MORTGAGE BAROMETER

HOW COMMON ARE 100% HOME LOANS?

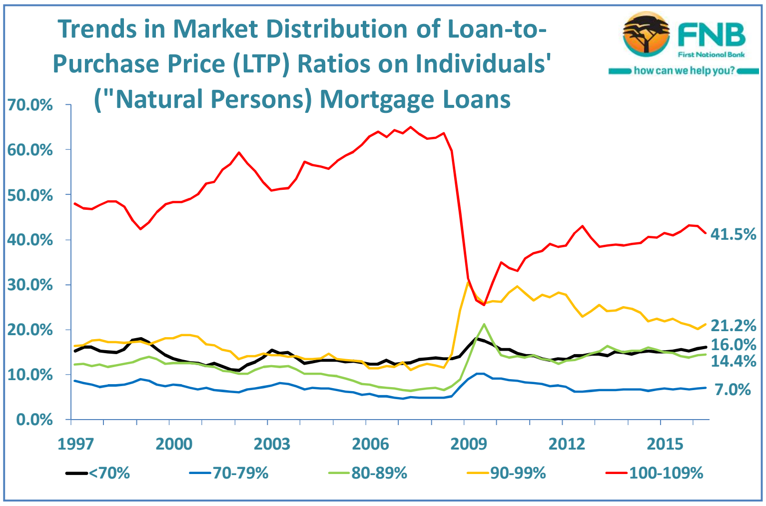
The mortgage industry's total volumes are a far cry from the height of the pre-2008 boom, but 100%-109% home loans are most common of all the loan-to-purchase price bands.

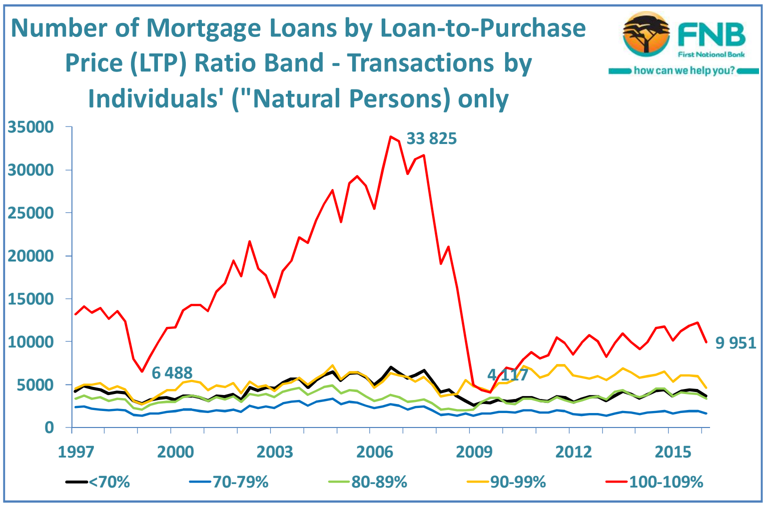
16 August 2016

A question often asked is to what extent mortgage lenders still provide "100% loans", meaning mortgage loans that amount to 100% of the value of the home being purchased.

The answer is that they are perhaps more common than some seem to think, although admittedly not nearly as common as back in the pre-2008 property boom years.

Using Deeds data for transactions undertaken by individuals ("Natural Persons"), we have estimated the Loan-to-Purchase Price (LTP) on each transaction identified, and then placed each loan within an LTP Band, then estimating the number of loans in each LTP band and their percentage of the total number of loans.



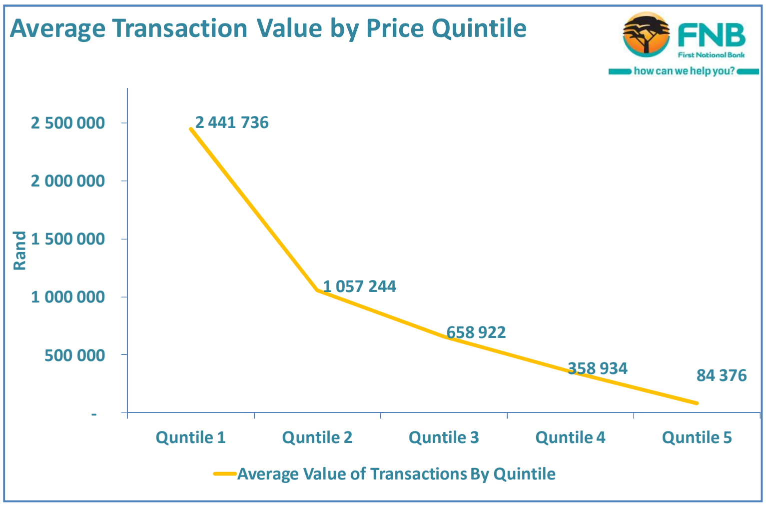


We find that the 100%-109% LTP Band, i.e. those homes where the bond registered is from 100% to 109% of the home transaction value, were estimated at 41.5% of the total number of bonds identified in the 2nd quarter of 2016. Most of these would be 100% exactly, but a minority do venture above 100%.

This percentage is slightly lower than the 43.1% multi-year high reached in the final quarter of 2015, but not sufficiently lower as to draw any conclusions regarding a possible declining trend yet.

These most recent estimates of the percentage of bonds falling into the 100-109% LTP band remain well-below the high point of 65% reached in the 2nd quarter of 2007, but well above the post-boom low of 25.4% reached in the 3rd quarter of 2009.

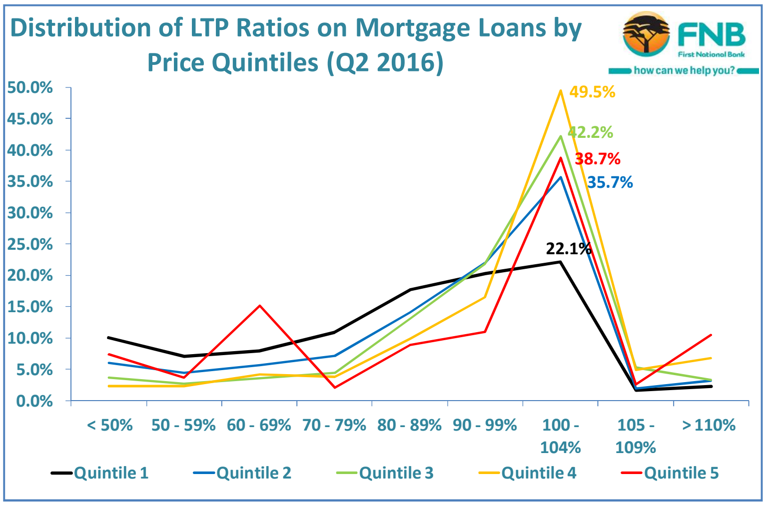
To get the full perspective, one needs to examine the absolute numbers too. During the 1st quarter of 2016 we identified 9,951 bonded transactions by individuals in the 100%-109% LTP range, more than double the 4,117 low of the 3rd quarter of 2009, but well down on the 33,825 high reached in the 3rd quarter of 2006.



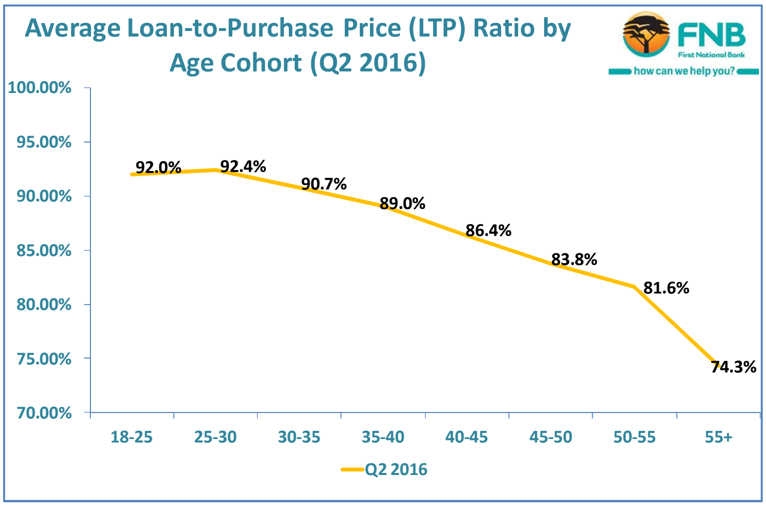
Which house price ranges are most heavily dependent on "100% and above" LTP loans? We have split the market into Quintiles based on the value of transactions by individuals. The top 20% of transactions by value are labeled "Quintile 1", while the bottom 20% of transactions by value are labeled "Quintile 5"

The average transaction values, as at the 2nd quarter of 2016, per quintile were R2.442 million in the case of Quintile 1, R1.057 million in Quintile 2, R658,922 in Quintile 3, R358,934 in Quintile 4 and R84,376 in Quintile 5.

Examining the distribution of Loan-to-Purchase Price Ratios (LTP) by price quintiles, we find that Quintile 4 is most highly dependent on 100%-109% loans, with the share of these loans making up 49.5% of its total mortgage loans to individuals in the 2nd quarter. Quintile 3 is next with 42.2% of its loans in the 100-109% LTP bracket.

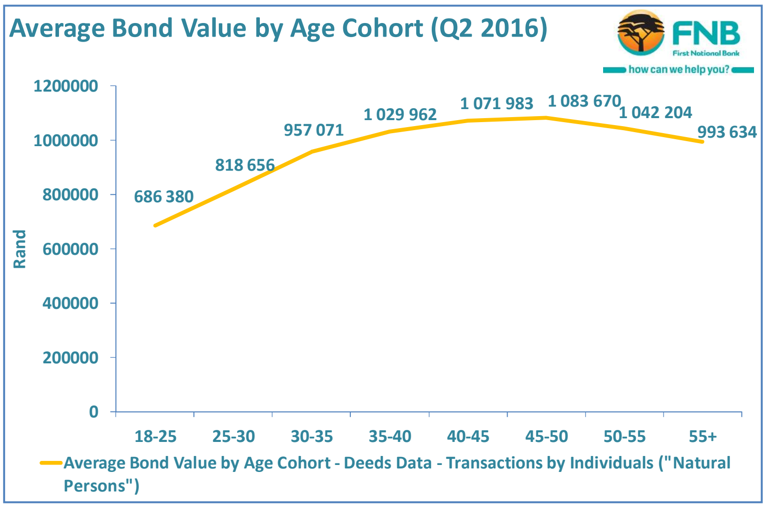


The lowest dependence on "100% and above" loans is in the most affluent Quintile 1, where a significantly lower 22.1% of this quintile's bonds registered fall into the 100-109% LTP category.



It makes sense, too, that on an age basis one finds a higher dependence on higher LTPs in the youngest generations of home buyers.

We estimate that the Average LTP ratios in the 18-25 and 25-30 year age groups are the highest of the age cohorts, at 92% on all bonded transactions. The average then slides steadily, to 91% LTP in the 30-35 age group, 89% in the 35-40 year group, and ending at 74% LTP for the 55+ age group.



Finally, what are the average bond values of the different age cohorts. Given their financial limitations early in their careers, it is not surprising to find that the lowest average estimated bond value in the 18-25 year age group, at R686,380, and the 25-30 age group at R818,656. The average bond value makes its way higher to peak at R1.084 million for the 45-50 year age group before tapering off in the older age groups.

In short, according to our Deeds data estimates, "100% and above" mortgage loans are fairly common these days. Most of the 100%-109% LTP band would be 100% loans, but some do venture above 100%. Though not quite being the 50%+ majority, the 100-109% LTP band amounts to an estimated 41.5% of total bonds taken by individuals, with higher percentages in the more affordable segments of the market. The full perspective is gained when examining the total market volumes, though, and at present these volumes appear fairly "normal", noticeably higher than the 2009 low point, but far down from the 2006 boom time peak.

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