

Property

Self-employed struggle for bonds

THE stringent implementation of the National Credit Act by financial institutions is making it more difficult for potential home owners to enter the market.

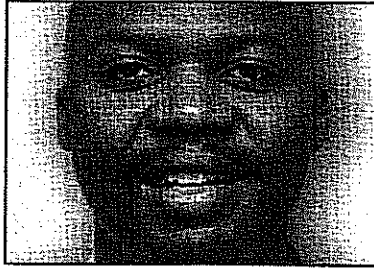
First-time home buyers and the self-employed are particularly affected. Statistics released by ooba, SA's premier bond originator, show that self-employed South Africans find it increasingly difficult to have their home loan applications approved compared to their employed counterparts.

The statistics show that 57,9% of self-employed applicants had their bond declined in the 2009-10 financial year, an increase of 2,4% compared to 2008-09.

This compares with a 3,5% fall in the decline ratio for employed applicants in 2009-10 to 48,1%, from a 51,5% decline ratio the previous year.

Saul Geffen, CEO of ooba, says that self-employed applicants tend to be viewed as a higher risk than employed applicants because of the perceived instability in their income, particularly in these challenging economic times.

However, he says it is important for self-employed applicants not to be disheartened if their



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bond application is turned down.

"There is no doubt it is harder for self-employed applicants to obtain financing for their bond, but there are a number of ways to improve the likelihood of gaining approval, one of which is applying through a bond originator."

The variances in the credit requirements and decline ratios across the banks illustrate the importance of applying to multiple lenders. In the past financial year there was a 32% difference between the banks with the highest and lowest average decline rates.

Mr Geffen says that by using a bond originator, applicants could make simultaneous submissions to lenders, which saves time and avoids duplication of documentation. "Credit and risk profiling of applicants are specific to each bank. It is thus important that applicants are not disheartened by the first decline decision they receive from a lender and that they persevere with other banks."

The latest statistics from the oobarometer showed the ratio of applications declined by one lender but approved by another increased significantly, up 11,2% year on year to 30,4% in August.

Home buyers use bond originators to shop around for the best home loan deals and to secure quick approvals.

A bond originator's service is at no cost to home buyers and without any obligation to accept a particular loan offered.

But there is another buying and selling concept, Rent2Buy, which is new to the South African market and gives potential buyers and property owners an alternative way to buy and sell properties.

Rent2Buy founder Meyer de

Waal says the company negotiates agreements between potential buyers and sellers whereby the buyer concludes a rental agreement with a seller with an option to purchase the property by a certain date and at an agreed price.

Mr de Waal says the seller is assured of a selling price for his property in the future, while the buyer pays rent more or less equal to the buyer's future bond repayment. The buyer is able to take immediate ownership of the property and takes over the responsibility of the property — including all rates, taxes, levies and maintenance — which would apply if he was the home owner.

"The idea is that the buyer uses the option period of the contract to prove his affordability and creditworthiness to the bank.

"This way the buyer can eventually secure a loan to purchase the property. In addition to using the time to save for a deposit, he also shows he can afford the property and be disciplined by paying rent regularly and on time."

Mr de Waal says the main reasons why bonds are not being granted are based on the absence of a deposit and affordability.