Mortgage Default Behaviour in South Africa’s Low Income Homeowners Relates to Banks Borrower Education Programmes

Vuyisani Moss, Ph.D,

*Research Analyst at the National Housing Finance Corporation (NHFC) in Johannesburg, South Africa

Abstract

In investigating the non-payment phenomenon in South Africa’s low income households, a case study of Protea Glen, the researcher employed quantitative tools and qualitative methods. The rationale was prompted by high level of evictions and repossessions for non-payment of mortgages in the Protea Glen area in Johannesburg South Africa. The research approach was to measure and draw sample size from the units of population, conduct interviews and capture and analyse data through the use of SPSS as a suitable statistical instrument. Furthermore, the aim was to employ a suitable model for measuring the relationship between dependent and independent variables and also to highlight the limitations of the study. The findings of the study revealed several interesting empirical results that underpinning the importance of borrower education for mortgage account holders and the need by the banking sector to properly empower borrowers about credit behaviour, responsibilities and obligations of owning a property plus the ongoing costs of ownership.

Keywords: Mortgage; Borrower; Education; Behavior; Bank

© 2013 Published by SSBFNET

1. Introduction

This study was motivated by a desire to ascertain the impact borrower education has on the propensity to default on home loans in low income households. In other words, the investigation sought to establish the importance of borrower empowerment programmes in view of non-payment behaviour. It envisaged to establish the lenders extent in offering borrower education programme. Such evidence would be invaluable given that public housing policy is increasingly viewing comprehensive borrower education as an important mechanism for preventing financial problems and promoting healthy ownership and responsible lender conduct. Furthermore, any credit provider extending and granting mortgage finance to a consumer risks default and foreclosure, making borrower education an essential mitigation instrument. In countries including the United States, United Kingdom, Canada and Australia, borrower education is usually referred to as financial literacy or financial counselling. Huston (2010) states that the terms financial literacy and financial education are often used interchangeably in the literature. She further asserts that few, if any scholars have attempted to define or differentiate these terms. Unlike health literacy, reasons Huston (2010), which is typically measured using one of three standardised tests. There are currently no standardised instruments with which to measure financial literacy (Huston, 2010). Marcolin and Abraham (2006) (in Huston (2010) identify the need
for research focused specifically on the measurement of financial literacy. Typically, financial literacy and/or financial knowledge indicators are used as inputs to model the need for financial education, surmises Huston (2010).

2. Rationale in selecting Protea Glen Township

The underlying principle was therefore largely motivated by the high level of evictions and repossessions due non-payment of mortgages in the Protea Glen area in Johannesburg, Gauteng compared to any other similar suburb in South Africa, as reported by the South African Human Rights Commission (SAHRC) Inquiry report in 2008.

As such, the big four commercial banks in South Africa (First National Bank, Standard Bank, Nedbank and Absa) experienced the highest default patterns in the area. The SAHRC report showed that Nedbank reported a 10-15% default rate; ABSA reported an astonishing 34% higher than their national average, which is 12%, FNB had 30% while Standard Bank reported a 10% default rate (SAHRC report, 2008). Virtually three years later, there appeared to be no significant improvements. The 2011 Lightstone Property Index report showed that the number of sales in execution in Protea Glen, Soweto, was 2 905 between 2003 and 2010; the highest default rate was recorded in 2004 (508); default rates in 2003 were 448, and 384 and 389 in 2007 and 2008 respectively, (see Figure 1 below). The total number of properties (freehold and sectional titles) in Protea Glen, as measured by Lightstone in 2011, was seventeen thousand one hundred and thirty eight (17 138); thirteen thousand one hundred and thirty three (13 133) of which were active mortgaged properties Lightstone, 2011).

![Figure 1: Sales in execution in Protea Glen, 2003-2010 (Source: Lightstone: 2011)](image)

How Protea Glen Sales in Execution Compare with National Distressed Sales

The general picture of foreclosures in South Africa as suggested by the statistics form as shown in Table 1, shows that Gauteng Province the Province where Protea Glen is located was hit the hardest in defaults ratio. In 2007, the number of properties under sales in execution in Gauteng alone were 4 985 against the national of 11 435. The Gauteng province where Protea Glen is located represents nearly half of the country of Sales in Execution as shown in Figure 1 above. The suburb of Protea Glen had a total number of 384 of Sales in Execution during the same period. This figure was exceptionally high by any standard and this total of 384 is higher than the number of Sales in Execution of two provinces combined; Limpopo had 201 and Northern Cape had 114. As demonstrated in Table 1 below, the two provinces cumulatively represented a total of 315 distressed properties in 2007. In 2008 the number of Sales in Execution recorded in Protea Glen were 389, again virtually equivalent to Limpopo (201) and Northern Cape Provinces (114) which had a combined total of 315 distressed sales. The figures illustrated that proportionally non-payment of mortgage loans in Protea Glen was geographical unsurpassed in South Africa by suburban default ratio.
Table 1: Number of Sales in Execution Notices

| Province          | 2007 | 2008 | 2009 | 2010 |
|-------------------|------|------|------|------|
| Eastern Cape      | 671  | 826  | 910  | 694  |
| Free STATE        | 679  | 858  | 954  | 807  |
| Gauteng           | 4985 | 7062 | 7170 | 6251 |
| Kwazulu Natal     | 1846 | 2349 | 2663 | 2152 |
| Limpopo           | 201  | 247  | 380  | 279  |
| Mpumalanga        | 431  | 436  | 610  | 449  |
| North West        | 414  | 463  | 628  | 608  |
| Northern Cape     | 114  | 149  | 289  | 208  |
| Western Cape      | 2094 | 2484 | 3294 | 3245 |
| **Total**         | 11435| 14874| 16898| 14693|

Source: Lightstone, 2013

- The total number of all properties (freehold and sectional titles) in Protea Glen were 17 138 in 2010. 13 133 of those properties were bonded/mortgaged properties. This represented a total of proportion of 77% of the suburb. The measured area size of the suburb is 16.5 square kilometres.

3. Philosophical Frameworks Underpinning Borrower Education Principles

The recent relaxation in credit granting criteria for mortgage finance as well as the loosening of underwriting mortgage standards and rising property prices have allowed many prospective borrowers in the low income housing market access to credit to finance their mortgages. While this increase in granting credit to low income earners in previously underserved communities is remarkable, in the absence of borrower education this could have negative implications and could be problematic if households are not properly informed about responsibilities, budgeting, financial conduct, management of credit contracts and property ownership. Such supposedly noble initiatives on the part of lenders could devastate the lives of low income households and impact negatively on a lender’s income stream and their relationship with their low income customers. The significance of borrower education and empowerment towards enabling borrowers to make rational and informed choices is therefore central to this discussion. This was illustrated by Campbell and Dietrich (1983) when they established that the model used to estimate default incidence is based on an optimisation model of consumer choice (Campbell and Dietrich, 1983). Their theory was later expanded by Monticone (2010), who asserted that a lack of financial literacy imposes serious limits on the ability of individuals to make financial decisions (Monticone, 2010). Buckland (2010) stated that people's financial literacy needs vary across socio-economic groups, which is why it is important to understand the institutional context in which people live and work. As people are situated in very different contexts, states Buckland, their situated learning and financial literacy needs will vary. Buckland elaborates that those in middle-income brackets may learn more through middle-class institutions like universities and may thus better understand risk and yield differences across different types of investments (Buckland, 2010). Buckland argues that for low income people, situated learning may rely more on informal networks of friends and family who understand the fees and costs of using different types of banking services in their neighbourhoods. Budgeting skills for a household of five with an annual income of $100,000 will look very different to the skills required for a single person earning minimum wage. Undoubtedly, purchasing a property is a major investment decision for most households, but even more so for low income households due to the relative size of their earnings and the perception that low income households are not as informed as their high net worth counterparts. This argument is made by Gerardi, et al. (2010) when they assert that the expansion of credit in the
early-to-mid 2000s has had a profound impact on real estate and financial markets of moderate income households. In a very short time, declare Gerardi, et al. it has broadened homeownership, particularly among individuals who have traditionally been shut out of credit markets. In addition, this growth has occurred despite lagging income growth in these groups over the same time, and also in areas in which little house price growth could be expected. Moreover, on top of broadening homeownership rates, the expansion of credit has also led to a substantial increase in borrowing by previous homeowners taking advantage of quickly rising home prices over the same period of time, conclude Gerardi, et al, (Gerardi, et al., 2010).

These observations bring to the fore the notion that borrower education carries significant weight and is essential for both homeowners and mortgage credit grantors. Monticone (2010) states that the widespread lack of financial literacy casts serious doubts on the ability of individuals to make financial decisions (Monticone, 2010). Some studies suggest that financial experience can affect financial knowledge and that household financial wealth can influence the acquisition of financial literacy (Monticone, 2010). Financial knowledge, reasons Monticone, affects a wide range of financial behaviours, including wealth accumulation, stock market participation, portfolio diversification, participation and asset allocation in plans, indebtedness, and responsible financial behaviour in general (Monticone, 2010). Such an observation is reflected by Huston (2010), who argues that there are three main barriers to developing a standardised approach towards measuring financial literacy: one, the lack of conceptualization and definition of financial literacy as a construct, two, the content of the instrument and three, instrument interpretation. Huston (2010:307-308) defines financial literacy and financial knowledge as “two types of human capital”, but argues that they are different. Financial knowledge is an integral dimension, but not equivalent to financial literacy, affirms Monticone, (2010). Financial literacy has an additional dimension of application, implying that an individual must have the ability and confidence to use his/her financial knowledge to make financial decisions, emphasises Monticone (2010). Financial education plays a key role in encouraging responsible financial behaviour by debtors. It is imperative when dealing with long term debt; in cases where a lender grants a borrower credit to finance a house and the borrower cannot fully comprehend the intricacies of purchasing a property, high default rates could occur. According to Schwartz (2006), improving credit profiles requires recognition by borrowers that there is a need for improvement. Schwartz (2006) adds that obtaining an appropriate loan requires an understanding of relevant market options (ibid). This requires both an understanding of what contributes to credit default and a further understanding of what, if anything, can be done to change the underlying circumstances that contribute to credit outcomes.

This point is expanded by Bajari et al. (2009) when they affirm that the decision to default is captured by two conditions: that borrowers default if their net equity falls below a certain threshold or if they cannot make their monthly payments due to credit constraints (Bajari et al., 2009). Gathergood’s (2012) theoretical approach considers that property market dynamics depend on changes in long run equilibrium and on impediments to adjustment towards equilibrium. He shows that mortgage termination due to mobility, default and refinancing provides a lens for evaluating property market adjustments. Gathergood (2012) further asserts that the borrower’s decision to move is, as an adjustment mechanism in the property market, associated with utility-maximizing decisions to either prepay or default on the mortgage (Gathergood, 2012). Discussing the non-payment behaviour phenomenon, Gathergood demonstrates that behaviour leading to over-indebtedness is often put down to social and psychological factors that reduce an individual’s capacity to evaluate the consequences of his/her consumption borrowing decisions. Such decisions may not be rational from a classical economics point of view, notes Gathergood (ibid). In fact, further argues Gathergood, individuals tend to overestimate their capacity to manage domestic financial resources while simultaneously underestimating the possibility of being affected by negative events. As a result, individuals
systematically underestimate the risk of not being able to meet their financial commitments (Gathergood, 2012). Gathergood surmises that individuals overestimate immediate benefits and undervalue future costs; such behaviour leads to the decision to purchase, using debt if necessary, regardless of the effect this choice may have on the sustainability of future debt levels (Gathergood, 2012). While there might be measures underway within the banking industry to minimise defaults due to liquidity constraints, they appear to be ineffective. This seems to indicate that defaults are primarily driven by lenders’ inability to educate borrowers, their desire to make money - even by lending negligently- and by borrowers’ poor understanding of mortgage credit contract processes and the on-going costs of ownership. While dwindling net equity or house depreciation may be a factor, as it was in the US sub-prime housing crisis, research shows that financial institutions caused borrowers’ financial woes by adjusting credit scores so that borrowers could afford loans that they otherwise would not have, with little or no regard for financial literacy concerns (FCIR report, 2011). Evidence that non-payment behaviour by homeowners is not a recent phenomenon but a long historical trend is explained via various theoretical considerations. Struyk’s (1976) work reveals that in the mid-Seventies millions of homeowners found themselves overwhelmed with debt and struggling to maintain their monthly payments. Struyk’s work is substantiated by Vandel (1978), who argues that the risk of borrower default is an issue of primary importance for mortgage lenders. Being able to assess such risk increases the efficiency of the mortgage market through improved pricing, term setting, and other credit allocation techniques (Vandel, 1978). Vandel advanced his theory further by declaring that the inability to diagnose such risk can result in missed profit opportunities, loan losses and risk-minimising practices (Vandel, 1978). Even though Vandel’s theory is materially decisive, his perspective is one sided; focusing solely on lender interests and ignoring the interests of borrowers in mitigating non-payment behaviour. Lender’s financial losses or financial gains should also be illustrated against the backdrop of empowering borrowers - an essential alignment of engagement between the creditor and the debtor. On the importance of empowering consumers, Malpass (1990) argues that one key component in designing effective education programmes is to ask what lies at the real core of financial literacy. In part, maintains Malpass, (1990), the core factor is numeracy; this includes activating, instilling or fostering several individual factors, including marketplace persuasion knowledge (Malpass, 1990). Malpass’s statements not only substantiate the significance of borrower education programmes but also their value.

Struyk’s (1976) and Malpass’s (1990) observations were later substantiated by other theorists. For instance, Singh et, al. (2005) argue that although financially constrained households are found across all income groups, they are concentrated in the forty per cent of households with the lowest income (Singh et, al, 2005). The increase in household credit in Australia has resulted mainly from increased borrowing for housing. More than four-fifths (83.5%) of household credit comprises borrowing for housing and this is where the credit problem now lies (Singhet, al, 2005).

According to Hartarska and Gonzalez-Vega’s (2006) theory, the decision to default is a purely financial decision independent of the housing decision. The value of a mortgage loan consists of the present value of the scheduled payments by a borrower and the value of the options granted to the borrower to terminate the mortgage by surrendering the house in exchange for terminating the debt (Hartarska & Gonzalez-Vega 2006). Van Order and Zorn (2000) in Hartarska and Gonzalez-Vega (2006) explain that the default behaviour of both low income and average-income groups is to be responsive to negative contemporaneous equity. Hartarska and Gonzalez-Vega (2006) found that delinquency rates among low income borrowers, who received their loans through community reinvestment activities are similar to or better than the delinquency rates among conventional borrowers, illustrating that non-payment behaviour is common not only amongst low income homeowners but also middle income homeowners, a view that is not supposedly shared by the researcher of this investigation in light of the researcher’s underlying
theoretical assumptions. The issue of non-payment behaviour is explored further by Anderloni and Vandone (2010), who assert that the fact that over-indebtedness may be caused by irrational behaviour is relevant and has to be taken into account in order to devise appropriate measures to prevent or manage financial difficulties and to evaluate the effectiveness of these measures. Individuals recognise that the causes of their difficulties lie primarily in their inability to manage money and the decisions made regarding spending and indebtedness (Anderloni & Vandone, 2010).

4. Findings on Correlation between Non-payment and the Lack of Borrower Education

Table 2: Demographic Composition of Protea Glen

| Income       | R3,500 - R6,500 | R6,500 - R10,000 | R10,000 - R16,000 | Grand Total |
|--------------|-----------------|------------------|-------------------|-------------|
| Households   | 953             | 3 521            | 10 197            | 14 671      |
| Adults       | 1 702           | 7 299            | 20 501            | 29 502      |
| Econ. Active Adults | 751         | 3 290            | 9 238             | 13 279      |
| Econ. active adults including grants | 905         | 3 582            | 9 238             | 13 725      |
| Age 0-18     | 1 029           | 4 438            | 11 860            | 17 327      |
| Age 18-30    | 446             | 2 055            | 6 171             | 8 672       |
| Age 30-40    | 115             | 505              | 1 537             | 2 157       |
| Age 40-50    | 583             | 2 374            | 5 475             | 8 432       |
| Age 50-60    | 408             | 1 723            | 5 408             | 7 539       |
| Age >60      | 150             | 642              | 1 912             | 2 704       |

Source: Lightstone: February 2012

4.1 Lenders Who Provided Borrower Education to Respondents Before Taking Out A Mortgage

From the questionnaires it has become clear that financiers failed to explain the responsibilities and corresponding obligations of homeownership to the borrowers. A significant proportion (55%) of the borrowers when asked if the bank provided any form of information or empowerment before acquiring a house, indicated that they did not receive any such material compared with the 36% that reported to have received some form of information. The lack of borrower education, as hypothesised in this study, is particularly associated with a propensity for default behaviour and investigating this trend was the main aim of this study. In order to comprehend if there was any correlation between the dependent variable (non-payment behaviour) and the independent variable (borrower education), it was essential to ask questions which would elicit this kind of data.

Table 3: Lenders who provided education to owners before taking out a mortgage

| Frequency | Per cent | Cumulative Per cent |
|-----------|----------|---------------------|
| No        | 57       | 54.8                | 54.8                |
| Yes       | 38       | 36.5                | 91.3                |
| Missing   | 9        | 8.7                 | 100.0               |
| Total     | 104      | 100.0               |

4.2 Defaulted and non-defaulted households on mortgages

The assumption of this research was that the level of defaults was high and one of the contributory reasons to the statement was that this was due to a lack of borrower education programmes. The results indicate that the vast majority of respondents, nearly two-thirds, defaulted. On the other hand, households who had never defaulted represented a total of 31.7%. The findings illustrate that the difference between the defaulters and non-defaulters is quite significant as 64% of the respondents defaulted on their mortgage payments. The general picture of foreclosures in South Africa as suggested by current statistics form Lightstone is on the decline. The low income housing market stats of houses priced up to R500 000 statistics show that the number of registered distressed properties continue to shrink.
and are set to decline even further. Unsurprisingly, Gauteng has been leading in regard to the number of distressed sales, recording a figure of 1 414 in 2009 against the national total of 3 279 recorded during the same period (Lightstone, 2013). The figures have however shrunk quite noticeably between 2010 and 2012, illustrating a sustained market recovery or improved borrower education and financial behavior.

Table 4: Defaulted and non-defaulted households on mortgages

|                  | Frequency | Per cent | Cumulative Per cent |
|------------------|-----------|----------|---------------------|
| Never defaulted  | 33        | 31.7     | 31.7                |
| Defaulted        | 67        | 64.4     | 96.2                |
| Missing          | 4         | 3.8      | 100.0               |
| Total            | 104       | 100.0    |                      |

4.3 Cross-tabulation findings: defaulters and non-defaulters versus lender’s borrower education before obtaining a mortgage

Using bivariate analysis, this section highlights that Pearson’s correlation coefficient was used for variables that were continuous and for those categorical cross-tabulations, and that a Pearson’s chi-square statistic was done. Its corresponding asymptotic significance (probability value) was also used as the standard measure of correlation between the respective independent variables. Analyses were done at a 5 per cent significance level. Rejection or non-rejection was reported depending on the set null hypotheses. The Bivariate model was used to test the association of measured variables Willemse (1999) states that “correlation analysis is used to describe the degree of strength by which one variable is linearly related to another” (Willemse, 1999: 189). According to Fox (1998) the probability that a relationship found in a sample data occurs by chance even if there is no relationship in the population sampled. “This is called the level of statistical significance, or just significance level” (Fox 1998: 135). Significance level is expressed as a number ranging from 0 to 1.00 (ibid).

Table 5: Cross-tabulation on defaulters and non-defaulters versus lenders’ borrower education before obtaining a mortgage

|                      | Did your financier spelt out borrower education |  |
|----------------------|-----------------------------------------------|---|
|                      | No | Yes | Missing | Total |
| Respondents who fell behind in their monthly payments, hence defaulted | 27 | 5 | 1 | 33 |
| Defaulted            | 30 | 31 | 6 | 67 |
| Missing              | 0 | 2 | 2 | 4 |
| Total                | 57 | 38 | 9 | 104 |

Pearson’s chi-square value = 22.995 P-value = 0.000

4.4 The empirical results found that there is no compelling evidence showing that there exists an association between the lack of borrower information and a borrower’s propensity to default.

The data shows that the majority of respondents have defaulted on their mortgage loan even though that they reportedly to have received borrower education before taking up the loan. Statistically, there appears to be no relationship between susceptibility to default (dependent variable) and borrower education (independent variable). This hypothetical statement that there exists a relationship between the lack of borrower education and non-payment could not be empirically established. While the data suggested no compelling evidence between non-payment behaviour and the lack of borrower education, the findings revelations provide an interesting phenomenon to the reasons underpinning the high default rates standing at 64%. What could be the driving force towards this default risk behavior? This aspect presents the researcher with an opportunity to further explore this phenomenon when discussing the hypotheses concepts. The researcher was particularly keen to establish as to why a properly informed
debtor would put himself to a potential risk of losing a property by defaulting on his mortgage account. Ascertaining the underlying theoretical fundamentals underpinning this behavior was an imperative.

5. Lender Findings on Borrower Education Programme

All of South Africa’s mainstream banks were the respondents and their lending to the end-user (respondents) was 100% Meaning all homeowners mortgaged properties were financed by the big four banks. Only one bank (Standard Bank) did not respond to the questionnaire, providing no reasons for its non-participation. First National Bank; Nedbank; and Absa bank offer borrower education programmes to home loan borrowers. None of the banks have provided samples of their borrower education programmes as it is considered privileged information. The Borrower education is offered through information brochures, internet information and personal engagement by bank personnel. Absa bank started offering borrower education in 2004; FNB introduced borrower education in 2007, while Nedbank did not specify when they started offering borrower education. Nedbank have however stated that their introduction of borrower education was in order to comply with NCA requirements. Further, Nedbank indicated that it was intended to ensure that borrowers are aware of their homeownership rights and responsibilities. While Absa cited their offering was largely being due to the necessity of meeting the Financial Sector Charter (FSC) requirements. FNB on the other hand asserted that borrower education is intended to empower homeowners regarding their obligations. The banks borrower education is targeted at households with earnings of up to R15 000 a month and is offered through one-on-one engagements, as well as written and electronic information. All three banks confirmed that there is a relationship between non-payment and the lack of borrower education. With regard to defaults; Absa reported an 8% home loan default ratio; FNB reported a 10% home loan default ratio and Nedbank reported that only 2.5% of its home loans were in arrears.

6. Recommendations

In assessing the probability of defaulting risk as a result of the lack of borrower education to provide insights and interventions whose frameworks are hoped to guide in re-defining the impact of existing borrower education models and structures to respond to the context of the prevailing challenges. As such, the following recommendations are proposed in response to the classified challenges:

Devising targeted borrower education programmes for homeowners a catalyst: The significance of devising targeted borrower education programmes is fundamental. This was also affirmed by the Financial Services Board (FSB) which oversees, amongst other things, the empowerment of banks’ clients. The FSB’s observation is that the current borrower methods offered by banks are ineffective and that banks should be held more responsible and accountable.

This was substantiated by the data reflecting the number of sales in execution in Protea Glen. The statistics showed that between 2003 and 2010 the number of sales in execution in Protea Glen were 2 905. The type of borrower education designed should first and foremost be targeted at the right audience and ensure that cooperation, partnership and relationship building is promoted. The lenders should provide guidelines and the material value of the programmes should be standardised, appropriate, consistent, informative and educational to borrowers. Thus, the type of borrower education that should be developed has to ensure that the information includes both generic and specific housing finance information.

The effectiveness of targeted borrower education programmes will enable borrowers and prospective homeowners to make informed choices about their purchasing decisions and also provide clear understanding of their roles and obligations as homeowners in the post-purchase phase. In addition, a targeted borrower education programme will empower the borrower on various aspects, vis-à-vis self-assessment on affordability criteria, loan borrowing
conditions, the role of banks, mortgage originators, estate agents, the role of lawyers in mortgage finance, budgeting and insurance product skills, type of tenure options available and so on.

**Design programmes aligned to borrower requirements:** The literature survey revealed that homeowners make irrational financial decisions when not presented with appropriate advice and relevant information. Creativeness and innovativeness in borrower education programmes that are focused and concentrated on the borrower market need to fill the current information gaps in a way that makes this information readily accessible to all kinds of borrowers, including non-literate ones. The lender findings found that banks are offering borrower education to fulfil regulatory requirements, namely the National Credit Regulator’s (NCR) and the Financial Services (FSC) Charter’s prescriptions. Borrower programmes should be devised with the main objective of empowering the borrower to become an informed homeowner. In devising appropriate programmes, banks should ensure that the programmes are aimed at achieving broader and deeper outreach of the targeted households and specifically for low income borrowers.

**Impact monitoring and assessment processes are vital for accomplishing the desired impact:** The lender findings revealed weaknesses in measuring the effectiveness of borrower education programmes. This is substantiated by Nedbank’s measure of borrower education programmes which is mainly through arrears ratios and repossessions. Findings on Absa and FNB indicated that borrower education usefulness is evaluated through customer exercises. For any desired positive impact, good measurement of the effectiveness of borrower education initiatives is necessary. Designing an evaluation framework that provides guidance and relevant channels for collecting information about the objectives of the programme, its development, delivery, usefulness, impact, and accountability is essential. It is apparent that little assessment is being carried out by banks at present. In cases where they are offered, their competencies remain inadequate. Proper impact assessments techniques would assist, amongst other things, in quantifying the response rate to invitations, number of participants, satisfaction scale measurement with programmes, identifying any specific behavioural changes as result of the programmes and also, in general, assisting in discovering and recognising problems. It is critical for the lender to adequately assess whether borrowers have demonstrated knowledge, skills and applied competence with regards to the training. This is expected to assist the lender in establishing the existing gaps and the desired learning outcomes. Furthermore, by engaging in this process the lender will establish if the content of the programme is of benefit to the borrower, if imparted information is clearly understood, if the designed and applied methodology is explicit, if the programme enhances a flawless approach, verifies the significance of the programme and its practical limitations and ascertain that the content of the programme is as comprehensive as possible. In summary, monitoring and assessment mechanisms will measure the success that the programme has on borrowers, will determine the programme effectiveness and efficiency. Lastly it will quantify the short, medium and long term impacts and benefits that the programme has on both borrowers and lenders.

7. **Conclusions**

There seems to be a lot of challenges with regard to risk of default and non-payment behaviour. The lender conduct as well as the lack of borrower understanding of mortgage contracts, credit implications and corresponding obligations of property ownership should be enhanced for positive return. Fundamental to consider is undoubtedly a need to improve the content and quality of borrower education programmes. Further, to evaluate the extent and impact that the borrower education programmes have on mortgage account holders. As stated in the recommendation section, the content of borrower education programmes should be specific and appropriately targeted. Accordingly, the article proposed mitigating techniques, alternative models and strategic interventions to remedy the challenges. This is towards ensuring greater positive impact on borrower empowerment programmes through proper monitoring and assessment processes.
References
Ambrose, B.W (2000) Embedded Options in the Mortgage Manufactured in The Netherlands: Neural Network Models in Empirical Land-use Change Modeling: A case study. *International Journal of Geographical Information Science* Vol. 25, No. 1.
Bajari, P. et al., (2009). Report on Quantifying the Triggers of Sub-prime Mortgage Defaults. Washington, DC. p. 2.
Buckland, J. (2010) Are Low income Canadians Financially Literate? Placing Financial Literacy in the Context of Personal and Structural Constraints. *Adult Education Quarterly*. Sage Publications
Campbell, S, et al, (1983) The Determinants of Default on Insured Conventional Residential Mortgage Loans: *The Journal of Finance*, Vol. 38, No. 5.
Financial Crisis Inquiry Report (FCIR), (2011a) *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*, US Government Publishers, Washington DC. p.91.
Financial Crisis Inquiry Report (FCIR), (2011b) *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*, US Government Publishers, Washington DC, p.96-98.
Gathergood, J, (2012) Self-control, Financial Literacy and Consumer Over-indebtedness. *Journal of Economic Psychology*, Vol 33, 1.3. p.132-147.
Huston S.J.(2010) Measuring Financial Literacy. *The Journal of Consumer Affairs*, Vol. 44, No. 2 p.307-308.
Hartarska, V and C. Gonzalez-Vega (2006) Evidence on the Effect of Credit Counseling on Mortgage Loan Default by Low income Households, *Journal of Housing Economics*.
Lightstone Property Index Report, (2011a) *Number of Sales in Execution in Protea Glen*, South Africa.
Lightstone Property Index Report, (2012b) *Demographic Profile of Protea Glen Suburb*.
Lightstone Property Index Report, (2012c) *Written Bonds by Different Lenders in South Africa*
Malpass, P. (1990) *Reshaping Housing Policy: Subsidies, Rents and Residualisation*. British Library Cataloguing. London. p.87.
Monticone, C, (2010). How Much Does Wealth Matter in the Acquisition of Financial Literacy? *The Journal of Consumer Affairs*, Vol. 44, No. 2.
National Credit Regulator (NCR) website, Johannesburg, www.ncr.org.za accessed February, 15, 2012.
Singh, S, (2005) *Families at Risk Deciding on Personal Debt: Literature Review on Personal Credit and Debt in Australia*.
Struyk, R.J. (1976) Urban Homeownership. Lexington Book Publishers. London. p.43.
Schwartz, S. (2006) Counselling the Overindebted: A Comparative Perspective. Paper presented Research for Presentation at the 2006 Assets Learning Conference, Phoenix, School of Public Policy and Administration, Carleton University, Canada.
Vandell, K.D (1978) Default Risk under Alternative Mortgage Instruments. *The Journal of Finance*, Vol. 33, No. 5
Vandone, D and Anderlon, L. (2010) Risk of Overindebtedness and Behavioural Factors, Dipartimento Di Scienze Economiche Aziendali Statistiche. Universita Degli Studi Di Milano.

Institutional Experts Interviews
Interview with ABSA on Home Loan Product Offerings for Low income Households
Interview with First National Bank on Home Loan Product Offerings For Low income Households
Interview with Nedbank on Home Loan Product Offerings For Low income Households

---

1. Lightstone is a dynamic company providing comprehensive data on property, automotive and business assets. The South African based company provides reliable property data, including property valuations and related statistics to the property industry.