affordable housing registered as having occurred in suburb “i” where Nedcor was listed as the current bondholder
- $NOSTDDT_i$: number of mortgage-linked deed transfers for affordable housing registered as having occurred in suburb “i” where Standard Bank was listed as the current bondholder
- $NOOTHDT_i$: number of mortgage-linked deed transfers for affordable housing registered as having occurred in suburb “i” where the current bondholder was a party other than one of the big four banks (i.e. a smaller bank, a non-bank institution, or an individual).

The independent variables tested for significance in the OLS multiple regression analysis were the same as those for the binary logistic regression (see preceding section for a brief description of each variable and see Appendix E for a full explanation of how each variable was calculated). These concerned the number of households in the suburb (NOHHSUB), the percent of households in the suburb headed by Africans, non-whites, or whites (PERHHAFR, PERHHNON, PERHHWHI), the percent of households in the suburb headed by females or males (PERHHFEM, PERHHMAL), the percent of households in the suburb that fell into the low-, medium-, or high-income category (PERHHLOW, PERHHMED, PERHHHIG), the percent of the suburb's economically active population that was either employed or unemployed (PEREMP, PERUNEMP), the percent of households living in houses on separate stands, in housing likely to receive finance, or in informal housing (PERHHSEP, PERHHFIN, PERHHINF), and the percent of households in the suburb who own their home (PERHHOWN).

The OLS multiple regression analysis was included in the study in order to determine which independent variables are most influential as concerns the number of affordable home loans issued at the area level throughout Gauteng. To answer this question, multiple models were built for each dependent variable. The "best" model associated with each dependent variable was selected because it had the highest R^2 statistic and included only independent variables that were significant at a minimum of the .05 level. In addition, the OLS regression analysis is used to help shed light on claims made by South Africa's Department of Housing concerning the effects of race and income on lending at the area level.

Appendix D: Results of the Regression Analyses

This appendix presents the full findings for the best[388] models created for each of the dependent variables in both the binary logistic regression analysis and the OLS multiple regression analysis. Following this, the appendix presents an overview of the effects of the racial and income variables within each OLS multiple regression model.

Binary Logistic Regression Analysis

LOGITABS

The best model for the dependent variable LOGITABS (the presence or absence of any affordable mortgage issued by ABSA) included the following predictors, each of which was significant at the .05 level: the number of households in the suburb (NOHHSUB), the percent African-headed households (PERHHAFR), the percent male-headed households (PERHHMAL), the percent of low-income households (PERHHLOW), the percent medium-income households (PERHHMED), the percent of the economically active population that was unemployed (PERUNEMP), the percent of households living in houses on separate stands (PERHHSEP), the share of the suburb's households living in informal housing (PERHHINF), and the percent of homeownership (PERHHOWN) (Table 23).

The model was significant (Chi-square 426.429, nine degrees of freedom, significance of .000), leading to rejection of the null hypothesis that none of the independent variables was linearly related to the log odds of the dependent variable. The Hosmer and Lemeshow Goodness-of-Fit Test resulted in a significance of .411, greater than .05 as is desirable with this test.

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[388] An explanation of how the best model was selected is presented in Appendix C.

It would appear that the model has good predictive ability: while blind estimation of the most frequently occurring category (that lending had not occurred) for all cases would have resulted in 59-percent of cases assigned correctly, use of the model improves this predictive ability to 75-percent.

Table 23: Binary Logistic Regression Model for LOGITABS

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.000	.000	52.148	1	.000	1.000
PERHHAFR	-.016	.004	15.534	1	.000	.984
PERHHMAL	.026	.008	11.349	1	.001	1.027
PERHHLOW	.011	.006	3.893	1	.048	1.011
PERHHMED	.083	.012	47.191	1	.000	1.086
PERUNEMP	.045	.009	25.454	1	.000	1.046
PERHHSEP	.023	.004	32.406	1	.000	1.023
PERHHINF	-.019	.007	8.149	1	.004	.981
PERHHOWN	.010	.004	6.252	1	.012	1.010
Constant	-5.814	.669	75.640	1	.000	.003

How is each of the predictors related to the odds of ABSA's issuing affordable home loans to a region? As was the case in the model for all institutions (LOGITDT) discussed at length in Chapter Three, both percent African-headed households and percent of households living in informal housing are negatively correlated with the odds of lending for affordable housing. A one percentage point increase in each of these variables is associated with a 1.6- and a 1.9-percent respective decrease in the odds that ABSA will have issued any affordable loans in a suburb.

As was the case for all institutions,[389] the number of households in the suburb, the percent of male-headed households, the percent of medium-income households, the rate of unemployment, the percent of households in houses on separate stands, and the percent of homeownership are all

[389] Again, the model for all institutions (LOGITDT) is discussed extensively in Chapter Three. Please see Chapter Three for a reminder of the findings from this model.

positively correlated with ABSA's odds of lending at the suburb level. Of these variables, the number of households in the suburb has the least positive impact on the odds of ABSA's issuing home loans at the suburb level (with almost no effect on the odds of lending) while the percent of households in the medium-income category has the greatest influence on the dependent variable. In fact, controlling for all other variables, a one percentage point increase in this predictor results in an 8.6 percentage point increase in the odds of ABSA's issuing at least one affordable home loan to the suburb. This finding suggests that PERHHMED is an even more important predictor of ABSA's lending than it was of lending by all institutions combined.

In the model for all institutions, the percent of low-income households in a region did not significantly influence the odds of affordable home loans being issued to that region. In the ABSA model, however, we see that this variable is indeed significant; however, contrary to what we might intuitively expect, this variable is positively correlated with the odds of ABSA's lending to regions. The model shows that for every one percentage point increase in the percent of low-income households in a region, the odds that ABSA will lend to the region actually increase by 1.1-percent. This is likely due to the fact that housing valued between R35,000 and R104,999 tends to be built in areas where low- and medium-income households reside. As has been noted, these areas are poorer than areas where high-income households reside. It is perhaps not surprising, then, that affordable home loans are being issued to areas with a higher percentage of low-income households.

LOGITFR

The best model for the dependent variable LOGITFR (the presence or absence of any affordable mortgage issued by First Rand) included the following predictors, each of which was significant at the .05 level: the number of households in the suburb (NOHHSUB), the percent African-headed households (PERHHAFR), the percent medium-income households (PERHHMED), the percent of the economically active population that was unemployed (PERUNEMP), the percent of households living in houses on separate stands (PERHHSEP), the share of the suburb's households living in informal housing (PERHHINF), and the percent of households living in the high-income group (PERHHHIG) (Table 24).

The model was significant (Chi-square 431.39, seven degrees of freedom, significance of .000), leading to rejection of the null hypothesis that none of the independent variables was linearly related to the log odds of the dependent variable. The Hosmer and Lemeshow Goodness-of-Fit Test resulted in a significance of .935, greater than .05 as is desirable with this test. As with the two preceding models, it would appear that the model has good predictive ability: while blind estimation of the most frequently occurring category (that lending had not occurred) for all cases would have resulted in 65-percent of cases assigned correctly, use of the model improves this predictive ability to 78-percent.

Table 24: Binary Logistic Regression Model for LOGITFR

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.000	.000	73.198	1	.000	1.000
PERHHAFR	-.016	.004	15.396	1	.000	.985
PERHHMED	.089	.012	53.449	1	.000	1.093
PERUNEMP	.051	.010	27.030	1	.000	1.052
PERHHSEP	.028	.003	63.378	1	.000	1.028
PERHHINF	-.014	.006	5.062	1	.024	.986
PERHHHIG	-.012	.006	4.377	1	.036	.988
Constant	-3.506	.392	80.132	1	.000	.030

What is the difference between the model focused on First Rand's lending and the models already discussed (that for all institutions (LOGITDT) and for ABSA (LOGITABS))? Several differences stand out. First, unlike the two preceding models, the percent of male-headed households is not significantly influential on the odds that First Rand will lend to different regions. Second, the percent of homeownership in a region is not a significant predictor in the First Rand model. Third, unlike the ABSA model but consistent with the model for all institutions, the percent of low-income households in a region was not a significant covariate in the First Rand model. Finally, unlike the preceding models, the percent of high-income households turned out to be a significant independent variable in the First Rand model.

How is each of the predictors in the First Rand model related to the odds of the bank's issuing affordable home loans in a region? As was the case in the model for all institutions and for ABSA, both percent African-headed households and percent of households living in informal housing were negatively correlated with First Rand's affordable lending. In this model, a one percentage point increase in each of these variables resulted in a 1.5-percent and a 1.4-percent respective decrease in the odds that First Rand would have made at least one affordable home loan to a region, controlling for all other variables.

In the First Rand model, one additional variable was negatively correlated with the odds of the bank's issuing loans to different areas, and this was the percent of high-income households in the suburb. Controlling for all other variables, for every one percentage point increase in the percent of high-income households in a suburb, the odds of First Rand's having issued home loans in the suburb decline by 1.2-percent. This is not a surprising finding. As was discussed in Chapter Three, high-income households are more concentrated in Gauteng than either low- or medium-income households. High-income households reside in fewer of Gauteng's suburbs than either low- or medium-income households do, and they tend to reside in concentrations greater than their regional average of 15.7-percent might lead us to expect. Affordable home loans are unlikely to be needed by high-income households, so it makes sense that as the percent of such households in a region increases, the odds of such loans being issued will decrease.

The remaining variables in the model, the number of households, the percent of medium-income households, the unemployment rate, and the percent of households living in houses on separate stands, are all positively correlated with the odds of First Rand's issuing loans at the area level. These findings are identical to the findings for the same variables in the model for all institutions and the model for ABSA. The variable with the least impact on the odds of First Rand's lending is the number of households in the suburb (which has a negligible impact on the dependent variable) while the percent of medium-income households has the greatest impact on the odds, even greater than it did for all institutions combined and for ABSA. In the case of First Rand, for every one percentage point increase in the percent of medium-income households in a suburb, the odds of the bank's issuing at least one affordable home loan in that suburb increase by 9.3-percent.

LOGITNED

The best model for the dependent variable LOGITNED (the presence or absence of any affordable mortgages issued by Nedcor) included the following predictors, each of which was significant at the .05 level: the number of households in the suburb (NOHHSUB), the percent African-headed households (PERHHAFR), the percent medium-income households (PERHHMED), the percent of the economically active population that was unemployed (PERUNEMP), the percent of households living in houses on separate stands (PERHHSEP), the share of the suburb's households living in informal housing (PERHHINF). The percent male-headed households (PERHHMAL) was significant at just under the .05 level and was kept in the model because removal of this variable worsened the model's predictive ability somewhat[390] (Table 25).

Table 25: Binary Logistic Regression Model for LOGITNED

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.000	.000	72.760	1	.000	1.000
PERHHAFR	-.014	.004	15.036	1	.000	.986
PERHHMAL	.015	.008	3.671	1	.055	1.015
PERHHMED	.062	.012	27.239	1	.000	1.064
PERUNEMP	.059	.009	44.026	1	.000	1.061
PERHHSEP	.023	.004	40.372	1	.000	1.023
PERHHINF	-.022	.006	12.751	1	.000	.978
Constant	-4.368	.579	56.900	1	.000	.013

The model was significant (Chi-square 400.436, seven degrees of freedom, significance of .000), leading to rejection of the null hypothesis that none of the independent variables was linearly related to the log odds of the dependent variable. The Hosmer and Lemeshow Goodness-of-Fit Test

[390] To test the importance of this variable, a nested model was created with PERHHMAL removed in order to make comparisons between the original and nested model. The –2 log likelihood difference between the original and nested model was 3.691, just under the Chi-square value of 3.841 required to demonstrate that this variable was important to the model at the 95-percent confidence level. It was clear from this and from the variable's Wald statistic and related significance level that PERHHMAL hovered on the brink of significance in this model. Because its removal worsened the model's predictive ability (from 76- to 75-percent) and also worsened the model's Nagelkerke R^2 statistic (from .382 to .379), PERHHMAL was kept in the model.

resulted in a significance of .191, greater than .05 as is desirable. As with the three preceding models, it would appear that the model has good predictive ability: while blind estimation of the most frequently occurring category (that lending had not occurred) for all cases would have resulted in 64-percent of cases assigned correctly, use of the model improves this predictive ability to 76-percent.

How does the model focused on Nedcor's lending compare with the model concerning lending by all institutions (LOGITDT)? There are two main differences between the model for all institutions and the Nedcor model. First, in the Nedcor model the rate of homeownership is not significantly influential on the odds of Nedcor's issuing loans at the area level. Second, in the Nedcor model the percent of male-headed households is significant (at just below the .05 level).

What relationship do the predictors in this model hold to the odds of Nedcor's issuing affordable home loans at the area level? As in each of the preceding models, percent of African-headed households and percent of households living in informal housing are both negatively correlated with the likelihood that Nedcor will issue home loans at the area level. For every one percentage point increase in the rate African household headship, there is a corresponding 1.4-percent decrease in the likelihood that Nedcor will issue loans to a suburb (holding the other predictors constant). For every one percentage point increase in the percent of an area's households living in informal housing, the odds that Nedcor will lend to the suburb decrease by 2.2-percent.

The other variables in the model are positively correlated with the odds that Nedcor will issue one or more loans in an area and have an effect on the odds similar to the effect they had in earlier models. Specifically, the number of households in the suburb has a negligible positive impact on the likelihood that Nedcor will lend to an area and the percent of medium-income households in an area has the greatest impact on the odds that Nedcor will issue loans to an area. Here, for every one percentage point increase in the percent of medium-income households in an area, there is a corresponding 6.4 percentage point increase in the odds that Nedcor will lend to the area.

LOGITSTD

The final model concerning the big four financial institutions is that focused on Standard Bank's lending patterns. The best model for the dependent variable LOGITSTD (the presence or absence of any affordable mortgages issued by Standard Bank) included the following predictors, each of which was significant at the .05 level: the number of households in the suburb (NOHHSUB), the percent African-headed households (PERHHAFR), the percent medium-income households (PERHHMED), the percent of the economically active population that was unemployed (PERUNEMP), the percent of households living in houses on separate stands (PERHHSEP), the percent of households falling into the high-income category (PERHHHIG), and the share of male-headed households (PERHHMAL). The share of the suburb's households living in informal housing (PERHHINF) was significant at just under the .05 level and was kept in the model because removal of this variable worsened the model's predictive ability somewhat[391] (Table 26).

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[391] The importance of this variable was tested by creating a nested model without PERHHINF in order to make comparisons between the original and nested model. The –2 log likelihood difference between the original and nested model was 3.816, just under the Chi-square value of 3.841 required to demonstrate that this variable was important to the model at the 95-percent confidence level. It was clear from this and from the variable's Wald statistic and related significance level that PERHHINF hovered on the brink of significance in the Standard Bank model. Because its removal worsened the model's predictive ability (from 78- to 77-

The model was significant (Chi-square 413.96, eight degrees of freedom, significance of .000), leading to rejection of the null hypothesis that none of the independent variables was linearly related to the log odds of the dependent variable. The Hosmer and Lemeshow Goodness-of-Fit Test resulted in a significance of .591, again, exceeding .05 as is desirable. As with the three preceding models, it would appear that the model has decent predictive ability: while blind estimation of the most frequently occurring category (that lending had not occurred) for all cases would have resulted in 66-percent of cases assigned correctly, use of the model improves this predictive ability to 78-percent.

Table 26: Binary Logistic Regression Model for LOGITSTD

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.000	.000	72.259	1	.000	1.000
PERHHAFR	-.017	.004	18.840	1	.000	.983
PERHHMED	.075	.012	38.545	1	.000	1.078
PERUNEMP	.040	.010	17.023	1	.000	1.041
PERHHSEP	.028	.004	53.342	1	.000	1.028
PERHHINF	-.012	.006	3.678	1	.055	.988
PERHHHIG	-.020	.006	11.436	1	.001	.980
PERHHMAL	.016	.008	3.830	1	.050	1.016
Constant	-4.136	.625	43.740	1	.000	.016

How does the model focused on Standard Bank's lending compare with the preceding models? As was the case in the other models in which these variables were significant, percent of African-headed households, percent of households living in informal housing, and percent of high-income households are all negatively correlated with the likelihood that Standard Bank will issue loans to areas. Here, a one percentage point increase in each of these

percent) and also worsened the model's Nagelkerke R^2 statistic (from .395 to .392), PERHHINF was kept in the model.

variables, holding all other predictors constant, results in a decrease of between 1.2- and 2-percent in the odds of Standard Bank's issuing at least one loan at the area-level.

As in preceding models, all other variables are positively related to the odds that Standard Bank will issue loans at the area level, with the number of households in the suburb having a negligible positive impact on the odds and the percent of medium-income households having the greatest positive impact on the odds of Standard Bank's lending to an area. In this model, for every one percentage point increase in the percent of medium-income households in an area, there is a corresponding increase of 7.8-percent in the likelihood that Standard Bank will issue at least one loan to the area.

LOGITOTH

Finally we come to the model concerning the lending patterns of institutions and entities other than the big four lenders. The best model for the dependent variable LOGITOTH (the presence or absence of any affordable mortgages where the bondholder is not one of the big four) included the following predictors, each of which was significant at the .05 level: the number of households in the suburb (NOHHSUB), the percent African-headed households (PERHHAFR), the share of male-headed households (PERHHMAL), the percent medium-income households (PERHHMED), the percent of the economically active population that was unemployed (PERUNEMP), the percent of households living in houses on separate stands (PERHHSEP), and the percent of households falling into the high-income category (PERHHHIG) (Table 27).

The model was significant (Chi-square 425,311, seven degrees of freedom, significance of .000), leading to rejection of the null hypothesis that none of the independent variables was linearly related to the log odds of the dependent. The Hosmer and Lemeshow Goodness-of-Fit Test resulted in a significance of .107, exceeding .05 as is desirable. The model has the least effect on predictive ability of all the models presented here; while blind estimation of the most frequently occurring category (that lending had not occurred) for all cases would have resulted in 72-percent of cases assigned correctly, use of the model improves this predictive ability to 80-percent.

Table 27: Binary Logistic Regression Model for LOGITOTH

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
NOHHSUB	.001	.000	87.386	1	.000	1.001
PERHHAFR	-.021	.004	27.066	1	.000	.979
PERHHMAL	.025	.009	8.131	1	.004	1.025
PERHHMED	.090	.013	49.618	1	.000	1.094
PERUNEMP	.029	.009	10.194	1	.001	1.030
PERHHSEP	.030	.004	68.372	1	.000	1.030
PERHHHIG	-.034	.007	27.069	1	.000	.967
Constant	-5.082	.703	52.199	1	.000	.006

How does the model focused on other entities' lending compare with the preceding models? The model is not much different from those already discussed, with percent of African-headed households and percent of high-income households negatively correlated with these actors' odds of lending to areas and all other variables positively correlated with the odds of such lending. Of the variables with a positive effect on the odds, number of households in the suburb changes the odds the least and percent of medium-income households changes the odds the most; controlling for all other variables, for every one percentage point increase in the percent of medium-income households in an area, the odds of entities other than the big four lending to that area increase by 9.4-percent.

OLS Multiple Regression Analysis

NOABSADT

The independent variables with the most influence on the number of ABSA affordable mortgage-linked deed transfers made to an area (NOABSADT) were identical to those that were significant in the model discussed in Chapter Three concerning lending by all institutions (NOTOTDT), i.e. the number of households in the suburb (NOHHSUB), the percent of households in the suburb falling into the medium-income category (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), and the percent of households in the suburb falling into the low-income category (PERHHLOW). In the ABSA model, one additional variable is significant: the percent of African-headed households in the suburb (PERHHAFR). The model had an R^2 of .204, indicating that the model accounts for 20-percent of the variation in the dependent variable (Table 28).

Table 28: OLS Model for NOABSADT

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.452	.204	.198	29.62

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-24.287	6.199		-3.918	.000
NOHHSUB	2.403E-03	.000	.442	11.219	.000
PERHHMED	.821	.226	.151	3.631	.000
PERHHSEP	.201	.061	.133	3.284	.001
PERHHAFR	-.129	.059	-.123	-2.207	.028
PERHHLOW	.246	.091	.149	2.721	.007

How do the independent variables in this model compare with those in the model concerning lending by all institutions?[392] In fact, the models are very similar. The number of households in the suburb, the percent medium-income households, the share of households living in houses on separate stands, and the percent of low-income households in the suburb are all positively correlated with the number of loans issued at the area level. As was the case in the model concerning all institutions, the most influential variable (when standardized Beta weights are considered) is the number of households in the suburb; in the ABSA model, this variable exerts approximately three to three-and-a-half times the influence on the dependent variable that any other variable does.

The main difference between the two models is that one additional variable is significant, i.e. the percent of African-headed households in the suburb. This independent variable was negatively correlated with ABSA's lending at the area level, though its negligible coefficient means its actual effect is minimal. With a coefficient of .13, the variable could be interpreted as follows: the average change in number of loans made at the area level (holding the other independent variables constant) that is associated with a ten percentage point increase in the share of African-headed households in the area was 1.3 fewer loans.

Concern over the weak explanatory power of the model for ABSA's lending led to running the regression for NOABSADT again, this time excluding the cases that had been diagnosed as "outliers" in the original

[392] Please see Chapter Three for a reminder of the findings from the model concerning lending by all institutions.

model.[393] Six cases (one-percent of the total number) were identified as outliers. Five of the six cases had positive residuals (that is, the number of loans issued exceeded the number predicted by the model) and one case had a negative residual. The rationale for excluding these outliers and running the model again was the same as it had been in the case of the model for NOTOTDT.[394] The six outliers were removed from the ABSA model and the regression analysis was run again (Table 29).

Table 29: OLS Model for NOABSADT, Outliers Removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.582	.338	.333	12.93

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-18.024	2.714		-6.641	.000
NOHHSUB	1.719E-03	.000	.541	14.814	.000
PERHHMED	.490	.099	.189	4.949	.000
PERHHSEP	.182	.027	.252	6.784	.000
PERHHAFR	-8.584E-02	.026	-.170	-3.292	.001
PERHHLOW	.199	.040	.251	5.002	.000

Removal of the six outliers from the ABSA model improved the model in several ways. First, the R^2 statistic increased from .20 to .338, meaning that this model now explained 34-percent of the variation in the dependent variable. Second, the t-statistics increased in value and significance. Finally, the relationships between the independent variables became more clear.

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[393] For all OLS models, SPSS identified as an "outlier" as any case that fell outside of plus or minus three standard deviations of the mean.

[394] It seemed that these suburbs were unique either because they had been the location of one or more affordable housing developments, which meant that they had experienced a construction boom leading to an abnormally high number of deed transfers registered at the area level, or because they contained a greater number or fewer deed transfers than expected due to an error in sorting and linking the deed transfer and census data.

Whereas the number of households in the suburb was originally three to three-and-a-half times more important in the model than any other variable, in the new model it is only twice as important as the percent of households living in houses on separate stands and as the percent of low-income households in the suburb.

One additional and rather drastic change in the revised model concerns the effect of the percent of African-headed households in the suburb. In the original model, when the other variables are held constant, a one percentage point increase in the percent of African-headed households in the suburb resulted in a negligible .13 fewer loans issued to the suburb; that is, for a ten percentage point increase in the percent of African-headed households in the suburb, 1.3 fewer loans would be issued by ABSA to the suburb. With the removal of the six outliers, a one percentage point increase in the percent of African-headed households in the suburb results in almost nine fewer loans being issued by ABSA to the suburb. This means that a ten percentage point increase in African-headed households results in almost 90 fewer ABSA loans going to the suburb.

NOFRDT

How do First Rand's lending patterns compare with what has been seen thus far? As in the previous models (NOTOTDT and NOABSADT), in the model concerning NOFRDT, the significant variables include: the number of households (NOHHSUB), the share of medium-income households (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), and the share of low-income households in the suburb (PERHHLOW). One additional independent variable is significant in the First Rand model, and that is the percent of the economically active population that is employed (PEREMP) (Table 30). The model has an R^2 of .314, indicating that the model accounts for 31-percent of the variation in the independent variable.

Table 30: OLS Model for NOFRDT

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.560	.314	.308	21.72

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	4.346	12.129		.358	.720
NOHHSUB	1.819E-03	.000	.423	11.298	.000
PERHHMED	.511	.162	.119	3.157	.002
PERHHSEP	.242	.045	.203	5.389	.000
PERHHLOW	.165	.070	.126	2.353	.019
PEREMP	-.324	.105	-.169	-3.085	.002

How do the variables in the First Rand model compare with those in preceding models? As was the case in the first two models (the models for all institutions and ABSA), in the First Rand model the number of households in the suburb, the percent of medium-income households, and the percent of households living in houses on separate stands is each positively correlated with the number of loans First Rand makes at the area level. As was the case in the ABSA model, the share of low-income households in the suburb is also positively correlated with the number of loans First Rand makes at the area level. The main difference between the First Rand model and the preceding models is that employment rates are a significant determinant of the number of loans First Rand issues at the area level, and this variable is negatively correlated with the dependent variable. This finding must be interpreted with common sense: areas in which affordable housing is being built are areas that are poorer (hence the positive correlation between share of low-income people and number of loans issued) and therefore areas where employment rates are lower (i.e. areas with higher unemployment).

Concern over the weak explanatory power of the model pertaining to First Rand's lending led to running the regression for NOFRDT without the cases that had been diagnosed as "outliers" in the original model (Table 31). Eleven cases (two-percent) were identified as outliers, with ten out of the 11 having positive residuals (that is, the number of loans issued exceeded the number predicted by the model). Results from this regression are presented in Table 31.

Table 31: OLS Model for NOFRDT, Outliers Removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.678	.460	.455	9.91

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	3.878	5.639		.688	.492
NOHHSUB	1.414E-03	.000	.512	15.179	.000
PERHHMED	.363	.074	.165	4.896	.000
PERHHSEP	.159	.021	.260	7.699	.000
PERHHLOW	9.808E-02	.032	.145	3.046	.002
PEREMP	-.218	.049	-.217	-4.449	.000

Removal of the outliers from the First Rand model improved the model in two main ways. First, the R^2 statistic increased to .46, meaning that this model now explains 46-percent of the variation in the dependent variable. Second, the t-statistics increased in value and significance. In the models for all institutions and for ABSA, removal of the outliers decreased the importance of the variable to do with the number of households in the suburb (as judged by the standardized Beta coefficients in both models). In the First Rand model, however, the number of households in the suburb remains an important variable when compared to the other variables, even when the outliers are removed; in fact, the number of households per suburb remains between two and three-and-a-half times more important than the other four independent variables in influencing the dependent variable.

One additional and noteworthy change between the original First Rand model and the model with outliers removed is the change in the unstandardized Beta coefficient for PERHHLOW. In the original model, a one percentage point increase in the percent of low-income households in an area resulted in .17 more First Rand loans issued to that area; that is, for every ten percentage point increase in the percent of low-income people in an area, First Rand would issue close to two loans to that area. With outliers removed, this changes significantly. In the revised model, for every one percentage point increase in the share of low-income people in an area, First Rand issues almost ten new loans to that area. This means that a ten percentage point increase in the percent of low-income people in an area results in almost 100 more loans being issued to that area.

NONEDDT

The findings concerning Nedcor's lending patterns are very similar to those for all institutions, ABSA, and First Rand. In the Nedcor model, the number of households in a suburb (NOHHSUB), the percent of medium-income households (PERHHMED), and the percent of households living in houses on separate stands (PERHHSEP) were all significant independent variables. However, in this model the percent of high-income households

(PERHHHIG) was an important variable[395] (Table 32). The model had an R^2 statistic of .279, indicating that it accounts for 28-percent of the variation in the dependent variable.

Table 32: OLS Model for NONEDDT

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.528	.279	.275	20.02

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-7.460	2.942		-2.535	.011
NOHHSUB	1.798E-03	.000	.465	12.823	.000
PERHHMED	.430	.144	.111	2.993	.003
PERHHSEP	.196	.040	.183	4.898	.000
PERHHHIG	-.243	.050	-.182	-4.866	.000

How does the Nedcor model compare with the models for all institutions, ABSA, and First Rand? As was the case in these models, in the Nedcor model, the number of households per suburb, the percent medium-income households, and the percent of households living in houses on separate stands are all positively correlated with the number of loans issued at the area level. The one additional variable, percent of high-income households in the area, is negatively correlated with the number of loans issued to suburbs, confirming that affordable housing loans are being issued to Gauteng's less wealthy suburbs.

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[395] The percent of low-income households and the percent of high-income households were too highly correlated to ever been included together in a model. In instances where it is reported that one or the other was significant, it was the case that the other was also significant when used in the model. Decisions about which one to include in the "best" model for each dependent variable were made by assessing the t-statistic and level of significance of each of these variables when they were included individually in the models. In addition, it was determined which variable improved the model's R^2 statistic to the greatest degree.

As had been done with the three preceding models, the Nedcor model was run again without the 11 cases (two-percent of suburbs) that SPSS identified as outliers. Of these 11 cases, ten had positive residuals (that is, the number of loans issued exceeded the number predicted by the model) while two had negative residuals (a lower number of loans than predicted by SPSS). The results of this revised model are presented in Table 33.

Table 33: OLS Model for NONEDDT, Outliers Removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.543	.295	.290	9.79

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-1.895	1.515		-1.251	.211
NOHHSUB	1.253E-03	.000	.402	10.892	.000
PERHHMED	.231	.071	.121	3.268	.001
PERHHSEP	.126	.020	.239	6.379	.000
PERHHHIG	-.202	.025	-.305	-8.146	.000

Removal of the outliers from the Nedcor model made very little difference to the model's explanatory power. The original Nedcor model accounted for 28-percent of the variation in the dependent variable. The revised model accounts for 30-percent of the variation in the number of loans Nedcor issues at the area level. In addition, unlike the preceding models, not all of the independent variables' t-statistics increased in value following the removal of the outliers; in the Nedcor model, the t-statistic for number of households in the suburb actually declined after the outliers had been removed. However, the removal of the Nedcor outliers did help clarify the relationship between the independent variables (judged in terms of the standardized Beta coefficients for both models). While in the original Nedcor model the number of households in the suburb was four times more influential than the percent of medium-income households, in the revised model the number of households in the suburb is only three times more important than the share of medium-income households. In addition, the relationship between the percent of high-income households and the number of households in the suburb is changed. Originally the number of households in the suburb was two-and-a-half times more important than the percent of high-income households. In the revised model, the number of households in the suburb is only slightly more important than the percent of high-income households in the suburb.

NOSTDDT

Finally we come to the last of the big four lenders, Standard Bank. The model concerning Standard Bank's lending included the following independent variables: the number of households in the suburb (NOHHSUB), the percent medium-income households (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), the share of African-headed households (PERHHAFR), and the percent of high-income households (PERHHHIG) (Table 34). The model had an R^2 statistic of .235, indicating that the combination of these independent variables accounted for 24-percent of the variation in the number of loans Standard Bank issues at the area level.

For the most part, variables in the Standard Bank model present no surprises. As in preceding models, the number of households in the suburb, the percent of medium-income households, and the percent of households living in houses on separate stands are all positively correlated with the number of loans Standard Bank makes at the area level. In addition, as was the case in the Nedcor model, the percent of high-income households is negatively correlated with the number of loans issued at the area level, indicating that as an area's wealth declines it will receive a greater number of

Table 34: OLS Model for NOSTDDT

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.485	.235	.229	22.59

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-14.289	4.596		-3.109	.002
NOHHSUB	1.547E-03	.000	.366	9.470	.000
PERHHMED	.616	.173	.146	3.553	.000
PERHHSEP	.218	.045	.186	4.818	.000
PERHHAFR	9.836E-02	.042	.120	2.344	.019
PERHHHIG	-.214	.069	-.147	-3.107	.002

loans from Standard Bank. The one surprise in the Standard Bank model is the sign for the coefficient concerning the percent of African-headed households. There is a positive relationship between this variable and the number of loans Standard Bank issues at the area level; in fact, a one percentage point increase in the share of African-headed households in an area will result in Standard Bank's issuing almost ten more loans to that area. This is different from what was observed in the ABSA model, where a one percentage point increase in the percent of African-headed households in an area led to a very slight decline in lending at the area level (.13 fewer loans to an area).

As had been done with the preceding models, the Standard Bank model was run without the 12 cases (two-percent of cases) that SPSS had identified as outliers. Of these 12 cases, only one had a negative residual (that is, a lower number of loans than predicted by SPSS). Running the revised Standard Bank regression produced the results presented in Table 35.

Table 35: OLS Model for NOSTDDT, Outliers Removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.596	.355	.350	10.13

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-7.557	2.083		-3.627	.000
NOHHSUB	1.289E-03	.000	.401	10.933	.000
PERHHMED	.417	.078	.203	5.346	.000
PERHHSEP	.144	.020	.252	7.024	.000
PERHHAFR	5.327E-02	.019	.132	2.763	.006
PERHHHIG	-.184	.031	-.258	-5.938	.000

Removal of the outliers from the Standard Bank model improved the model somewhat. The model now accounts for 36-percent of the variation in the number of loans Standard Bank issues at the area level. In addition, all of the independent variables' t-statistics and levels of significance increased in value following removal of the outliers. Removal of the outliers from the Standard Bank model did not change the relationship between the independent variables drastically (judged in terms of the standardized Beta coefficients for both models), though the number of households in the suburb went from being two-and-a-half times more important than the share of high-income households to only one-and-a-half times more important than this variable.

One interesting change once outliers had been removed from the Standard Bank model concerns the variable to do with the share of African-headed households in the suburb. While initially a one-percent change in the percent of African-headed households in a suburb resulted in almost ten more loans being issued at the area level, with outliers removed, a one-percent change in this variable results in only five additional loans being issued at the area level. Clearly, even with outliers removed, this independent variable has an important, positive effect on Standard Bank's lending patterns; however, the effect is not as dramatic as the original model indicated.

NOOTHDT

Finally we come to the case of actors and institutions other than the big four who are involved in mortgage finance. As already stated, these can include smaller banks, employers, loan companies or developers, and individuals. These parties hold approximately 10-percent of the affordable home mortgages in the original dataset. What independent variables are most influential in the model concerning the lending patterns of these entities?

The best OLS regression model for NOOTHDT included the following independent variables: number of households in the suburb (NOHHSUB), percent of medium-income households (PERHHMED), and the share of female-headed households in the suburb (PERHHFEM) (Table 36). The model had a very low R^2 statistic of .147, meaning that the model accounts for only 15-percent of the variation in the number of loans issued at the area level.

What relationship do the independent variables hold to the dependent variable in this model? As was the case in the preceding models, the number of households in the suburb and the percent of medium-income households were both positively correlated with the number of loans issued at the area level. The percent of female-headed households in an area is, however, negatively correlated with the dependent variable, indicating that as this share increases, the number of loans issued at the area level decreases. The effect

Table 36: OLS Model for NOOTHDT

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.383	.147	.143	21.49

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	.479	3.771		.127	.899
NOHHSUB	1.499E-03	.000	.393	10.199	.000
PERHHMED	.391	.148	.102	2.634	.009
PERHHFEM	-.210	.101	-.080	-2.080	.038

of this negative correlation is fairly minor, however; when the other variables are held constant, a one percentage point increase in the percent of female-headed households in an area results in approximately .21 fewer loans being issued to that area. Put more intelligibly, a ten percentage point increase in the share of female-headed households in an area would result in an average of two fewer loans being issued to that area. One important feature of the model concerning other institutions is that the variable to do with the number of households in the suburb dwarfs the effect of the other two variables; in this model the number of households in the suburb is four times more influential than the percent of medium-income households and five times more important than the share of female-headed households.

Removal of the four cases (one-percent of the total) that SPSS diagnosed as outliers in this regression resulted in significant changes to the model, as shown in Table 37.

The removal of outliers improved the model in several ways. First, the model now accounts for approximately 43-percent of the variability in the number of loans made at the area level by entities other than the big four. Second, all t-statistics and levels of significance have improved. Third, the

Table 37: OLS Model for NOOTHDT, Outliers Removed

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.653	.426	.424	5.82

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	.261	1.022		.255	.799
NOHHSUB	1.044E-03	.000	.678	21.275	.000
PERHHMED	.200	.040	.159	4.952	.000
PERHHFEM	-9.233E-02	.027	-.107	-3.366	.001

relationship between the independent variables has become clearer. While the relationship between number of households in the suburb and percent of medium-income households has remained as it was (with population four times more important than share of medium-income households), with the removal of the outliers, the number of households in the suburb is now six times more influential than the percent of female-headed households.

It is interesting to note that the unstandardized Beta coefficient for percent of female-headed households has increased dramatically. In this revised model, a one percentage point increase in the percent of female-headed households in a suburb now results in nine fewer loans being issued at the area level; this means that a ten percentage point increase in the percent of female-headed households in an area will result in 90 fewer loans flowing to that area, holding constant the other independent variables in the equation.

Testing Racial and Income Variables in Each OLS Model

Across all institutions (NOTOTDT), i.e. the big four lenders and other parties, both race and income were statistically significant when included separately in the OLS regression analysis. After removing the linear effects of the number of households in the suburb (NOHHSUB), the share of medium-income households (PERHHMED), and the percent of households living in houses on separate stands (PERHHSEP), the percent of African-headed households (PERHHAFR) had a significant, positive effect on the number of loans issued at the area level (Table 38).

Table 38: OLS Model for NOTOTDT, African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.527	.278	.273	98.13

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-85.761	16.870		-5.084	.000
NOHHSUB	9.097E-03	.001	.480	12.831	.000
PERHHMED	3.047	.749	.161	4.070	.000
PERHHSEP	.741	.192	.141	3.856	.000
PERHHAFR	.481	.149	.132	3.228	.001

The same held true for the percent of low-income households when the linear effects of the number of households in the suburb (NOHHSUB), the share of medium-income households (PERHHMED), and the percent of households living in houses on separate stands (PERHHSEP) had been removed (Table 39). Controlling for these other variables, the percent of low-income households had a significant, positive effect on the number of loans issued at the area level.

When both percent of African-headed households and percent of low-income households were incorporated together in the model, the percent of African-headed households was an insignificant variable. It may be concluded that of the two variables, the percent of low-income households is more important in the equation.

Table 39: OLS Model for NOTOTDT, Low-Income Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.534	.285	.280	97.63

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-116.584	20.430		-5.706	.000
NOHHSUB	9.162E-03	.001	.484	13.347	.000
PERHHMED	2.857	.714	.151	4.001	.000
PERHHSEP	.938	.200	.178	4.696	.000
PERHHLOW	.938	.229	.163	4.093	.000

How do the effects of race and income compare across each of the big four lenders? It will be recalled that the best OLS model concerning the number of ABSA mortgage-linked deed transfers made to an area (NOABSADT) included: the number of households in the suburb (NOHHSUB), the percentage of households in the suburb falling into the medium-income category (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), the percentage of households in the suburb falling into the low-income category (PERHHLOW), and the percent of African-headed households in the suburb (PERHHAFR). As has already been discussed, after removing the linear effects of the other variables, the percent of African-headed households in a suburb is negatively correlated with the number of loans ABSA issued at the area level, while the percent of low-income households in a suburb is positively correlated with ABSA's level of lending. For ABSA, when either the percent of African-headed households or the percent of low-income households is incorporated separately into this model (that is, when the other of these two variables is removed), neither of these variables has a significant effect at the .05 level.

For First Rand, the best OLS regression model included: the number of households in a suburb (NOHHSUB), the share of medium-income households (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), the share of low-income households (PERHHLOW), and the percent of the economically active population that is employed (PEREMP). The percent of low-income households in an area was positively correlated with the number of loans issued to the area, meaning that as the percent of such households in an area increased, so increased the number of affordable home loans issued to that area.

When PERHHLOW was removed from the model and replaced by the percent of African-headed households in an area, PERHHAFR was not significant at the .05 level (Table 40). And when both variables were

Table 40: OLS Model for NOFRDT, African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.558	.311	.305	21.77

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	12.753	11.213		1.137	.256
NOHHSUB	1.783E-03	.000	.415	11.043	.000
PERHHMED	.560	.166	.130	3.367	.001
PERHHSEP	.209	.043	.175	4.897	.000
PEREMP	-.360	.109	-.188	-3.288	.001
PERHHAFR	8.115E-02	.047	.098	1.715	.087

incorporated into the best regression, neither one was significant at the .05 level (though the percent of low-income households came very close to significance) (Table 41). It may be concluded that the percent of African-headed households is not a significant variable (at the .05 level) when it comes to the number of loans First Rand issues at the area level, while the percent of low-income households is both significant and positively correlated with the dependent variable.

Table 41: OLS Model for NOFRDT, Low-Income and African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.561	.315	.308	21.72

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-2.387	13.658		-.175	.861
NOHHSUB	1.804E-03	.000	.420	11.172	.000
PERHHMED	.550	.166	.128	3.317	.001
PERHHSEP	.238	.045	.199	5.271	.000
PEREMP	-.260	.121	-.136	-2.158	.031
PERHHAFR	5.298E-02	.049	.064	1.072	.284
PERHHLOW	.142	.073	.109	1.933	.054

The independent variables in the best Nedcor model included: the number of households in a suburb (NOHHSUB), the percent of medium-income households (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), and the percent of high-income households (PERHHHIG). Because of unacceptably high correlation between the percent of high- and low-income households in areas, these two variables could never be included in a model together. Therefore, in order to test the significance and effect of the percent of low-income households in the Nedcor model, the variable for high-income households was dropped and replaced with that for low-income households (Table 42). The results were that the percent of low-income households was significant and, as in the OLS models for the other dependent variables, was positively correlated with the number of loans issued at the area level.

Table 42: OLS Model for NONEDDT, Low-Income Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.522	.272	.267	20.12

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-23.583	4.211		-5.600	.000
NOHHSUB	1.810E-03	.000	.468	12.793	.000
PERHHMED	.484	.147	.125	3.289	.001
PERHHSEP	.205	.041	.191	4.970	.000
PERHHLOW	.197	.047	.167	4.162	.000

When PERHHLOW was removed from the model and replaced with the percent of African-headed households (so that the model now included NOHHSUB, PERHHMED, PERHHSEP, and PERHHAFR), this variable was also significant and was positively correlated with the number of affordable home loans Nedcor issues at the area level (Table 43).

Table 43: OLS Model for NONEDDT, African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.524	.274	.269	20.10

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-19.180	3.455		-5.552	.000
NOHHSUB	1.744E-03	.000	.451	12.014	.000
PERHHMED	.584	.153	.151	3.806	.000
PERHHSEP	.167	.039	.155	4.232	.000
PERHHAFR	.134	.031	.179	4.375	.000

When both variables were included simultaneously in the model, the percent of low-income households becomes insignificant at the .05 level (though it is still significant at the .10 level) while the percent of African-headed households remains significant and is positively correlated with the number of loans Nedcor issues at the area level (Table 44).

Table 44: OLS Model for NONEDDT, Low-Income and African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.527	.278	.272	20.06

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-23.441	4.198		-5.583	.000
NOHHSUB	1.735E-03	.000	.449	11.962	.000
PERHHMED	.581	.153	.150	3.795	.000
PERHHSEP	.191	.042	.177	4.588	.000
PERHHAFR	8.830E-02	.040	.118	2.223	.027
PERHHLOW	.109	.061	.093	1.780	.076

Finally we come to the model for Standard Bank. The best model concerning Standard Bank's lending included: the number of households in the suburb (NOHHSUB), the percent medium-income households (PERHHMED), the percent of households living in houses on separate stands (PERHHSEP), the percent of African-headed households (PERHHAFR), and the percent of high-income households (PERHHHIG). In this model, the percent of African-headed households was positively correlated with the number of loans Standard Bank issues at the area level.

When PERHHHIG is replaced with the variable concerning the percent of low-income households in the suburb (again, these two variables were too highly correlated to be used jointly in a model) so that the low-income and African variables are tested together, PERHHLOW is significant at slightly under the .05 level and is positively correlated with the number of loans Standard Bank issues at the area level (Table 45).

Table 45: OLS Model for NOSTDDT, Low-Income and African Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.477	.228	.221	22.70

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-27.111	4.751		-5.707	.000
NOHHSUB	1.556E-03	.000	.368	9.483	.000
PERHHMED	.670	.173	.159	3.871	.000
PERHHSEP	.217	.047	.185	4.619	.000
PERHHAFR	.118	.045	.145	2.627	.009
PERHHLOW	.133	.069	.103	1.915	.056

When the percent of low-income households is tested on its own, absent the variable to do with African-headed households, this variable is significant and is positively correlated with the dependent variable (Table 46).

Table 46: OLS Model for NOSTDDT, Low-Income Tested

MODEL SUMMARY			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.468	.219	.214	22.81

COEFFICIENTS					
Variables	B	Std. Error	Beta	t	Sig.
(Constant)	-27.301	4.773		-5.720	.000
NOHHSUB	1.657E-03	.000	.391	10.332	.000
PERHHMED	.541	.167	.128	3.242	.001
PERHHSEP	.236	.047	.201	5.056	.000
PERHHLOW	.250	.054	.194	4.667	.000

For Standard Bank, therefore, an increasing percentage of low-income households or of African-headed households in an area correlates with a greater number of affordable home loans issued at the area level.

For institutions and individuals other than the big four lenders, the best OLS model included the following independent variables: the number of households in the suburb (NOHHSUB), the percent of medium-income households (PERHHMED), and the percent of female-headed households (PERHHFEM). Neither the percent of low-income households in an area nor the percent of African-headed households in an area, when tested separately or in combination, was significant in the model of what influenced these actors' lending.

Appendix E: Cleaning and Sorting the Quantitative Data; Calculating the Independent Variables

This appendix will discuss the two quantitative datasets used in the study. The first of these contained information from South Africa's Deeds Office and the second contained information from Statistics South Africa's[396] The People of South Africa: Population Census, 1996. In addition to explaining the parameters of each dataset, decisions made concerning the use of each will be discussed, as will the technical difficulties that arose as these distinct datasets were combined.

Deeds transfer (DT) data

As mentioned in Appendix C, the deed transfer dataset contained information on all title deeds transfers occurring in the Gauteng Province between January 1, 1997 and July 19, 2002 where the transfer had the following characteristics: the transfer was linked to a mortgage bond whose value was less than or equal to R100,000 and the transfer was linked to a house whose sold price was between R35,000 and R104,999. Some 27,318 cases were included in this dataset. The problems encountered and the decisions made in the process of cleaning these data are described here, broken down by category of variable.

City within which property is located

The variable "city within which property is located" is similar to the 1996 Census variable for "magisterial district." (The 1996 Census dataset variables are discussed further along in this appendix.) Under the 1996 Census, the Gauteng Province is broken into 24 magisterial districts, which are further broken down into 1,266 suburbs. Within the deed transfer (DT) dataset, some

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[396] Statistics South Africa is South Africa's census bureau.

of the cases contained nothing under the variable “city within which property is located.” Where this variable did contain a city name, however, the name generally matched the areas demarcated under the 1996 Census as “magisterial districts.” The 27,318 cases in the deed transfer dataset were carefully assigned to whichever of Gauteng’s 24 magisterial districts they would have fallen under in the 1996 Census.

Each case was assigned to its proper magisterial district in the following way. First, it was determined in which suburb the deed transfer property was located. The 1996 Census was searched to see if that area was also demarcated as a “suburb” in the 1996 Census. If the DT suburb was also demarcated as a 1996 Census suburb, then the category “city within which property is located” was filled in with the name of the “magisterial district” within which that 1996 Census suburb fell.

It should be noted that the DT dataset contains a greater number of suburbs than the 1996 Census dataset contains; while there are 1,604 suburbs listed in the DT dataset, there are only 1,266 suburbs demarcated in the 1996 Census for the Gauteng Province. This mismatch required that the DT cases be allocated to magisterial districts in some manner other than by relying upon a strict suburb-to-suburb match with the areas demarcated in the 1996 Census. In order to allocate each DT case to its proper 1996 Census magisterial district, four atlases were used to help locate each suburb. These atlases contained maps for the Johannesburg region,[397] the area surrounding

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[397] Map Studio. Map Studio Street Guide: Witwatersrand (12th Edition). Map Studio: Cape Town, 2002.

Pretoria,[398] the region south of Johannesburg,[399] and of Gauteng and its surrounding provinces.[400]

When a DT suburb was not an exact match with a suburb demarcated in the 1996 Census, this suburb would be located in one of the atlases in order to determine which suburbs it lay closest to. The 1996 Census database would then be searched for these suburbs in order to discern whether any of them was demarcated as a 1996 Census suburb. If one of them was so demarcated, it would be determined within which magisterial district the suburb lay, and the suburb from the DT dataset would be assigned to the same magisterial district.

Several problems arose during the process of assigning each DT suburb to one of Gauteng's 24 magisterial districts. First, several 1996 Census suburb names are used in more than one of Gauteng's magisterial districts. For example, "Booysens" depicts suburbs in both the Johannesburg and Pretoria magisterial districts. Given the physical distance between these two magisterial districts, there can be no doubt that these two suburbs are separate and distinct. How was the Booysens listings in the DT dataset assigned to the proper magisterial district given this fact? Fortunately, in this instance and several like it, the DT dataset itself contained a clue that helped determine where these deed transfers had taken place. The DT dataset contained listings for both "Booysens" and "Booysens Pta" (i.e. Booysens Pretoria). It was assumed that the DT dataset captured the distinction

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[398] Map Studio. Map Studio Street Guide: Pretoria (8th Edition). Map Studio: Cape Town, 2002.
[399] Map Studio. Map Studio Street Guide: Vaal Triangle (2nd Edition). Map Studio: Cape Town, 2002.
[400] Sunbird Publishing. Die Groter Reisatlas van Suid-Afrika. Sunbird Publishing: Cape Town, 2001.

between the two Booysens suburbs, and the “Booysens” listings were therefore assigned to the Johannesburg magisterial district and the “Booysens Pta” listings to the Pretoria magisterial district.

A second problem encountered in the process of assigning the DT cases to their proper 1996 Census magisterial district was that some suburb names are used in more than one of the 1996 Census magisterial districts because that suburb crosses over a magisterial district boundary. For example, Blairgowrie is listed in the 1996 Census as a suburb in both the Johannesburg and the Randburg magisterial districts. These two magisterial districts abut one another, and Blairgowrie lies on the boundary between them. Without actual street addresses (exact street addresses are not included in the DT dataset), it was difficult to determine within which magisterial district to include these cases. Fortunately, as in most similar instances, the DT dataset had already designated that some or all of the cases for these overlapping suburbs belonged to a specific magisterial district. Blairgowrie, for example, was already assigned within the DT dataset to the Randburg magisterial district. In these instances, the DT dataset’s lead was followed, and all suburbs that crossed two magisterial districts were assigned to the magisterial district already indicated by the DT dataset.

A third problem encountered in the process of assigning each DT record to its 1996 Census magisterial district had to do with Gauteng’s many “Extensions.” It is quite common for South African suburbs to be given the name of an adjacent or nearby suburb, with the word “Ext” appended to the name in order to identify the new suburb. For example, the DT dataset includes suburb listings for Birchleigh North, Birchleigh North Ext 1, Birchleigh North Ext 2, and Birchleigh North Ext 3. While it was usually possible to locate the main suburb in the 1996 Census or find the main suburb in one of the four atlases, there were many instances in which the Extension suburbs from the DT dataset appeared in neither the 1996 Census nor the atlases. Here common sense was used and it was assumed that these extensions were just that, extensions of the main areas from which they took their names. Because it was assumed that "Ext" areas were situated near the main area from which they took their name, these areas were assigned to the same 1996 Census magisterial district that the main suburb was assigned to.

Finally, one additional problem arose in the process of incorporating the listings for each DT suburb within the correct 1996 Census magisterial district: some of the suburbs listed in the DT dataset are not demarcated as 1996 Census suburbs, have no listing for "city within which suburb is located" in the DT dataset, and, worst of all, do not appear in any of the atlases used. In this situation the World Wide Web was used to locate these areas. Sometimes it was possible to locate these suburbs in a South African postal code database, sometimes it was possible to locate them through business websites, and sometimes it was possible to locate them in web-based news stories. In the case of Kaalfontein Ext 15, for example, an advertisement for a bed and breakfast in Kaalfontein and several articles on the issue of squatter land invasion in the Kaalfontein area helped in tracking down this suburb and placing it in the Kempton Park magisterial district.

Suburb within which property is located

Each of the 27,318 deed transfer cases in the dataset contained a value under the variable "suburb within which property is located." However, in the process of searching for each DT suburb in order to assign it to its proper magisterial district, two problems were encountered. First, the dataset included three records for two suburbs that could not be located at all in the 1996 Census, in the four atlases used, or on the World Wide Web. These suburbs were listed as “Kr/Groenfontein” and “Pronkbaai.” Because it was not possible to locate these regions through any means, a decision was made to delete these three records from the deed transfer dataset. Second, the dataset included 39 records for transfers that occurred in provinces other than the Gauteng Province. These records were deleted from the dataset. The removal of these 42 cases left a dataset containing 27,276 deed transfer cases.

Sold date

“Sold date” is a self-explanatory variable. This variable was not altered in any way.

Transfer date

“Transfer date” is a self-explanatory variable. This variable was not altered in any way.

Sold price

“Sold price” is a self-explanatory variable, with all sold prices listed in South African rand. This variable was not altered in any way.

Bond amount

“Bond amount” is a self-explanatory variable, with all bond prices listed in South African rand. This variable was not altered in any way.

Bondholder’s name

For each of the 27,276 deed transfer cases in the dataset, a “bondholder’s name” is listed. The bondholder is just that, the party who holds the mortgage bond on the property. This party is usually distinct from the property owner, who is paying off the bond on the property. In the vast majority of cases in the deed transfer dataset, a financial institution is listed as the bondholder on each property.

Two major alterations were made to the variable “bondholder’s name.” First, all listings were standardized, that is, all bank names were changed to a standardized format (“First National Bank,” “First National Bank of S A,” and “First National Bank Ltd” all became “First National Bank of S A Ltd”) and where necessary bank names were changed from Afrikaans to English (“Eerste Nasionale Bank van Suide” also became “First National Bank of S A Ltd”).

Second, a new variable was created and labeled “current bondholder.” To create this variable, the column for “bondholder’s name” was duplicated and these entries were updated to reflect mergers and acquisitions that have taken place in South Africa’s financial sector since January 1, 1997. This change was undertaken only where the original bondholder was a bank or financial institution; where the original bondholder was a private citizen or a different type of institution (a government agency, for example), no change was undertaken.

How was the bondholder’s name updated to reflect the current bondholder? Three main resources were relied upon in this process. First, a “guided search” was conducted under Lexis-Nexus’s “business news: mergers and acquisitions.” Where this was unsuccessful in locating company information, LexisNexis’s business section was used and a search was conducted under “company financial information: international.”[401] Where this

[401] These searches were started in June of 2003. Some of the search options described here are no longer available on LexisNexis. A final search was conducted for each financial institution in LexisNexis’ “Company Profiles” database on June 28, 2004. The goal was to determine whether these institutions were still operating independently or whether they had been acquired by another institution (i.e. the goal was to determine who currently held the

second search option produced no results, the World Wide Web was used and a search was conducted for information pertaining to each of the financial institutions in the dataset. This process revealed the intricacies of different mergers and acquisitions and it was thereby possible to determine when an affordable home loan book had been sold off separately from a bank's other resources and when a home loan book had been sold in conjunction with the rest of a bank's assets.

Why was it necessary to create the variable "current bondholder"? South Africa's financial sector has undergone rapid consolidation in the past decade. There are 45 financial institutions listed under "bondholder's name" in the deed transfer dataset; when mergers and acquisitions are taken into account, only 22 financial institutions remain under "current bondholder." As is the case when mergers and acquisitions occur, home mortgage books are sold and a new bondholder takes possession of an existing mortgage bond. In order for the analysis of different banks participation in lending for affordable housing in Gauteng to be accurate, it was necessary to update the deed transfer cases to reflect who currently holds each mortgage bond.

Owner's name

"Owner's name" is a self-explanatory variable. This variable was not altered in any way.

Data from the 1996 Census

Statistics South Africa's <u>The People of South Africa: Population Census, 1996</u> was the first nationwide census since the division of South Africa into separate "states" under apartheid after 1970. The 1996 Census attempted to

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mortgages listed in the DT dataset). During this final search, the South African Reserve Bank website was used to confirm all findings. The variable "Current bondholder" is accurate as of June 28, 2004.

apply the same methodology to everyone living in South Africa by visiting each household[402] and obtaining details about that household from a household representative. Household representatives either participated in an interview or completed a questionnaire in the language of his/her choice. According to Statistics South Africa, the "vast majority" of household representatives chose to participate in the Census interview rather than fill out the Census questionnaire.

Following an initial sweep of the country, Statistics South Africa conducted a post-enumeration survey. Here the most skilled Census enumerators revisited one-percent of the enumerator areas (under the Census, South Africa was divided into approximately 86,000 enumerator areas containing approximately 150 households each), listed the households there, and visited those households again to ask who had not been reached or who had been reached elsewhere in the initial count. The post-enumeration survey was conducted in order to estimate the extent of the undercount in the 1996 Census.[403]

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[402] The 1996 Census defines a household as "…a person, or a group of persons, who occupy a common dwelling (or part of it) for at least four days a week and who provide themselves jointly with food and other essentials for living." (Statistics South Africa. The People of South Africa, Population Census, 1996: Definitions. Report No. 03-01-14 (1996). Pretoria: Statistics South Africa, 1998, p. 12)

[403] See Statistics South Africa. The People of South Africa, Population Census, 1996: The Count and How it was Done. Report No. 03-01-17 (1996). Pretoria: Statistics South Africa, 1998. According to this report, "In a departure from past practice, Stats SA has not used a demographic model to adjust the census count. Instead, the numbers and percentages presented are based on empirical evidence. Both the actual count…and the adjustments by the PES [post-enumeration survey]…were arrived at by visiting households in enumerator areas throughout the country, as well as hostels and institutions, and obtaining information on the people living in them." (p. 8) Further, "In the final estimates…CHAID and XAID techniques were applied separately to both households and individuals. A weight was therefore added to each household to take undercount of households into account. The following variables were included in the CHAID household imputations: whether or not the respondent said household was visited; household size; EA type; gender of the head of the household; population group of the head of the household. On the basis of the XAID, a

From the 1996 Census, data were gathered for each suburb in the Gauteng Province on the following variables: race, gender, income, employment, housing type, and homeownership. Using the data provided by the 1996 Census, various independent variables were calculated for use in the regression analyses. Each of these variables will be discussed here.

Count of population

The number of households per suburb was available directly from the 1996 Census. This figure was included in each of the Census datasets where the underlying data were presented at the household level. All of the census data were "weighted," that is, they were adjusted for the undercount. The independent variable $NOHHSUB_i$ (total # hh in suburb "i") was a straightforward count of the number of households in each suburb, taken from one of the datasets within which the underlying data had been gathered at the household level.

Race

Racial, or "population group," data were gathered under the 1996 Census in a manner different from previous South African censuses. For the first time since the start of apartheid, racial classification in the Census depended upon self-perception rather than upon the legal racial classification used under apartheid. The 1996 Census's racial data were gathered at the household level, with only the race of the head of household reported. Because there are no racial data available for "institution/hostel" dwellers or for "unspecified/dummy" variables, each of which is included in the grand total of

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weighting matrix for households was developed." All of the Census data gathered for this study are weighted, i.e. adjusted for the undercount.

number of households per suburb, the number of households reporting heads of different races does not equal the total number of households in the suburb.

The racial variables derived from the 1996 Census for use in the regression analyses were calculated as follows:

- $PERHHAFR_i$ (percent of households in suburb "i" with an African head of household) is calculated:
  # hh in suburb "i" with an African head / total # hh in suburb "i".
- $PERHHNON_i$ (percent of households in suburb "i" with an African, coloured, or Indian head of household) is calculated:
  (# hh in suburb "i" with an African head + # hh in suburb "i" with a coloured head + # hh in suburb "i" with an Indian head) / total # hh in suburb "i"
- $PERHHWHI_i$ (percent of households in suburb "i" with a white head of household) is calculated:
  # hh in suburb "i" with a white head / total # hh in suburb "i"

Gender

The 1996 Census provided information on gender of head of household. Again, there are no gender data available for "institution/hostel" dwellers or for "unspecified/dummy" variables, each of which is included in the grand total of number of households per suburb. For this reason, when the percentage of households reporting a male head in a suburb is added to the percentage of households reporting a female head in that suburb, the total generally comes to just under 100-percent.

Gender variables derived from the 1996 Census for use in the regression analyses were calculated as follows:

- $PERHHFEM_i$ (percent of households in suburb "i" with a female head of household) is calculated:

  # hh in suburb "i" with a female head / total # hh in suburb "i"
- $PERHHMAL_i$ (percent of households in suburb "i" with a male head of household) is calculated:

  # hh in suburb "i" with a male head / total # hh in suburb "i"

Income

The 1996 Census provided information on annual household income for all of Gauteng's suburbs. These data were provided in ranges, e.g. the number of households in a suburb earning between R1 and R2,400 per year, those earning between R2,401 and R6,000 per year, etc.

In order that these data might be used meaningfully in the study, they were first converted to monthly household income by dividing each income range by "12" (so the annual income range of R1 to R2,400 became a monthly income range of R1 to R200).[404] Income levels were then combined into three different categories: households earning between R0 and R3,500 per month (in theory low-income households who are eligible for the government housing subsidy), households earning between R3,501 and R6,000 per month (in theory middle-income households that make up the "credit gap," i.e. those too wealthy for a subsidy and too poor for bank finance), and households earning R6,001 or more per month (in theory high-income households eligible for bank finance).

These three income ranges are qualified with the phrase "in theory" because the measures of income that might be derived from the 1996 Census

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[404] This was done because discussions of housing affordability in South African generally consider affordability in terms of monthly household income.

are quite crude, with no information available on the number of residents per household. This means it is impossible to understand exactly how stretched each household's income is. Why is this problematic? The assumption in this study is that those households earning between R0 and R3,500 per month are low-income and are therefore eligible for the government housing subsidy. This is not necessarily true, however: a single-person household with a monthly income of R3,500 per month is ineligible for the government housing subsidy. Another assumption of the study is that households with less income are poorer than those with more income. This is not necessarily true. A single person household with R3,500 per month in income may actually be "wealthier" than a five-person household struggling to get by on R6,001 per month.

Despite these problems, three income variables were calculated for use in the regression analyses:

- $PERHHLOW_i$ (percent of households in suburb "i" where household income was between R0 and R3,500 per month) is calculated:
  # hh in suburb "i" with a monthly income between R0 and R3,500 / total # hh in suburb "i"
- $PERHHMED_i$ (percent of households in suburb "i" where household income was between R3,501 and R6,000 per month) is calculated:
  # hh in suburb "i" with a monthly income between R3,501 and R6,000 / total # hh in suburb "i"
- $PERHHHIG_i$ (percent of households in suburb "i" where household income was greater than R6,001 per month) is calculated:
  # hh in suburb "i" with a monthly income greater than R6,001 / total # hh in suburb "i"

Again, when calculated in this manner, the number of households earning different levels in each suburb does not equal the total number of households in the suburb. This is because there are no income data available for "institution/hostel" dwellers nor for "unspecified/dummy" variables, each of which is included in the grand total of number of households per suburb. In this instance, when the percentage of households in the three income ranges is added up for each suburb, the total often comes to significantly less than 100-percent; this is probably due to people's discomfort with discussing matters of finance with strangers and a resulting reluctance to provide information on household income to Census enumerators.

Employment

Employment data are provided in the 1996 Census at the individual level. The variables derived from these data are the only ones that are not calculated at the household level.

Employment and unemployment rates for each of Gauteng's suburbs were calculated in accordance with the definition of unemployment used by Statistics South Africa in the 1996 Census. According to The People of South Africa: Population Census, 1996,[405] South Africa's labor market "comprises all those of working age (15-65 years) grouped into three categories – the employed, the unemployed and those who are not economically active." South Africa's "economically active population," however, includes only the first two groups, that is, those who are employed and unemployed. The third group, those who are not economically active, includes anyone of working age

[405] Statistics South Africa. The People of South Africa, Population Census, 1996: Summary Report. Report No. 03-01-12 (1996). Pretoria: Statistics South Africa, 2000.

who is unavailable for work (full-time homemakers, students, and the disabled, for example).

Just who is included in the 1996 Census's definition of South Africa's "economically active population"? First, the employed, referring to those who work in either the formal or informal sector. Second, the unemployed, referring to "those people within the economically active population or labour force who (a) did not work during the seven days prior to the interview; [and] (b) want to work and are available to start work within a week of the interview."[406]

It should be noted that since the 1996 Census, South Africa has altered its definition of the "unemployed" to include

> those people within the economically active population or labour force who (a) did not work during the seven days prior to the interview; (b) want to work and are available to start work within a week of the interview; and (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.[407]

This is now referred to as the "strict" definition of unemployment, while the definition used in the 1996 Census is now called the "expanded" definition of unemployment. The analysis relies upon this older, "expanded" calculation for unemployment.

In accordance with the definitions provided in the 1996 Census, the following employment variables were used in the regression analyses:

- $PERUNEMP_i$ (percent of economically active population in suburb "i" that is unemployed) is calculated:

[406] Statistics South Africa, Summary Report, p. 48
[407] Statistics South Africa, Summary Report, p. 48

unemployed people in suburb “i” / (# employed people in suburb “i” + # unemployed people in suburb “i”)

- $PEREMP_i$ (percent of economically active population in suburb “i” that is employed) is calculated:

  # of employed people in suburb “i” / (# employed people in suburb “i” + # of unemployed people in suburb “i”)

Housing Type

The 1996 Census includes data on the number of households living in different types of housing throughout Gauteng. It should be noted that these data are presented at the household level, not the unit level, and the number of households living in different dwellings should not be mistaken for the number of dwellings that actually exist in each suburb. (For example, several households might share one dwelling, causing the total number of households to be higher than the actual number of dwellings in a region.)

The types of housing delineated in the 1996 Census are: house on separate stand, traditional dwelling (made of clay, mud, thatch or other traditional materials), flat in block of flats, town/cluster/semi-detached house, unit in retirement village, house/flat/room in backyard, informal dwelling/shack in backyard, informal dwelling/shack elsewhere, room/flatlet on shared property, caravan/tent, and then a count of households who have no home/are homeless, who live in any other type of housing, who live in institutions/hostels, and of course the usual unspecified/dummy variable.

The study is concerned with a geographic assessment of bank finance in the Gauteng province. For this reason two types of housing were isolated and independent variables were created around these for use in the regression analyses. These two types of housing are formal housing, that is, housing that is most likely to receive finance, and informal housing,[408] that is, housing that is not only unlikely to receive finance, but whose existence in a region might be expected to bring down property values and therefore make the issuance of formal finance to that region less likely.

Three housing variables were calculated for use in the regression analyses:

- $PERHHSEP_i$ (percent of households in suburb “i” living in houses on separate stands) is calculated:
  # of hh in suburb “i” living in houses on separate stands / total # of hh in suburb “i”
- $PERHHFIN_i$ (percent of households in suburb “i” living in types of homes likely to receive finance from a bank) is calculated:
  (# of hh in suburb “i” living in houses on separate stands + # of hh in suburb “i” living in town/cluster/semi-detached house + # of hh in suburb “i” living in a unit in retirement village) / total # of hh in suburb “i”
- $PERHHINF_i$ (percent of households in suburb “i” living in informal housing) is calculated:
  (# of hh in suburb “i” living in informal dwelling/shack in backyard + # of hh in suburb “i” living in informal dwelling/shack elsewhere) / total # hh in suburb “i”

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[408] The 1996 Census defined informal dwellings as “structures which are not erected according to approved architectural plans or on planned sites in municipal or local authority areas, or are sited on unproclaimed land in both urban and non-urban areas, or are makeshift structures in relatively high density concentrations in both urban and non-urban areas.” (Statistics South Africa, Summary Report, p. 85)

Ownership

Homeownership data are available at the household level from the 1996 Census. From these, the following variable was derived for use in the regression analyses:

- $PERHHOWN_i$ (percent of households in suburb “i” who own their dwellings) is calculated:

  # of hh in suburb “i” who own their dwellings / total # of hh in suburb “i”

When calculated in this manner, the number of households who own their dwelling and the number of households who do not own their dwelling in each suburb does not equal the total number of households in the suburb. This is because there are no homeownership data available for “institution/hostel” dwellers nor for “unspecified/dummy” variables, each of which is included in the grand total of number of households per suburb. For this reason, when the percentage of households reporting ownership in a suburb is added to the percentage of households reporting non-ownership in that suburb, the total generally comes to under 100-percent.

Combining the deed transfer and 1996 Census data

Once the deed transfer data were cleaned and the variables of interest were calculated from the 1996 Census data, it was time to join the deed transfer and 1996 Census datasets. The only meaningful way to join these two datasets was at the suburb-to-suburb level; the magisterial district-to-magisterial district level would be too broad to allow for a meaningful analysis of lending for affordable housing in the Gauteng Province.

The task of joining the two datasets at the suburb-to-suburb level presented one major difficulty: the 1996 Census demarcation of the Gauteng Province contains only 1,266 suburbs while the deed transfer dataset contains

1,604 suburbs. The main task, therefore, became that of fitting the deed transfer suburbs into the 1996 Census suburbs; in essence, it was necessary to aggregate the suburban areas listed in the deed transfer dataset so that they would fit accurately into the suburban areas listed in the 1996 Census dataset.

The suburbs listed in the two datasets were linked in six distinct stages. In the first stage of this process, direct matches were made between the two datasets. The 1996 Census dataset was searched in order to find a match for each suburb name listed in the deed transfer dataset, and these areas were linked where the suburb names were identical between the two datasets. In all, this process resulted in 10,779 DT cases (40-percent of the DT dataset) being matched to their corresponding 1996 Census suburb. In this exact match pool, 479 suburbs were represented.[409]

In order to link the remaining DT cases to the 1996 Census data at the suburb-to-suburb level, GIS spatial data from Statistics South Africa was used.[410] As mentioned earlier, under the 1996 Census, the Gauteng Province was broken into 1,266 suburbs. Under the 2001 Census, however, the

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409 Exceptions in this "exact match" process included matching names that were slightly different but clearly referred to the same area (e.g. "West Krugersdorp" and "Krugersdorp West"). Also, DT suburbs that clearly referred to a sub-area of a 1996 Census suburb were linked to that greater suburb; for example, the DT suburb "Tokoza" was linked to the broader 1996 Census area "Katlehong and Tokoza." Another exception to the "exact match" rule concerned Gauteng's Extension areas. There are ten Extension areas listed in the 1996 Census for Gauteng: Impalapark 8 Ext, Zonkisizwe Ext, Fairmount Ext, Kagiso Ext, Masetlaba View Ext, Helderkruin Exts, Stormill Ext, Wilro Park Exts, Wirlo Park Ext, Kwathema Ext. With the exception of the very specific Impalapark 8 Ext, any extension number for these areas was included within these 1996 Census Extension areas; for example, the DT suburbs "Kagiso Ext 2," "Kagiso Ext 10," and "Kagiso Ext 11" all were linked to the 1996 Census area "Kagiso Ext."

410 Statistics South Africa. Population Census, 1996: Community Profile Databases. Disk 7, Version 3. Report No: 03-01-30 (1996). Pretoria: Statistics South Africa, 1996; Statistics South Africa. Census 2001: GIS Spatial Data. Report No: 03-02-27 (2001). Pretoria: Statistics South Africa, 2003.

Gauteng Province was broken into 2,061 suburbs.[411] The increased number of suburbs demarcated in the 2001 Census made it likely that the outstanding DT suburbs might be located within this spatial dataset. Laying the 2001 Census spatial data over the 1996 Census spatial data would make it possible to ascertain within which 1996 Census suburb each DT suburb had fallen.

The second stage of linking the DT and 1996 Census data at the suburb-to-suburb level concentrated on Gauteng's Extension areas. As mentioned earlier, it is quite common for South African suburbs to be given the name of an adjacent or nearby suburb, with the word "Ext" appended to the name in order to identify the new suburb. For example, the DT dataset included suburb listings for Rewlatch, Rewlatch Ext 2, and Rewlatch Ext 4. In total, 942 different Extension areas are represented in the DT dataset.[412] However, there are only ten Extension areas demarcated in the 1996 Census for Gauteng. The 2001 Census spatial data (within which 316 Extension areas are demarcated) were used to locate some of the outstanding DT data Extension areas and link them to the appropriate 1996 Census suburb.

How was this done? First, wherever possible the exact DT Extension area was located in the 2001 Census spatial dataset. For example, the DT dataset includes listings for Annlin Ext 37, Die Hoewes Ext 95, and Leachville Ext 3. Each of these areas has a separate listing in the 2001 Census, and so it was possible to view these exact areas in the 2001 Census spatial dataset. By overlaying the 2001/1996 Census spatial data, it was then possible to

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[411] In fact, there are 2,222 GIS areas demarcated in the 2001 Census for the Gauteng Province. Several of these areas share the same place name and 88 of these areas are designated with the place name "None." In total, there are 2,061 unique place names represented in the 2001 Census for the Gauteng Province.

[412] The total comes to 942 when each Extension area for the same main name area is counted separately, for example, when Lenasia Ext 1, Lenasia Ext 5, Lenasia Ext 9 are counted as separate Extensions, despite their all being related to Lenasia proper.

determine within which suburb these areas would have fallen in the 1996 Census.

In some cases the 2001 Census did not demarcate a specific Extension area listed in the DT dataset (this point should be obvious given that the DT dataset includes 942 different Extension areas while the 2001 Census only demarcates 316 Extension areas), but rather had a general listing for all of the Extensions connected to one area. For example, the DT dataset includes cases for Dawn Park Ext 2, Dawn Park Ext 8, Dawn Park Ext 23, and Dawn Park Ext 31. The 2001 Census, however, only has a listing for Dawn Park Ext. In cases such as this, the atlases were used to view the specific extensions listed in the DT dataset and ensure they really were located in the area designated as the more general Extension area in the 2001 Census.[413] Once it was clear that the 2001 Census general Extension area did contain the more specific Extensions in the DT dataset, the 2001/1996 Census spatial data overlay was examined in order to determine which area the Extension area would have been included in under the 1996 Census.

One of the major problems encountered in the process of assigning the DT Extension listings to the correct 1996 Census suburb using the 2001/1996 Census spatial data overlay concerned changes in area boundaries that occurred between the 1996 and 2001 Censuses. South Africa underwent a radical reworking of its municipal boundaries between these two Censuses, and in several cases a 1996 suburb did not fit neatly into a 2001 suburb. Put more simply, sometimes the 1996 suburbs had been divided up and their

[413] Even where it was not possible to locate exact extensions in the atlases, use of these maps enabled an understanding of the broader extension areas where these were shown in the atlases. “Montana Park Exts” appears as an area in the Pretoria atlas, for example, even though the more specific Montana Park Extensions listed in the DT dataset do not; viewing this area helped link it with certainty to the correct 1996 Census suburb, Montana Park.

various parts used to make different suburbs for the 2001 Census. This meant that there was not always a direct match between the suburbs demarcated in the DT dataset and the suburbs listed in the 1996 Census. For example, Esselen Park Ext 1 is an area that appears in both the DT dataset and the 2001 Census. However, when viewed in the overlaid 2001/1996 Census spatial datasets, it becomes clear that this suburb was created after 1996 and was created by joining parts of the 1996 suburbs Tembisa and Johannesburg Airport. How were cases such as this dealt with? Often the atlases were useful in determining within which part of the new suburb development was likely to have occurred. In Esselen Park Ext 1 for example, the only developed area of the suburb falls into what would have been the 1996 Census suburb Tembisa, and so Esselen Park Ext 1 was linked to Tembisa. Where it was not possible to determine decisively within which 1996 Census suburb a DT suburb would have fallen, these records were left alone for the time being.

When the second stage of linking DT and 1996 Census data at the suburb-to-suburb level was finished, a total of 15,176 DT cases (56-percent of the DT dataset) had been matched to the correct 1996 Census suburbs. In total, 683 DT suburbs had been linked to 494 of the suburbs demarcated in the 1996 Census.

The third stage of linking the DT and 1996 Census data at the suburb-to-suburb level focused on areas other than Gauteng's Extension areas. A list of all remaining non-Extension areas was printed out and a search for each within the 2001 Census spatial data was undertaken. If these areas were found in the 2001 Census spatial data, the 1996/2001 spatial data overlay was used in order to link these areas to the correct 1996 Census suburb. The main problem encountered in this process, as in the Extension area matching process described above, concerned changes in suburb boundaries between the 1996 and 2001 Censuses. As before, when there was any confusion about which 1996 Census suburb an area should be linked to, the four atlases were used to situate each DT suburb. When it was not possible to determine decisively within which 1996 Census suburb a DT suburb would have fallen, the record was left alone for the time being. At the end of this third stage of matching DT and 1996 Census data, 19,372 DT cases (71-percent of the DT dataset) had been linked to the correct 1996 Census suburb. In total, 855 DT suburbs had been linked to 529 suburbs demarcated in the 1996 Census.

At this point, 29-percent of the DT dataset remained to be linked to the correct 1996 Census suburb. These outstanding DT cases included 749 suburbs, 723 of which were Extension (Ext) areas. The fourth stage of linking the DT and 1996 Census data at the suburb-to-suburb level concentrated on these remaining Extension areas, areas that were not specifically demarcated in the 1996 or 2001 GIS spatial data. The four atlases were used to locate each of these outstanding Extension suburbs; when an Extension suburb was found in the atlases, the 1996/2001 spatial data overlay were used to situate these areas. Through this process, 62 Extension areas were located and linked to the correct 1996 suburb. In total 20,671 DT cases (76-percent of the DT dataset) had now been linked to the corresponding 1996 Census suburb. In total, 917 DT suburbs had been linked to 541 suburbs demarcated in the 1996 Census.

It was now time to decide what to do with the remaining DT Extension areas. At this point, DT Extension areas where the exact DT Extension suburb name appeared in the 1996 Census, where the exact DT Extension suburb name appeared in the 2001 Census spatial data, or where the exact

Extension area could be found in the atlases had been matched. What remained to be matched were Extension areas that were not specifically demarcated in the 1996 or 2001 Censuses or in any of the atlases. The fifth stage of linking DT and 1996 Census data at the suburb-to-suburb level focused on these Extension areas. It was decided to link outstanding Extension areas in the same manner that the area from which these Extensions take their name had been linked. For example, since the DT suburb Danville had been linked to the 1996 Census suburb Danville, it was also decided to link the DT suburbs Danville Ext 1, Danville Ext 2, Danville Ext 3, Danville Ext 5, Danville Ext 8, and Danville Ext 9 to the 1996 Census suburb Danville; another example, since the DT suburb Mngadi had been linked to the 1996 Census suburb Katlehong and Tokoza in an earlier search, the DT suburb Mngadi Ext 2 was linked to Katlehong and Tokoza as well.

What justified treating the outstanding DT Extension areas in this way? This decision was justified based on months of studying the various atlases, which helped elucidate the relationship that generally holds between main and Extension areas in Gauteng. As mentioned before, it is quite common for South African suburbs to be given the name of an adjacent or nearby suburb, with the word "Ext" appended to that name in order to identify the new suburb. Oftentimes these areas are not markedly different from the main area they take their name from, i.e. they are literally Extensions of the main name area. When a specific Extension area is not demarcated in either the GIS spatial data or the atlases, the assumption is that this is because this Extension area is not significantly different from the main area it derived from. It was assumed that had these areas been significantly different from the main areas they are related to, the atlas makers or Statistics South Africa would have demarcated these areas as separate and distinct (as was the case with some of the Extension areas represented in the DT dataset).

In the case of many DT Extension areas, neither the 1996/2001 Census spatial data nor the atlases designate these Extension areas as significantly different from the main area from which they are derived. A decision was therefore made to treat these DT Extension areas as connected to the main DT suburbs from which they take their names and to link them to the corresponding 1996 Census suburbs. Following this stage of linking DT and 1996 Census data at the suburb-to-suburb level, 26,348 DT cases (97-percent of the DT dataset) had been linked to the corresponding 1996 Census suburbs. In total, 1,515 DT suburbs had been linked to 610 of the suburbs demarcated in the 1996 Census.

The sixth stage of linking DT and 1996 Census data at the suburb-to-suburb level focused on all DT suburbs that had not yet been linked to a 1996 Census suburb. These remaining suburbs were of the following types: areas that did not appear in any of the atlases or in the 1996/2001 Census spatial data; areas whose DT suburb classification was too vague to allow for placement in the correct 1996 Census suburb (for example, the DT suburb Orlando clearly refers to either Orlando East or Orlando West in Soweto, but it is impossible to determine which one); areas where a change in boundaries between the 1996 and 2001 Censuses made it impossible to determine within which 1996 Census suburb a DT suburb would have fallen; and areas that had been skipped accidentally in an earlier search. One final search for each of these DT suburbs was conducted in both the 1996/2001 spatial data and in the four atlases. When suburbs could not be found, when careless classification in a DT case made it impossible to know exactly where a transfer had occurred, or when changes in boundaries made it impossible to determine exactly where a DT suburb would have been situated under the 1996 Census, these records were deleted from the dataset. In total, it was not possible to place 48 of the remaining DT suburbs;[414] these 48 suburbs were linked to 607 of the DT cases (two-percent of the 27,276 DT dataset). These 607 cases were deleted from the dataset, resulting in a dataset containing 26,669 records. A total of 1,556 DT suburbs and 620 suburbs from the 1996 Census were represented in this dataset.

Creating the regression analysis dataset

With each DT suburb linked to its correct 1996 Census suburb, it was now possible to create the regression analysis dataset. The regression analyses focus on lending at the suburb level throughout the Gauteng Province. The unit of analysis in the regression dataset was Gauteng's suburbs; each of the cases in the dataset was a suburb demarcated under the 1996 Census. Several problems with the 1996 Census data necessitated the exclusion of certain cases from these datasets. These exclusions are discussed here.

First, the 1996 Census provided no data on two suburbs, Beverly Hills (in the Randburg magisterial district) and Kempton Park (in the Kempton Park

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[414] The 48 DT suburbs that it was not possible to locate or to link with certainty to any one 1996 Census suburb include: Alrode South Ext 1, Alrode South Ext 17, Othandweni Ext 1, Etwatwa Ext 1, Delmore Park Ext 1, Dalpark Ext 11, Geluksdal Ext 1, Bronkhorstbaai, Ekandustria, Erasmus, Erasmus Ext 4, Erasmus Ext 5, Kungwini Country Estate, Eendracht, Johannesburg, Emkatini, Kaalfontein Ext 15, Krugersdorp Eastern Extension, Mackenzieville Ext 1, Pretoriusrus, Pretoria, Maroeladal Ext 19, Maroeladal Ext 5, Maroeladal Ext 7, Maroeladal Ext 8, Sundowner Ext 14, Sundowner Ext 39, Sundowner Ext 4, Sundowner Ext 7, Radiokop Ext 29, Radiokop Ext 8, Ruimsig Ext 21, Ruimsig Ext 6, Soshanguve-Ww, Meadowlands Ext 11, Meadowlands Ext 12, Meadowlands Ext 13, Orlando, Persida, Vaaloewer, Vanderbijlpark North West No 7 Industrial, Drieziek Ext 2, Riversdale, Rothdene, Three Rivers East, Witkop, Sinoville Ext 4, and Sinoville Ext 6.

magisterial district). The lack of Census data made it necessary to remove these suburbs from the analysis, despite the fact that the DT dataset contained records for each of these suburbs. The removal of these two suburbs removed 16 DT records from calculation of the dependent variables. Only the big four banks were involved in lending in these two suburbs, and the distribution of bank involvement was as follows: Beverly Hills contained three transfers, and ABSA was the "current bondholder" on each of these; Kempton Park contained seven transfers where ABSA was listed as the current bondholder, three transfers with bonds held by First Rand, two transfers with bonds held by Nedcor, and one transfer where Standard Bank was listed as the current bondholder. Following deletion of these records, analysis was now being conducted on 618 Census suburbs in which 26,653 deed transfer records were recorded.

The 1996 Census failed to provide data for several additional suburbs. These suburbs were listed as containing no households and therefore there was no household-level data available for these suburbs. Although the DT dataset did not include any records of title deed transfers linked to these suburbs, these suburbs still would have been included in the analysis; ideally, the dataset would have included all 1,266 of Gauteng's 1996 Census suburbs, regardless of whether or not deed transfers had occurred in these suburbs. Without 1996 Census household level data for each suburb, it was not possible to calculate the various independent variable for each of these suburbs, and therefore the following were removed from the dataset: Eastcliffe and Glen Lauriston in the Pretoria magisterial district; Roodeplaat in Wonderboom; Amalgam, Dunhill, Micor, and Park Central in Johannesburg; Bryanbrink and Daniel Brink Park in Randburg; Spamandla in Alberton;

Holfontein, Kingsway, Modder East, Modderfontein, and Springs Rest in Benoni; Meadowdale and Verwoerdpark in Germiston; Riverside in Springs; Rant-en-dal (71510135) in Krugersdorp; Robinson in Randfontein; Stormill Ext in Roodepoort; Orange Farm in Vanderbijlpark; and Dobe and Jabulani (72410110) in Soweto.

In addition, the 1996 Census listed the following suburbs as containing households, but provided no household level data for these regions (though in some regions, employment data were available): Waterkloof Airport in Pretoria; Florapark in Wonderboom; City Deep in Johannesburg; Heriotdale in Johannesburg; Modderbee in Benoni; Parkolene in Boksburg; Oospoort in Germiston; Randfontein Other in Randfontein; and Wes-Rand in Westonaria. Without household-level data, it was not possible to calculate independent variables for these regions (variables such as percent of households earning 0 to 3500 rand per month or percent of African-headed households). These suburbs were therefore deleted from the dataset.

The removal of the 35 suburbs that contained no household-level data left a total of 1,231 cases (suburbs) in the regression analysis dataset. This dataset was used for the binary logistic regression analysis. For the OLS multiple regression, a subset of cases was extracted from this main dataset. For this analysis, a new dataset was created including only the 618 suburbs where affordable home lending had actually taken place.

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