

Negotiating the National Credit Act

At the recent Rode Annual Conference held last month, John Gilchrist (editor of My Mortgage magazine) described the new National Credit Act as a vehicle with which to “save South Africans from themselves”.

Commenting further on the new legislation, Gilchrist was of the opinion that the Act would have no real, long-term effect on the property market but rather just a short-term period of adjustment and could even work to the advantage of those who had found themselves being turned away from banks in the past.

With regard to home loans, Gilchrist notes: “The major factor that has changed is the loan qualification level. Before the new Act was introduced, banks would grant a home loan to a potential buyer based on one third or one quarter of the buyer’s total earnings – irrespective of the buyer’s other debt. Now loans are granted based on the disposable portion of income, once all debts have been brought into consideration.

“On the other hand, if a potential buyer has a strong asset base and had been turned away for whatever reason in the past, a bank will now be obliged to grant a loan. The only two factors that need to be taken into account are affordability and viability: if a buyer has these and has been refused a loan, that buyer can now take the matter to the National Credit Regulator.”

Gilchrist believes that investors who would now suffer the most under the new legislation, fell largely into two categories. The first of these is property developers “with nothing to invest themselves – which would hopefully weed out the fly-by-night developers.”

The second category would be the individual property investor and in particular what Gilchrist terms “the collector” (buy-to-let investor).

“Mortgage givers will be stricter about how much they will acknowledge as rental income,” says Gilchrist. “They may only be prepared to acknowledge as little as 40% of the rental income as valid income and investors will need to prove that they can fund the rest themselves.”