



by Gustav Zwiegelaar



SA Home Loans

A FRESH APPROACH TO HOME FINANCE

The ABC of Credit



Whether we like it, or not, most of us have to apply for a credit line at some point. There are basically two types of credit; secured & unsecured. Secured credit is where money is lent against something of value, such as a vehicle or a home. Unsecured credit is where a loan is extended where there is no physical asset attached to it, such as with a credit card or personal loan.

Since home loans is my business I will talk around secured credit and how a loan application is assessed by financial institutions. Believe it or not, in my younger days I used to be firmly against the notion of borrowing money in order to buy a home. I balked at the idea of paying for a house over 20 or 30 years and thought that there was something wrong with the "system". As I later realized, it is simply a matter of choosing to be responsible and making the system work for me, as opposed to complaining about it. The truth of the matter is that very few people have the means to purchase capital intensive items such as homes and vehicles in hard cash. Of course it is a great notion to save up money and purchase in cash, but what will you drive and where will you live in the meantime, not to mention that, while you are saving, the items you are saving for become more expensive. Taking a credit line at least saves on opportunity cost. I have heard many nay sayers complain about financial institutions and how much money is being made in loans, but what is the flip side of the coin? For every home loan that is extended the money has to come from somewhere. It is a grand notion to think that banks and home loan companies are sitting on piles of cash just waiting to hand it out and make money. The truth, however, is that great skill and vast sums of money are required to run a home loan book. Capital markets are able to supply the money to financial institutions but these institutions have to convince them to part with it on certain agreed terms, providing guarantees against checks and balances. This places the financial institution in a position to pass the capital on to consumers in the form of loans. In the case of home loans the institution has to recover the loans from the consumer in the form of installments by way of monthly repayments. It has to take the risk that some consumers will at some point not be able or willing to honour the repayment agreement. It has to provide back up capital as security in order

to safeguard the investors on the capital market and maintain the original agreement between the institution and the investor. Clearly this requires some considerable financial muscle and expertise. It is not the kind of thing to be attempted without knowledge and experience. In essence home loan providers provide a financial vehicle in order for their clients to be able to buy their homes, acting as an intercessor on behalf of the client and using their credibility and finance to facilitate the purchase. The full realization of the risk, capital requirements and other intricacies involved in facilitating home finance might well convert some of the nay sayers, as I have been converted, but I am not holding my breath. When one considers the factors associated with funding hundreds of thousands of home loans, it becomes clear that the risk taken on each client has to be properly assessed up front. So how is credit assessed? To simplify the decision making factors I will refer to the "ABC" of credit. All three of these, A, B and C, have to be satisfied in order to qualify for a home loan. No single one or two can stand together in order to satisfy the requirements. All three have to be in place. It is a bit like a cast iron potjie with three legs. It cannot stand on one or two. It must have all three legs, A, B and C. So what are they?
A – Affordability: A savvy home loan provider must look at all financial responsibilities and commitments and see whether there will be sufficient net income to meet these as well as repay a home loan and have a surplus for unforeseen circumstances. This is done by scrutinizing banking account statements and salary advices as well as personal credit reports.
B – Behaviour: Home loan providers look at how potential clients honour other credit agreements, such as clothing accounts, vehicle purchase agreements, service agreements and so on. This is also obtained from an independent credit report. Specific behaviour is also often reflected in banking account statements. This may

be in the form of good credit balances on the one hand, or returned debit orders on the other.
C – Castle, or house. (I am taking some literary license here – we know your home is your castle) There has to be sufficient value in the property to at least meet the value of the loan, and preferably a little more. If I had money for every time I have been told that there is so much value in an applicant's property and we can just take it back if the repayments are not made, well, you can guess the rest. The truth is that we are not in the business of taking and selling homes. We don't want to. It is important that all three factors are satisfied in order to extend a loan. That is simply a responsible approach. Once the home purchase is secured there is much that a client can do to benefit from the loan process, including accelerating payments over time to save on interest as well as adding more immovable assets, such as improvements or additional properties that appreciate in value over time. In this way it is quite possible to use the money provided by financial institutions to generate wealth during and after the term of the loan or loans. In time to come we will see some more innovative approaches to financing homes. We are always exploring ways of adding value through the supply chain, ensuring that entrepreneurial flair benefits our clients and investors alike. It is part of what we do. It will ensure that many more clients can become happy home owners and potential wealth generators. Now that makes sense.

If you want to know more about SA Home Loans and what we are about just ask our clients and business partners. I know that you are interested only in the truth.

You can also contact me via email at gustavz@sahomeloans.com

