



The Banking Enquiry
The DTI Campus
Mulayo (Block C)
77 Meintjies Street
Sunnyside, Pretoria

via e-mail: bankingenquiry@compcom.co.za

October 27, 2006

**Stakeholder Submission to the Enquiry into Competition in Banking
by the Rural Housing Loan Fund**

Dear Sir,

The Rural Housing Loan Fund (RHLF) is a non-profit section 21 entity owned by the Department of Housing and capitalized by a grant from the Federal Republic of Germany. Our primary objective is to improve the housing conditions of low-income South Africans in rural areas through wholesale funding to qualified intermediary non-bank lenders. Since inception in 1997, we have enabled over 100,000 end-user loans and currently maintain a combined end-user loan book of R200 million across eight retail lenders. Our loans are generally small unsecured term loans that support an incremental approach to home building and improvements that is well adapted to the financial circumstances of our low-income target group.

We make this submission to the Banking Enquiry as a stakeholder representing the interests of our low-income borrowers and of our non-bank retail lending partners who extend the housing loans to the ultimate beneficiaries throughout South Africa on our behalf.

We observe anti-competitive behavior by the major banks in South Africa in respect to the charges levied on transaction services particularly in the low-income mass-market and in the way that access to client accounts is managed across the national payments system in regard to debit order collections submitted by non-bank creditors.

We define our low-income clientele as households earning less than R7,500 gross monthly income. These are working families whose breadwinners are most often in formal employment relationships but may also combine multiple incomes including from casual and informal employment to make ends meet. These are reluctant bank customers. They hold bank accounts mainly because it is required by their employers for the ease of paying out the salary and to handle a handful of monthly bill payments that are obligatory to be made in cashless form. Our low-income clientele generally does not have access to bank overdrafts and other investment and credit products from the bank. Hence the transaction account is not the entrance point to a value-added financial service relationship. To average low-income



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customers, the bank account amounts to an expensive obstacle course that must be overcome to get their modest wages out in cash every month.

Our first complaint to the enquiry thus amounts to the following:

1. **Major Retail Banks in South Africa charge artificially inflated account maintenance and per-item fees on basic transaction banking services that amount to a usurious financial burden on low-income households. There appears to be little competitive incentive to develop product offerings better suited to the needs of low-income earners.**

On behalf of our retail lending partner organizations we would like to lodge a second complaint about the uncompetitive behavior of the banking industry in regard to collections by non-bank creditors via the national payments system:

2. **As joint owners of the National Payments System in South Africa, the banking industry manages access to retail client accounts for creditor-initiated payment collections with a systematic bias favoring its own collections as well as those submitted by particular privileged partners. Often, the banks charge additional fees for priority debit order submissions on top of already uncompetitive standard transaction charges levied on the debtor and the creditor of the payment.**

The priority debit order access has become an enabling factor in illegal reckless microlending activities to low-income earners. Reckless lending based on priority collections is a major source of financial loss for the non-bank housing lenders represented by the Rural Housing Loan Fund. Our lending partners approve only such housing loans that meet rigorous affordability standards, but regularly witness that borrowers subsequently are being overindebted with consumer credit. The reckless lender is either the bank itself that holds the client's account or a microlender who has a collusive arrangement with the bank to systematically collect ahead of any other debit order submissions scheduled on or around the salary date. This causes ordinary creditors' debit orders to be regularly rejected for insufficient funds.

In the following we will present case study evidence collated with assistance from our retail lending partners to substantiate our complaints. With our limited resources and modest market share, we are not in a position to make statistically verifiable arguments about the (un)-competitive conduct of the retail banking industry as a whole. We feel that the individual examples cited here will nonetheless illustrate the effects of a conduct that we believe the Banking Enquiry might well prove to be systematic indeed.

Case 1: Ms MJ Moloi, Nedbank Rustenburg CBD - Unfair Collections & Excessive Charges

Ms Moloi lives in Rustenburg and works as a Credit Advisor at Fairdeal Rustenburg in North-West Province. Her monthly take-home salary averages R2,404 in the three month period from June through August 2006. She uses her account to receive her salary, which she typically takes out in a single ATM withdrawal each month. Otherwise, her account is used for two loan instalments from Nedbank, a microloan payment to Longain and a further microloan instalment to Balboa every month. Her total charges on this very modest use of the banking system amount to R317.76 for the three months, i.e. 4.4% of her take home pay for the same period. Included in this amount are six unpaid item charges at R28 each as well as 16 balance inquiries ranging between R 3.50 and R 4.50.

This case also highlights an unfair collection practice by Nedbank as the account owner: Ms Moloi does not have an overdraft arrangement with Nedbank. In fact, Nedbank rejects any ATM withdrawal or debit order that would take the account into the red even for negligible amounts, which makes it difficult for Ms Moloi to manage her account and leads to repeated and expensive returned items. However, Nedbank does let debits through every month for its own microloans (instalments of R645.00 and R92.25), although they create an overdraft for the full amount. These charges are passed towards the end of the month ahead of Ms Moloi's salary date and effectively create a front-loaded collection mechanism that will have precedence over any other withdrawal or debit order submitted on or around the salary date. Whatever salary credit or other deposit comes through will first pay off the negative account balance represented by the microloan instalments before any other payment requests can be considered. Nedbank thus "owns" the customer and can collect up to the entirety of the salary payment each month without regard to the affordability of its microloans. One should note that this unfair front-loading of loan instalments via selective overdrafts will continue even after the introduction of the randomized debit order submission under the new AEDOS system.

Case 2: Ms M.M. Madiba, Nedbank Polokwane Main Branch – Excessive Charges

Ms Madiba lives in Matlala near Polokwane and works in Lebowa-kgomo, about 60 km from her home. She earns R5,350 per month average take-home pay as a switchboard operator at the regional office. The transactions in her account are limited to a monthly payroll deposit, a Wesbank car loan instalment, two microloans from Nedbank and Balboa and a monthly loan instalment paid to Norufin Housing. The rest of the salary is taken in cash. For this service, Ms Madiba paid a total of R 651.95 in bank fees and charges over the two months from June 17 to August 19, 2006. This corresponds to total fees of 6.09% of her take-home pay. Included in the total charges are cash withdrawal fees of R185.90 for teller withdrawals. The nearest ATMs where she could otherwise draw money are in Polokwane which is about 60 km from her work and 15 km from her home.

Case 3: Mr MD Mbatyoti, Nedbank East London Branch – Excessive Charges

Mr Mbatyoti lives in East London with his wife and 3 children and works as an operator in Venture Otto SA Pty Ltd. He is paid weekly and earns between R500 to R1,500 per week. Over the 3 months from 25 May 2006 to 24 August 2006 his take-home pay came to a total of R11,398 of which he paid R213.81 or 1.88% to Nedbank in fees. He used only the most basic bank services consisting of a weekly payroll deposit and corresponding ATM withdrawal plus one weekly debit order of R100.77 put through by Lendcor (a RHLF retail lender) for a small home improvement loan.

Case 4: Ms FS Cwele, Nedbank – Excessive Charges

Ms Cwele lives in Umlazi outside of Durban with her extended family and works in Durban. She earns R3,550 per month average take-home pay. During the three months of April to June 2006, she paid banking charges of R246.78 on net pay of R10,647.56, i.e. 2.32%. On 31 May her account statement shows a typical example of the penalizing rejected item charges that the low-income market is subjected to: a R37.00 debit order from Scorpion legal insurance fails for lack of R13.62 in cover. This leads to a returned item charge of R28, which incidentally also puts the client into overdraft for R3.62. The damage to the client does not end here, of course, because the insurance company will levy a returned payment fee on her account and her legal cover risks being cancelled. If Nedbank had deemed Ms Cwele “good” for an extra R10, the entire rejection process could have been avoided.

Case 5: Mr Thomas Mafologele ABSA Lydenburg – Excessive Charges & Reckless Lending

Thomas Mafologele is a single 22 year-old who works as a general laborer for the Thaba Chweu municipality where he earns an average monthly take home pay of R2,842 per month. He lives in a hostel room in Mashishing, Lydenburg. His bank statements for the three months from 3 February through 28 April 2006 show total bank charges of R467.5 against his net earnings for the same period of R8,526, which amounts to 5.48% of take-home pay. The only services Thomas uses at ABSA are his monthly payroll credit, two direct debits per month, a monthly stop order transfer to his ABSA “Target Save” account and a small number of ATM withdrawals. The R467.50 total charges include R94 in balance enquiries and rejected ATM withdrawal attempts alone. These charges are clustered around the three pay days, where Thomas was unsure whether his salary was in the account. Would it be too much to ask that ABSA might send him an SMS when his salary credit has gone through, so he does not have to spend R30 a month just to find out whether the money is in the account? So much more so since Thomas, who does not own a computer, was charged a R19.50 “Internet Banking Fee” on 28 February 2006.

On 25 April 2006, the small print in his bank statement reveals a true scandal: Thomas’ R200 stop order transfer to his Absa savings account is rejected for insufficient funds resulting in an unpaid item fee of R36.00, which comes on top of the standard charge of R4.75. (Why is there a charge for an internal transfer to a savings account in the same name?) That is R40.75 for a R200 failed savings instalment, although his salary is credited the same day on 25 April immediately after rejecting the savings transfer. One should note that this is the only transaction that failed for insufficient funds during the three months, which shows that Thomas generally manages his finances responsibly.

On 14 June 2006, Thomas applied to our retail partner Indlu in Lydenburg for a housing microloan of R9,000 over 24 months, which Indlu had to decline because his take-home pay of R2,842 was already encumbered with total commitments from retail store accounts and microloans of R1,800 per month. ABSA Lydenburg, however, proceeded to make a personal loan of R20,000 to Thomas that same month, which clearly violates existing MFRC affordability rules. ABSA can afford to make such a reckless loan because it “owns” the salary account and will be able to collect ahead of any other pre-existing commitments.

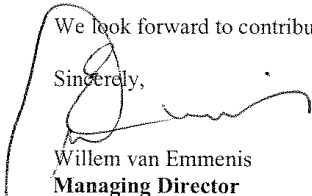
Case 6: Mr Maphuphe Mabela, FNB Lydenburg – Reckless Lending

Maphuphe Mabela is 48 years old and married with children but lives alone during most of the year in a hostel room in Mashishing, Lydenburg. Maphuphe works as a security guard for the Thaba Chweu municipality, where he earns R2,152 a month after deductions. After allowing for reasonable cash living expenses for himself and his family, Maphuphe has about R300 disposable income left per month. In reality, however, Maphuphe is on a one-month microloan “treadmill” for R 1,000 with Barko Financial Services and has to cover a First Rand consumer loan instalment of R400 and various small retail accounts every month. Maphuphe is clearly over-indebted. In May 2006, he applied to RHLF’s retail partner Indlu Finance in Lydenburg for a R16,000 housing loan which was declined due to lack of affordability. FNB Lydenburg, however, provided the microloan maximum of R10,000 that same month with access to the same credit bureau and National Loans Register information that showed Maphuphe was already over-indebted. The only difference is again that FNB “owns” the customer’s salary account and can devise ways to collect instalments on its reckless loan before legitimate pre-existing loans by other (non-bank) lenders get paid.

We have satisfied ourselves that the lending partners of the Rural Housing Loan Fund are in possession of detailed bank statements and customer files to back up the cases highlighted above. Confidential copies of these documents can be made available to the Banking Enquiry upon request.

We look forward to contributing further to the Banking Enquiry process and remain

Sincerely,



Willem van Emmenis
Managing Director