Fiscally Unsustainable Social Welfare, Untenable Housing Solutions and the Mortgage Default Ratio in South Africa

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Abstract

This article reflects on social welfare system and governance of housing markets from an end-user perspective. The article critically analyses the way in which social welfare has correlated to unsustainable development and created self entitlement behaviours and attitudes in the South African low income housing market. The phenomenon was demonstrable by empirical research whose findings confirmed an existence of an association between a fully subsidized social housing model (as underpinned by South Africa’s social welfare) and propensity to default on mortgages. The study found that the risk of default by homeowners in the low income housing market in South Africa is influenced by government’s housing grant model. In other words, the research established that the principle of servicing a mortgaged starter property (that is almost similar to a government free house by both structure and design) is not universally accepted by homeowners of these mortgage houses. The unintended consequences are that the system has created indefinite expectations that potentially could; (i) erode the country’s balance sheet; (ii) add to non-payment behaviour; (iii) pressurize the economic and credit systems; (iv) propagate entitlement attitudes and mindsets; (v) create social instability and (v) widened the country’s balance of payment deficits.

Keywords: Finance; Mortgage; Housing; Credit; South Africa

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1. Introduction

The welfare system is emphasized on the basis that the state assumes primary responsibility for the welfare of its citizens. The focal point of this article is on the underlying principles of the social welfare system in South Africa relative to non-payment behaviour. The issue of providing free housing units to low income households is applied on the basis of the fundamentals of the welfare system in South Africa.

The article intended to measure the application of the said market ideals in evaluating the conduct, the behaviour, attitudes and mindsets of low income homeowners relative to social housing underpinned by social welfare ideals.

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The fundamental assumption of welfare model is that governments should make provision for the welfare or well-being of their citizens. Such governments are involved in citizens’ lives at many levels. They provide for physical, material and social needs rather than leaving it to their citizens to provide for these on their own. The purpose of the welfare state is to create economic equality, or to ensure equitable standards of living for all (Anderson, 1996). Further, notes Anderson, (1996) the welfare state is also supposed to provide education, housing, sustenance, healthcare, pensions, unemployment insurance, sick leave or time off due to injury, supplemental income in some cases and equal wages through price and wage controls. The welfare state is socialist in nature. It redistributes wealth by heavily taxing the middle and upper classes in order to provide goods and services for those seen as underprivileged.

Marshall (1950), whose earlier conception of social rights offered a popular legitimation of state welfarism, reasons that the historical struggle for civil and political rights culminated in the 20th century with the acceptance of the principle that citizenship entailed social rights. People who live in poverty, suffer from ill health and are inadequately fed, poorly educated and badly housed cannot be regarded as citizens in the proper sense of the term, espoused Marshal, (Marshall, 1950).

Another underlying issue with the welfare state philosophy is that many people who are capable of caring for themselves have no motivation to improve their lives when they can depend on the government to provide for them. Smith (1979) states that the welfare approach presupposes two basic concepts: (i) the meeting of basic needs at some minimum level; and (ii) the equitable distribution of resources (Smith, 1979).

The application of the welfare approach to the problems of non-payment behaviour was motivated by a desire to understand the role of government and government initiatives in enabling and motivating citizens in general to be accountable and responsible. This translates into citizens who are also self-sufficient consumers with positive behavioural patterns and expressly committed to the fulfilment of social expectations and obligations. This article outlines the question of whether the primary responsibility of the state should be that of assisting and empowering housing consumers or, instead that of encouraging consumers or citizens to be passive beneficiaries. This is justified by underlining the shortcomings and benefits of the welfare approach as the risks appear to outweigh the benefits in the context of housing and susceptibility to non-payment behaviour in South Africa.

2. Literature Review

South Africa is Africa’s largest economy, closely followed by Nigeria (as of 2012). South Africa is also described as the most unequal country in the world followed by Brazil, with an income share of 44.8% held by 10% of the population and only 1.4% of the income share held by the lowest 10% of the population, along with a growth rate of 1.3% of GDP (World Bank and Stats SA 2013 report). Interestingly, South Africa defines itself as a developmental state underpinned by developmental ideals for addressing socio-economic challenges and inequalities. Allen and Thomas (2000: 23) define development “as a process that means, simply, good change”. Allen and Thomas (2000)
further observe that development is a positive word that in everyday parlance is virtually synonymous with progress and may entail disruption of established patterns of living (Allen and Thomas, 2000).

It is critical to note that no theoretical assumptions or historical definitions of principles are embedded in a developmental state. It is a completely new phenomenon, declared as the country’s intention as South Africa’s is considered a developing country yet an emerging market economy. Evaluations and assessments however indicate that South Africa’s model is based primarily upon welfare principles along with a sparse mix of free market and state intervention in the economy.

Undoubtedly, the new dispensation in South Africa inherited a legacy of uneven distribution of resources and discriminatory policies; access to housing was allocated on the basis of race, which entrenched inequality amongst its citizens. While the government seeks to address such historical inequities, it is a considered opinion that the state should adopt a measured welfare approach as the current arrangement seem to encourage the widespread expectation of welfare support, thereby discouraging the private sector from deepening its involvement in poverty alleviation and participation in social programmes. This is especially given that South Africa has a thin tax base pool from revenue the bulk of revenue is generated as such this might pressurize the countries’ budget framework. It is however interesting to note that the 1994 Housing Policy and Strategy for South Africa strongly state that housing is intricably linked with Welfare (Housing Policy, 1994).

The welfare model is underpinned by the Constitution, which guarantees all citizens the right to adequate housing. However, there seem to be some misconceptions about this. Consumers appear unaware of their concomitant responsibilities and the application of a welfare system would only exacerbate this situation. The responsibility of the state should be to empower consumers and to guard against the promotion of a self-entitlement culture and behavioural attitudes. A view held by Ramphele (2012) when she explains that in South Africa the government provides wholly for its citizens rather than seeking ways of empowering them. This type of approach, Ramphele elaborates, denies people the opportunity to behave maturely or to participate in their own development. Ramphele illustrates that consumers must be sufficiently educated and empowered if they are not to become indefinitely dependent on government hand-outs.

Indeed they should be educated about responsibility, homeownership and the on-going costs and obligations of being a homeowner. This view is substantiated by Vick (2011), who declares that the problem of dependency is most severely represented in housing. He maintains that many households have benefited from housing provided by the government but that the harsh reality is that the housing backlog is now greater than in 1994, when the post-apartheid government first took over. Further, Vick (2011) argues that the government has a clear responsibility to provide services and alternative service provision policies are needed to satisfy popular expectation whilst actively building a culture of responsible citizenship (Vick, 2011).

While Vick’s (2012) principles may appear pragmatic, it is crucial to recognise that there are inconsistencies in his arguments. The prudential nature of his envisioned approach is contrasted by his belief that the government needs to devise policies that accommodate both popular expectation and responsible citizenship. This model is not likely to be feasible, as encouraging responsible citizenship does not necessarily correlate with popular expectation. No parallels
can be drawn on the basis of an unworkable scenario in view of the populist expectations being created by the government and not by its citizens. Again Vick’s (2011) philosophy around creative solutions is similarly problematic, especially when he argues that communities have become passive in seeking their own solutions or finding ways to partner with government in order to improve their neighbourhoods. One is not necessarily attempting to suggest that the very state of community passivity that most of us lament has the hallmarks of the type and extent of government relationships with the communities. Realistically, it is not entirely appropriate to submit such a proposition as the government to a large extent, for that matter, is expected to find ways of partnering with communities in seeking solutions since the government has its own contribution to the current state of affairs and market dynamics. The state should in fact be focused on enabling its citizens and this view is backed by Mantashe (2011) when he states that people should be enabled to be able to build a better life for themselves (Mantashe, 2011).

3. Measuring the Monetary Impact of Welfare System in South Africa

Welfarism appears to be emphasising far greater state responsibility and a heavy reliance on state resources, which may not be achievable in an economy like South Africa. According to Jones (2013) sixteen (16) million of the fifty one (51) million South Africans now survive solely on social welfare (Jones, 2013). That is a startling statistic. According to Jones (2013) by 2014 the welfare recipients may well be costing the taxpayers more than R116 billion but SA only has 3.5 million taxpayers who contribute above 87% of all taxes. This group of taxpayers is thus increasingly burdened with South Africa's social welfare budget. Moloi (2013) cautioned that South Africa’s tax base will not grow fast enough to keep supporting the millions of vulnerable individuals who rely on social security from the State in particular those capable enough to be empowered and to sustainably provide for themselves.

The South African Revenue Services are collecting taxes from a diversification of sources as proportionally classified below:

- 31.4 percent comes from income tax for individuals,
- 26.7 percent comes from company tax,
- 24.7 percent comes from VAT,
- The remainder comes from miscellaneous sources.

Regrettably, shrinkage in tax contributions and the tax pool is exacerbated by South Africa’s subdued economy and high levels of unemployment- see graph below. According to Statistics South Africa the rate of unemployment has increased to 25.2% in the first quarter of 2013 from 24.9 % in the fourth quarter of 2012. Historically, from 2000 until 2013, South Africa unemployment rate averaged 25.4% reaching an all time high of 31.2% in 2003 (Stats SA, 2013)

A scenario of a shrinking tax base and widening national expenditure is captured in the Investec research report (2013), stating that the revised tax revenue estimate for 2012/13 is R810.2 billion, R16.3 billion lower than the estimate made in the 2012 Budget. This underperformance is largely the result of weak economic growth, unemployment and lower commodity prices . It is the economic growth and levels of unemployment trends that should
particularly concern government revenue. To propel growth and reduce unemployment and sustain social expenditure, South Africa requires fine economic performance sailing on a sound trajectory. The graph below demonstrates that even though South Africa has the biggest economy in the continent, its GDP growth is lagging behind other African countries. The countries comprising the top five ranking led by South Africa (Nigeria, Egypt, Algeria and Angola) have shown exceptional economic growth in recent years, with Angola peaking above twenty two percent (22%) at some stage. Even the bottom ranked economy like Comoros performed much better than South Africa in 2009 and 2012 respectively.

The National Treasury estimates an economic growth of 2.7% in 2013 and 3.5% in 2014. That is unfortunately not sufficient to address formal unemployment that is standing at 24.9% and to adequately cater for social services expenditure estimated at 60% by the South African Institute of Race Relations (SAIRR). Indeed, worrying, is a growing revenue shortfall measured at R16.3bn in 2013 and National Treasury has emphasized that part of the efforts to narrow budget deficit is by cutting expenditure and shifts funds from non-performing portfolios to performing programmes. Amid total revenue of R985bn in 2013/14 against expenditure of R1.149 trillion, with approximately R300bn allocated to social welfare, such expenditure ratio would be fiscally unsustainable in the long term, see table 1 below on revenue and expenditure framework.

<table>
<thead>
<tr>
<th>Table 1 Revenue and expenditure patterns</th>
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<tbody>
<tr>
<td><strong>REVENUE</strong></td>
</tr>
<tr>
<td><strong>% OF GDP</strong></td>
</tr>
<tr>
<td><strong>EXPENDITURE</strong></td>
</tr>
<tr>
<td><strong>BUDGET BALANCE</strong></td>
</tr>
<tr>
<td><strong>% OF GDP</strong></td>
</tr>
</tbody>
</table>

**Source:** Investec and National Treasury

While social welfare cannot be viewed as a liability given the country’s inequalities and social inequities, it should rather be considered as an investment empowering beneficiaries as opposed to making them passive recipients. Mobilising private sector social initiatives would play a key role in the development of the economy and be a
significant generator of employment in assisting government’s delivery efforts as scaling down on social welfare delivery is likely to present government with fundamental political, social and economic challenges.

On housing grants expenditure or fully subsidized housing under social security, the National Department of Human Settlements Budget Vote for 2013/14 financial year indicates that the budget allocation has increased by approximately R3 billion when compared to 2012/13 financial year allocation. Since the housing subsidy scheme was introduced in 1994/95, approximately 3.3 million subsidies (housing units) have been approved at a cost of R85 000 per housing unit. This translates to about eight to ten million people that have benefited since the capital housing subsidy was introduced but the housing backlog remains acute at 2.1 million housing units (Moneyweb, 2013).

A 2011 study commissioned by Kayamandi Development Services on the economic impact and expenditure of housing delivery programmes from April 1994 to April 2010 revealed that a total of R115.6 billion had been spent on housing grants subsidies, which equalled to 2.3 million units delivered at an average annual rate of 148 236 units (Kayamandi Report, 2011). From the observations above it would seem that the application of welfare principles in a South African fiscal context would not be sustainable in the long term and could thus have unintended implications for the government, the country and its citizens. Such a view has also been observed by Khan and Thring (2003), and more recently highlighted by renowned veteran businessman Sam Motsuenyane when he declared that too many people are heavily dependent on the government (Sunday Times, 30 October 2011).

Khan and Thring (2003) have pointed out that the overall impact of non-credit linked (i.e., subsidy only) housing projects may be negative for the ‘very poor’ because of how it affects their survival strategies (Khan and Thring, 2003: 85). It would seem that South Africa as an esteemed BRICS member can benchmark its social housing model against that of Brazil. The Brazilian model of social welfare rests firmly on two critical components: (i) empowering beneficiaries and (ii) raising welfare funds from external markets contains several interesting elements that could be replicated in the South African situation. In Brazil, social welfare is based on the principle of social investment whereby citizens are empowered and encouraged to save for self-sustenance.

While Brazil is characterised by being one of the world’s highest national income inequality, it is worth noting that it also has the sixth highest GDP in the world. South Africa a BRICS member state, could gain mileage and experience by examining the prospects of the Brazilian model. The Brazilian social welfare system too had to undergo structural reforms since its introduction to adjust to market dynamics and social patterns. The provision of housing subsidies is through an established Fund, earmarked for housing the poor. Instead of subsidies for the poor, the government proposed the development of modern market instruments to benefit the provision of social housing. This was done through the establishment of new mechanisms to attract savings domestically and overseas. The fund was earmarked for housing, but the source and flows of funds envisioned by the government municipal revenues, domestic and foreign credits, mortgage interest profits, yields from financial investments, donations and fines is entrenched on the principle of social investment and not relying wholly on government’s fiscal support.

This means that a country is not heavily reliant on the national account to fund welfare programmes. Further, the strategic intent is also educating citizens on issues of development and accountability - while remaining considerate of and responsible for indigent groups - should be the aim. In this way, citizens would aspire to be economically self-
sustaining and to build or buy properties of their own, the empowerment process having prepared them for the obligations of homeownership. This behaviour would have beneficial effects across all sectors and actors, from borrowers through to lenders.

High expectations, entitlement mindsets and non-payment behaviours are likely to be exacerbated by the current application of the welfare approach in South Africa. This is reflected in the Economic Impact of Government Housing Programmes report (2011), which states that the issue of free housing has created negative consequences for municipalities as beneficiaries are not paying their municipal rates, which the municipalities rely on for income generation (Economic Impact of Government Housing Programmes, 2011). The non-payment issue, concludes this report, is attributable to many beneficiaries not paying for services because they are either unemployed or under the impression that everything is for free. A paradigm shift at government level towards new alternatives and initiatives is of paramount importance towards mitigating the potential social and economic risks. This is a position espoused by Motsuenyane (2012) when he argues that, given the country’s current state of affairs, socio-economic problems cannot be adequately addressed; he suggests that investment in entrepreneurship is of overriding importance (Motsuenyane, 2012). A view that was cunningly articulated by the former South African Reserve Bank Governor recently (July 2013) when he asserted his concern on the reliability on social grants by arguing that the enormous expansion of social welfare could have the unintended consequence of a social revolution similar to those in Portugal, Greece and Cyprus should the state at some point need to scale back on benefits (Business Day, 02 July, 2013).

4. Empirical Findings

4.1 Devising problem statements and appropriate sampling technique

The researcher’s primary hypothesis was that there is a relationship between a lack of borrower education and non-payment behaviour among low income homeowners. The assumption was that borrower education in the low income housing market is largely non-existent, which impacts negatively on repayment ratios and behavioural patterns. The hypothesis was not validated. The researcher’s secondary hypothetical statements demonstrated in this article was that the free house model or housing grant is a causal link to mortgage default ratio in South Africa. In other words, the risk of mortgage default is associated with accessing a fully state subsidised property. Suggesting that low income mortgage account holders were more likely to default in favour of obtaining a fully subsidised house should they be foreclosed on by the financier.

In terms of the methods, since Protea Glen is a township comprised of various sections, this meant that responses were to be as representative as far as possible of the units of population. Thus, the researcher prepared a total of 150 questionnaires that were to be evenly distributed. From the aggregated population, the researcher pooled the Protea Glen sections into seven segments in the form of stratum. This was to ensure that data was only elicited from the population meeting the criterion identified through an initial filter questionnaire process. Population is a term that sets boundaries on the study units as it only focus on individuals who possess specific characteristics (De Vos 2003: 298).
The purpose of dividing the population was to increase accuracy and minimise cost. Pooling the population into groups rationalised the application of a stratified sampling technique. Stratified sampling is defined by Mason (1992: 8) “as a tool of sampling that can be used to reduce the variability of the sample”. Strata are identified as “regions of the site that are expected to be uniform in character, added Mason” (Mason, 1992: 8). This is a view substantiated by Young (1997) when he states that stratified samples are obtained by taking samples from each stratum or sub-group of a population (Young: 1997). When we sample a population with several strata, as Young (1997) establish, we generally require that the proportion of each stratum in the sample should be the same as in the population. As a result, 150 questionnaires were allocated into seven (7) strata (sections in Protea) with each strata apportioned 21.4 questionnaires, meaning 150/7=21.43.

As observed below a fully capitalized subsidy house has since improved making it superior in terms of size, structure and design. The new BNG product is fast becoming attractive amongst low income households. Households are defaulting on their bonds unwitting of the negative impact with the hope that banks will foreclose on their properties and thereby be classified as poor deserving allocation of a BNG house. According to the National Department of Human Settlements 2010 estimates, the BNG house cost nearly R80 000 (R77, 852) from town planning to sanitation services. This makes it a preferred house of choice because of its attached ‘free status’ as opposed to purchasing a house through mortgage finance as a starter home that is technically similar to a BNG house as outlined below.

According to Rust (2011) the subsidy freehold houses is built on a 250m² land size and targeted at 60%-70% of South Africa’s population and there is about 1.4 million properties on the deeds registry (Rust, 2011:19). With this size of land, even those who do not qualify are finding it opportune to ‘substitute’ a starter mortgaged property in favour of a free house where they can incrementally build the house they desire without paying for anything as revealed by the empirical findings of this study.

**Row of RDP Old houses in Freedom Park**

**New BNG House in Olievenhoutbosch**

**Figure 2:** Row of RDP Old houses in Freedom Park and New BNG House in Olievenhoutbosch
With the use of logistic model, it is necessary to point out the vitality of the sample size in research surveys when dealing with correlation of variables. This is particularly important for establishing the relationship between the two variables which can be constrained by the size of the sample. It is argued that the probability of signifying a relationship in variables is higher to larger sample population than to a small sample. The total number of all houses in Protea Glen to which respondents were attached totalled 17,138, with 13,133 of which were still mortgaged, represented a total of proportion of 77% of the suburb. A total of 150 questionnaires were prepared and administered. Of the 150 questionnaires, 104 questionnaires (104/150) were satisfactorily responded to, and thus making up a response rate of 70%, meaning that for every 10 questionnaires administered, 7 were acceptably responded to. Accordingly, it was essential to establish through the questionnaire the demographic composition of the units of population. Examination of such variables presented insights about the socio-economic in the suburb dynamics and these also included educational, age, household income, levels of educations, etc.

Table 2: Education level of respondents

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>1</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Matric</td>
<td>41</td>
<td>39.4</td>
<td>40.4</td>
</tr>
<tr>
<td>Secondary</td>
<td>6</td>
<td>5.8</td>
<td>46.2</td>
</tr>
<tr>
<td>Diploma/Degree</td>
<td>49</td>
<td>47.1</td>
<td>93.3</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>3.8</td>
<td>97.1</td>
</tr>
<tr>
<td>Missing</td>
<td>3</td>
<td>2.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>100.0</td>
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</tbody>
</table>

4.2 Educational level of respondents
The finding demonstrates that the sampled population is, on the whole, a relatively educated population. In response to a set of pre-determined statements about the probability of default relative to level of education, the survey households showed reasonable levels of education. The proportion of households with a degree or diploma qualification was higher (47.1%) than any other measured level of education category. While those with matric qualifications made up 39.4% of the total.

This statistic, together with the high percentage permanent formal employment and regular income, also explains their ability to buy houses. This is one of the key indices used by the banks when applying their credit assessment process for granting a home loan. This means that a significant proportion of the surveyed households fall into the category of approved home owners hence they have mortgage bonds.

### Table 3. Total monthly income of households

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Per cent</th>
<th>Cumulative Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R2000-R4500</td>
<td>12</td>
<td>16.3</td>
</tr>
<tr>
<td>R4501-R7000</td>
<td>43</td>
<td>41.3</td>
</tr>
<tr>
<td>R7001- R12000</td>
<td>43</td>
<td>41.3</td>
</tr>
<tr>
<td>&gt; R12001</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>100.0</td>
</tr>
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</table>

In general, income is the ultimate determinant for homeownership and the higher the income, the greater are the prospects of accessing credit. The effects of homeownership exclusions are felt mostly by the lower income groups. The finding on households’ monthly income show that 86% of the respondents had joint income earnings of between R4 501 and R12 000 a month. Of those, 41.3% earn R7 000 – R12 000 per month.

The hypothesis was that higher income households are less likely to default as opposed to lower income households that are hypothesized to be more susceptible to non-payment. As delineated below, the majority of respondents are in the top category of the income pyramid of the surveyed market with 16.3% earning R2 000 – R4 500 per month.
The question posed to the respondents was, from the scale provided (Very Good to Poor) how would you compare your current mortgaged property compared to the newly built fully subsidised government properties.

4.3 Respondents’ Rating of the Current Mortgaged House Against New BNG Fully Subsidised Government House

The analysed data provided significant responses to the question: from the listed scale provided (Very Good to Poor) how would you compare your current mortgaged property compared to the newly built fully subsidised government properties?

The tested hypothetical statement was that current mortgaged properties occupied by respondents were generally considered inferior compared to a fully subsidised house provided for by the state; thus the mortgage borrowers are likely to default towards payment of their assets. The hypotheses was that homeowners of mortgaged properties view their properties as poor assets compared to free government houses which they considered as generally good. This assumption was considered by the author as the contributory factor to the risk of mortgage default in the low income segments of the property market in South Africa.

As a result of this negative perceptions and attitudes among mortgaged homeowners created a view that free houses are much better than mortgaged properties and that banks are over valuing such properties compared to fully subsidised properties where beneficiaries are paying nothing towards their properties. As such mortgage borrowers believe that banks are insensitive and only concerned with profits margins over these perceived inferior assets. From the total of the surveyed respondents, thirty six percent (35.6%) indicated that the mortgaged properties can be rated as “good” assets against the fully subsidised properties. Twenty-one per cent (21.2%) of the respondents however expressed a similar opinion by suggesting that consider their mortgage backed properties as “very good” security assets compared to fully subsidised properties.

It was nonetheless the ‘telling’ twenty one percent (21.2) of the total respondents expressing that their mortgaged properties are generally “poor” than the state subsidised properties and also the fourteen percent (14.4%) of respondents considered their mortgaged properties comparatively “fair” when measured against the subsidy properties.

While this property comparison may not validate the existence of the relationship between mortgage borrowers’ susceptibility to default borrowers viewing their properties as of inferior standard compared to a fully subsidised house provided for by the state considered to be of superior standard. Such a scenario would contribute to mortgage default.

Table 4: Rating the Current Mortgaged House Against New BNG Fully Subsidised Government House

<table>
<thead>
<tr>
<th>Scale</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>22</td>
<td>21.2</td>
<td>21.2</td>
</tr>
<tr>
<td>Fair</td>
<td>15</td>
<td>14.4</td>
<td>35.6</td>
</tr>
<tr>
<td>Good</td>
<td>37</td>
<td>35.6</td>
<td>71.2</td>
</tr>
<tr>
<td>Very good</td>
<td>22</td>
<td>21.2</td>
<td>92.3</td>
</tr>
<tr>
<td>Missing</td>
<td>8</td>
<td>7.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>104</td>
<td>100.0</td>
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borrower’s tendency to default towards their mortgage loans. The extent of association of the two variables is measured and presented below in the next cross-tabulation table.

Cross tabulation was essential in determining the extent of existence of dependent and independent variables. The tested hypothetical statement was that current mortgaged properties occupied by respondents were generally considered inferior compared to a fully subsidised house provided for by the state; thus the mortgage borrowers are likely to default towards payment of their assets.

Table 5: Cross-tabulation findings on payment behavior between respondents of mortgaged and subsidised properties and propensity to default using income analysis of respondents

<table>
<thead>
<tr>
<th>Income group</th>
<th>Mortgaged property owners respond on whether they defaulted or not defaulted on their home loan account</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Missing</td>
</tr>
<tr>
<td>Never defaulted</td>
<td>R2000-R4500</td>
</tr>
<tr>
<td>Defaulted</td>
<td>4</td>
</tr>
<tr>
<td>Missing</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>0</td>
</tr>
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Pearson Chi-square value = 26.306 P-value = 0.001

Hypothesis: There is an evidence suggesting correlation between respondents of mortgaged and subsidized properties and propensity to default. Since Pearson Chi-square value = 26.306 and p-value = 0.001, it was found that there is no compelling evidence.

The proposition was validated by the empirical findings. The results demonstrate that the existence of the relationship between the borrower's perception of their mortgaged property against a subsidy property and their susceptibility to default. The statistics suggest that those who considered their properties to be of ‘poor’ standard compared to subsidy house and have never defaulted constituted a mere 0.96%. In contrast, those who defaulted and consider their properties to be of ‘poor’ standard represented a total 19.2%. Meaning, the ‘poorer’ the perceived standard of the property, the higher is the default probability ratio. Further, the statistics show that 19% of those who consider their mortgaged properties to be of ‘good’ standard against the subsidy property have never defaulted; while 14% of those reported their mortgaged properties to be of ‘good’ standard have defaulted. This reflects a positive statistical margin of 5%.

This substantiates that there exists a correlation between the perceived poor standard of a mortgaged property against the prospect of a subsidy house and tendency to default. Put it simply, those home owners who viewed their properties to be of poor standard when benchmarked against fully state subsidy property are more like exhibit non-payment behaviour on their mortgage bonds. This appears to suggest that home owners are inclined to default in favour of subsidy properties provided for free by the government. This does not only illustrate tendency by home owners and potential beneficiaries to depend on the government social housing security but also the risks associated with welfare model in terms of providing houses in South Africa.
Remarkably, it is the mortgage account holders in the income segments of R4501-R7000 and R70001-R12000 that demonstrate the highest levels of defaults. Heavy reliance on the state subsidy seems to create a culture of entitlement even amongst households that can provide for themselves. It is this kind of behavioural pattern that should concern the government. This notion validates the theoretical supposition that the risk of mortgage default is embedded in the actual type of structural standard, design and most importantly the gratis associated with homeownership in South Africa; the poorer the perception about the standard of their mortgaged properties the higher are the chance to show non-payment conduct on their accounts with the assumptions that once they defaulted numerous they foreclosed on and be offered a free subsidy property that has become an attractive product with its structural appeal built on a massive stand.

5. Conclusion
The implementation of the welfare model in South Africa has encouraged and promoted self-entitlement among consumers whose behavioural approach shows elements of unreliability, especially in relation to free housing. The fully subsidised house in South Africa is provided to all those with no income, vulnerable groups and to all those with household income of up R3500 a month. This means that a prospective homeowner with a household income of R3 501.00 does not qualify for a full subsidy house but have to purchase a house through a mortgaged bond. The mortgage repayment behaviour of households earning R3 501-R3 600 per month is impacted because of the knowledge that neighbours are paying nothing towards their houses while homeowners are expected to repay or service the loan until amortisation. While the product offering is slightly different, the home loan account holder behaviour is likely to be similarly impacted.

As the study established the level of satisfaction with property structure and standard decrease the risk of default probability, a proportion of those who defaulted cannot be de-linked to the prospect of getting a new free house as opposed to notion that they are dissatisfied with the standard of their property. The free house concept backed heavily by the welfare model cannot be fiscally sustainable for government as the state would assume and carry much of the risk associated with free housing.

This is suggestive that the application of the welfare system in its current format in South Africa might not be a viable proposition, it requires to remodelling. A need for a paradigm shift at government level towards new alternatives is of paramount importance in avoiding further negative consequences and has never been this greater.

As stated earlier, the Brazilian social welfare model appears to be the one that a country like South Africa can benchmark itself against as its funding model does not only rely on national account but also on private sector funding mobilization. The strategic intent is to ultimately empower citizens to be responsible consumers as opposed to be become mere beneficiaries.

The Brazilian model also had to undergone structural reforms since its introduction. The provision of housing subsidies is through an established Fund, earmarked for housing the poor. Instead of subsidies for the poor, the government proposed the development of modern market instruments to benefit the provision of social housing. This was done through the establishment of new mechanisms to attract savings domestically and overseas.
The fund was earmarked for housing, but the source and flows of funds envisioned by the government municipal revenues, domestic and foreign credits, mortgage interest profits, yields from financial investments, donations and fines is entrenched on the principle of social investment and not relying wholly on government’s fiscal support.

In summing up, Gleason (2012) argues coherently in his theory by stating that an indispensable feature in the successful management of any modern state is its ability to collect (fairly) and dispense (wisely) monies from its citizens. Gleason (2012) concludes by highlighting that this is tough legacy for 21st century revenue men and women however politically prudent and necessary for the safety and security and well being of the state shrewdness has to prevail above all.

References


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