



# Understanding and Empowering First-Time Homebuyers

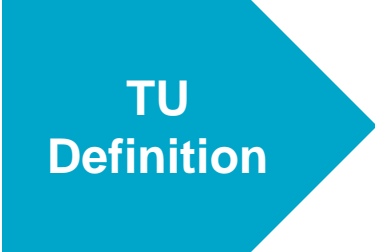
**Charlie Wise**  
**SVP Research and Consulting**

17<sup>th</sup> August, 2023

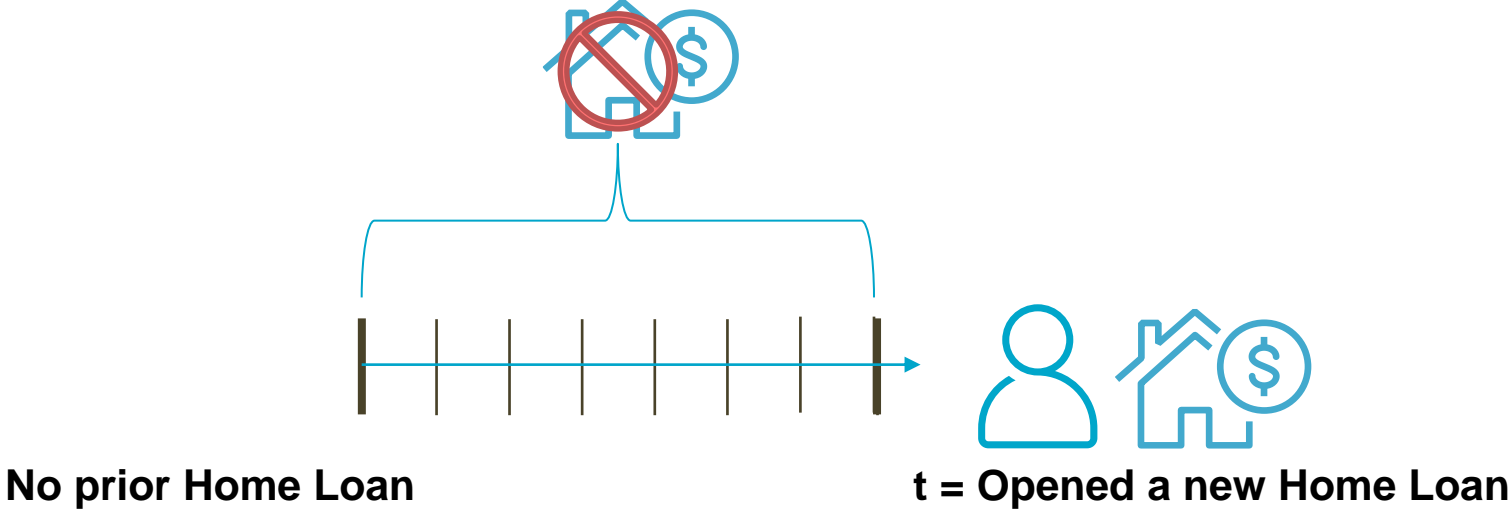
## **In this session, we'll address the following questions:**

- Who are first-time homebuyers and why are they important?
- What are the profiles and credit journeys of first-time homebuyers?
- What are the specific credit behaviours during the home loans journey?
- How can lenders benefit from the first-time homebuyer market?
- What is the outlook for first-time homebuyer market in the next few years?

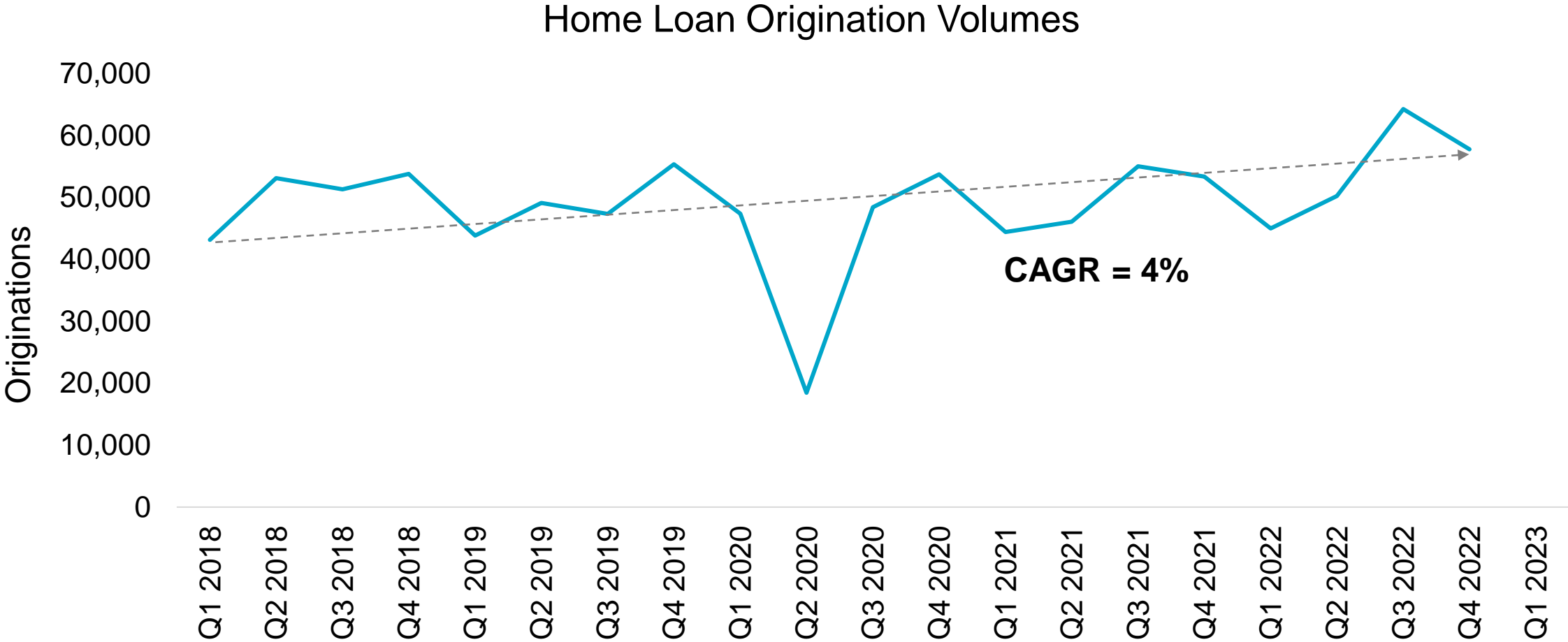
# Who are first-time homebuyers?



An individual who has originated their **first-ever** home loan on a credit file

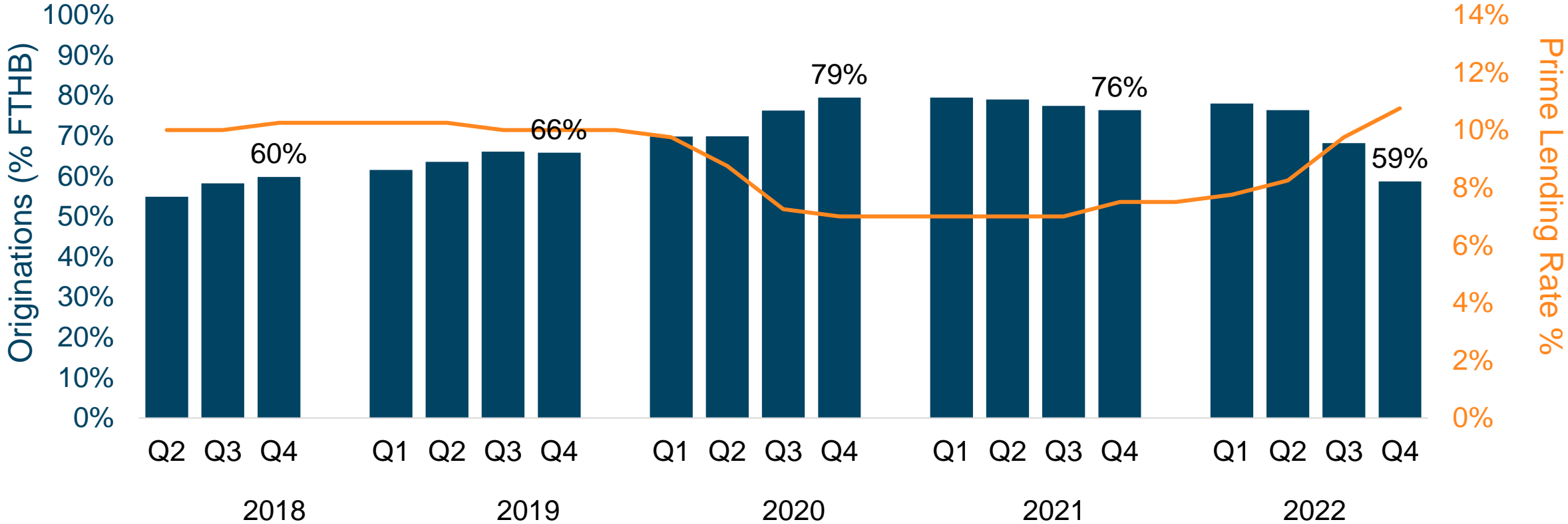


# The home loans market has seen a 4% compound annual growth rate in originations over the past 5 years



# As the market has grown, a majority of new home loans have been originated by first-time homebuyers. Rising rates may have recently reduced share

Percent of First-time Homebuyer Home Loan Account Originations



# Why are first-time homebuyers important?

## Attractive Economics



Over the past two years, first-time homebuyers comprised on average **72% of all homebuyers**

- Evidence of **pent-up** first-time homebuyer demand based on a recent dip
- In 2021 **over 30%** of first-time homebuyers opened a subsequent credit card with the same lender that provided their home loan
- In 2021 **over 12%** of first-time homebuyers opened a subsequent vehicle loan with the same lender

## Market Opportunity

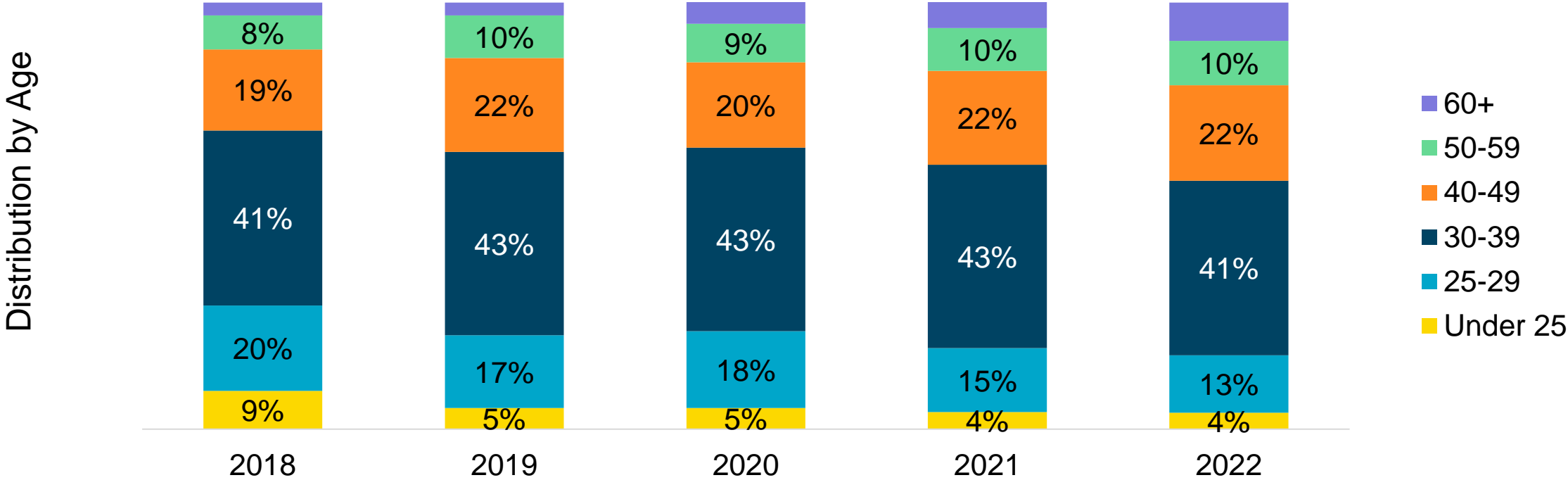


**Owning a home is a significant milestone for financial inclusion and empowerment in South Africa**

- *Average loan amount for FTHBs is about R959K*
- *Majority of FTHBs have a retail credit, credit card, and a personal loan at the time of home loan origination*
- *Government is continuing to sponsor programmes to assist FTHB financing, while lenders are also extending better rates and additional concessions*

# First-time homebuyers are middle-aged – 63% were age 30-49 in 2022 – and the proportion of younger homeowners is decreasing

First-time Homebuyer Home Loan Originations by Age Bands

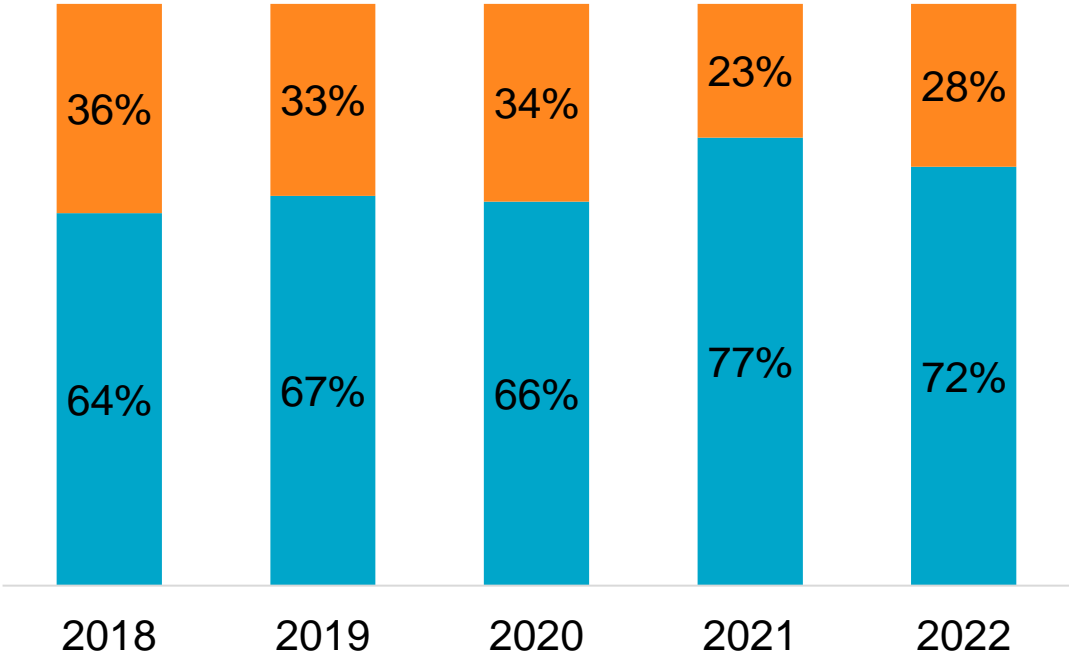


# First-time homebuyers are less likely to originate a joint home loan with a partner

First-time Homebuyer Home Loan Originations by Individual vs Joint

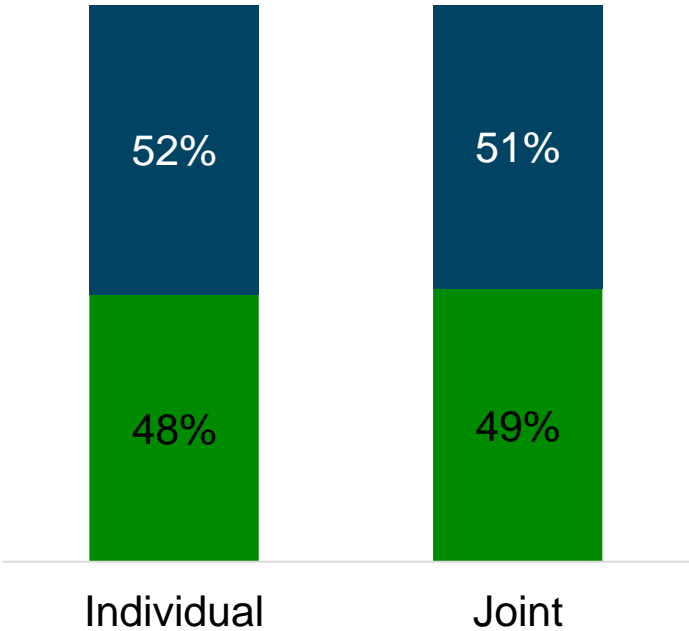
■ Individual ■ Joint

Distribution of Originations



First-time Homebuyer Home Loan Originations by Gender and Individual vs Joint

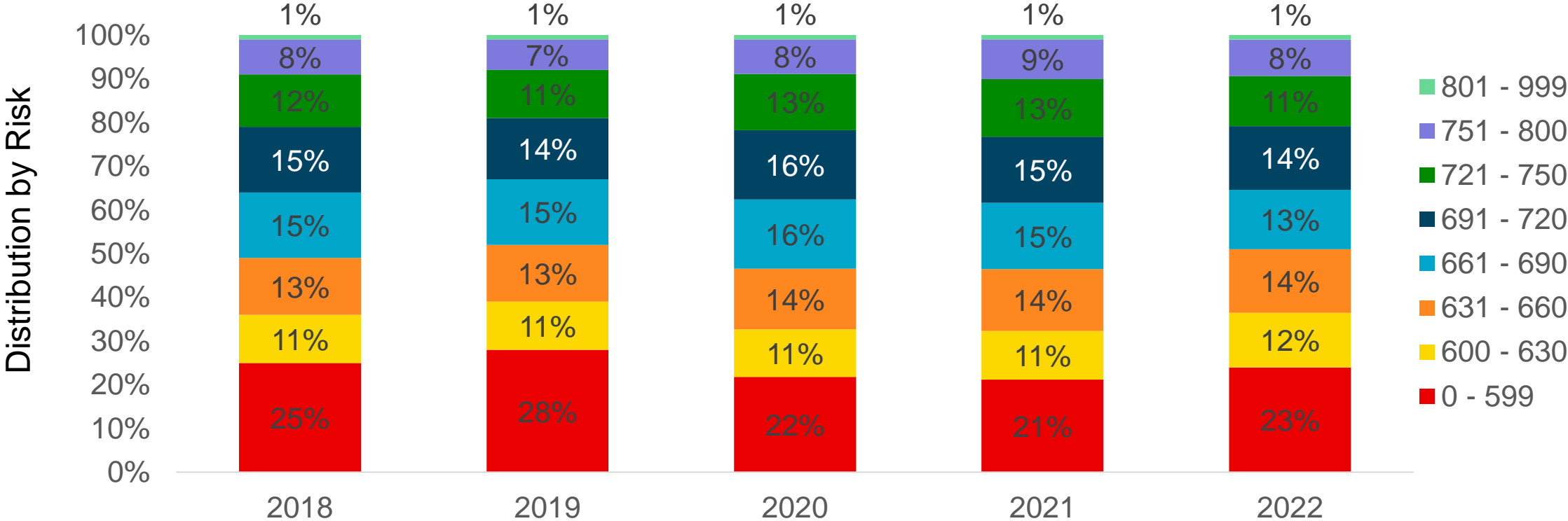
■ Male ■ Female





# FTHBs skew toward riskier consumers, with nearly half of 2022 originations by below-prime borrowers

First-time Homebuyer Home Loan Originations by Risk Bands



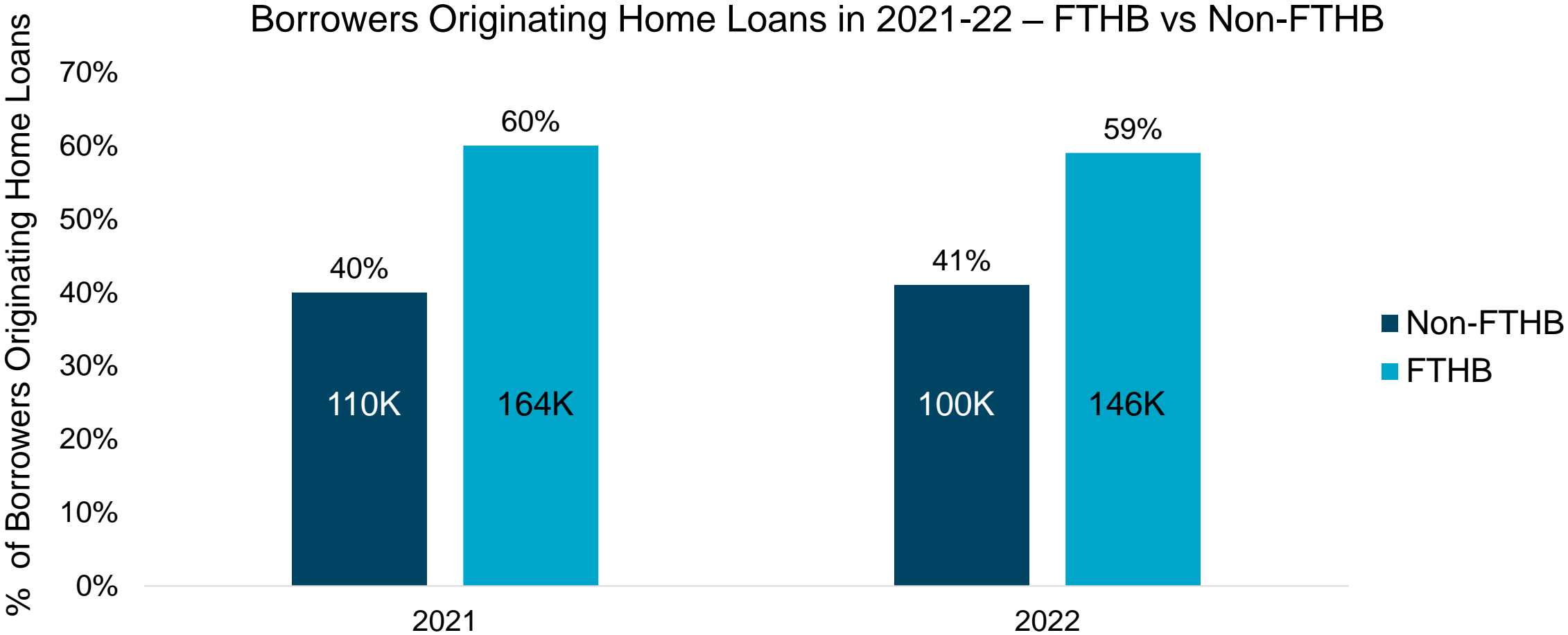
CreditVision™ risk score:  
 Subprime 0-625; Near prime 626-655; Prime 656-695; Prime plus 696-720; Super prime 721-999



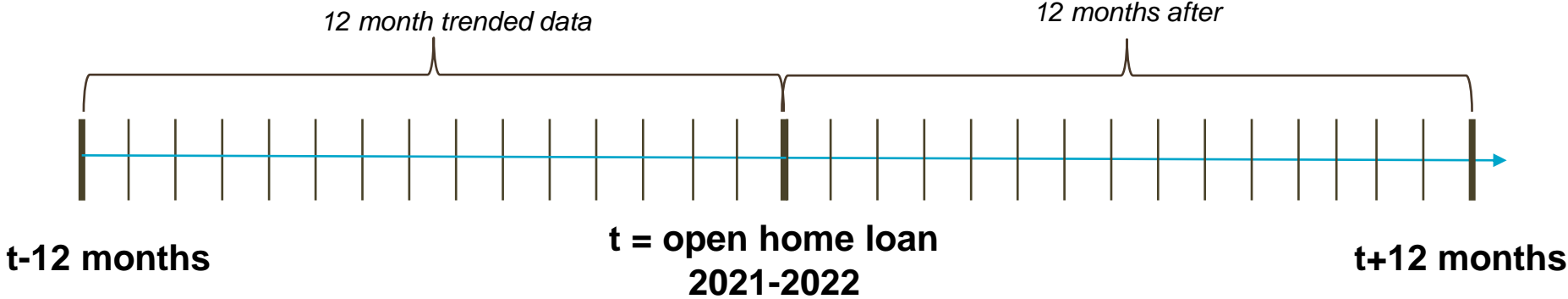
What are the profiles and credit journeys of first-time homebuyers?



# FTHBs represented about 60% of borrowers originating home loans between 2021 and 2022



# We identified consumers who originated a home loan in 2021 or 2022 and segmented between first-time and non first-time homebuyers



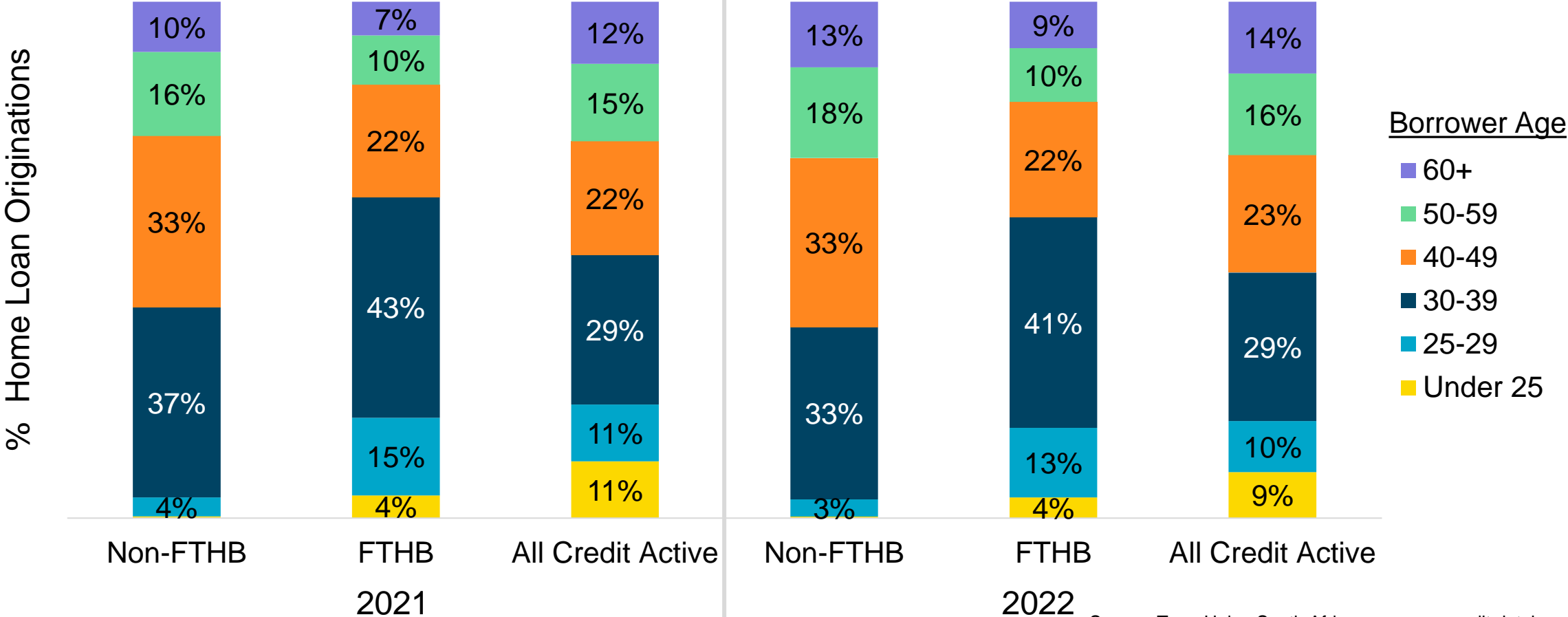
- Active wallet composition
- Outstanding balances
- Risk score

**First-Time homebuyer (FTHB)**  
FTHB who opened a first-ever home loan at  $t$

**Non first-time homebuyer (Non-FTHB)**  
Consumer who opened home loan at  $t$ , but also had home loan prior to  $t$

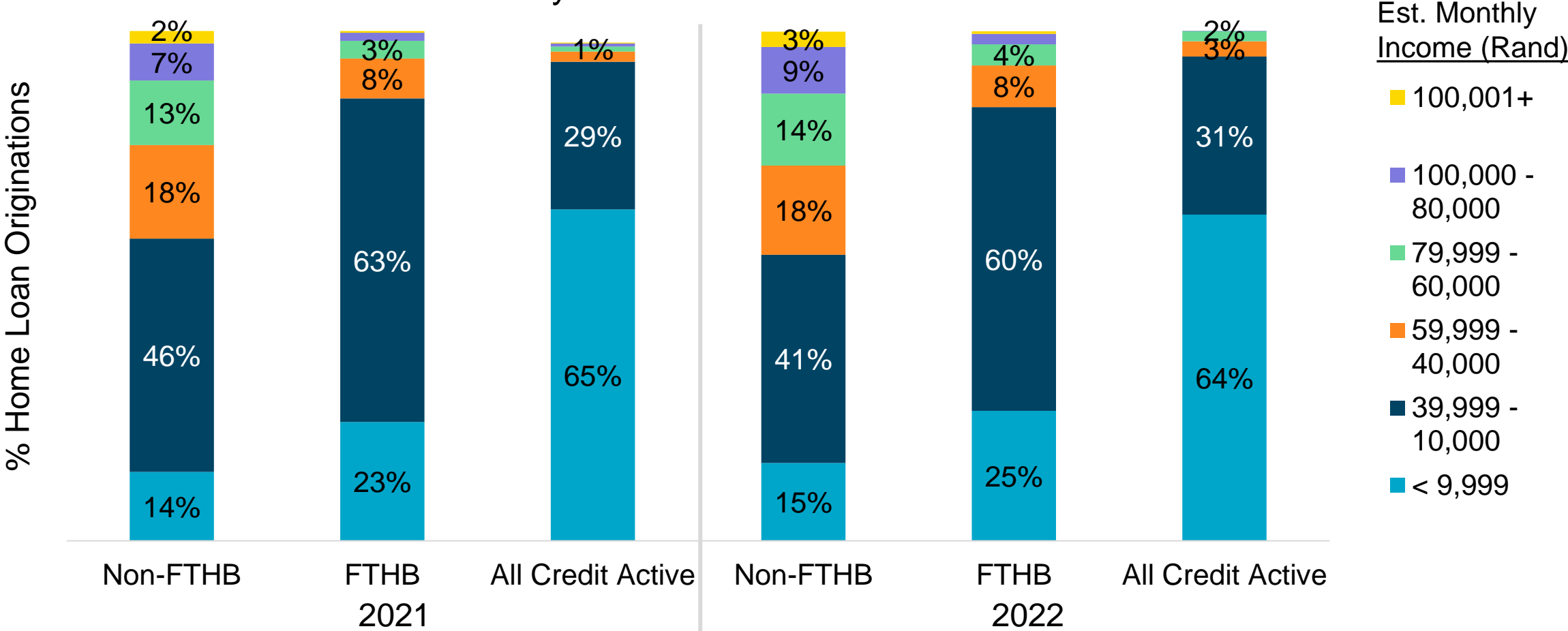
# FTHB consumers are younger as compared to both Non-FTHBs and the overall credit active population

Age Distribution of FTHB versus Non-FTHB



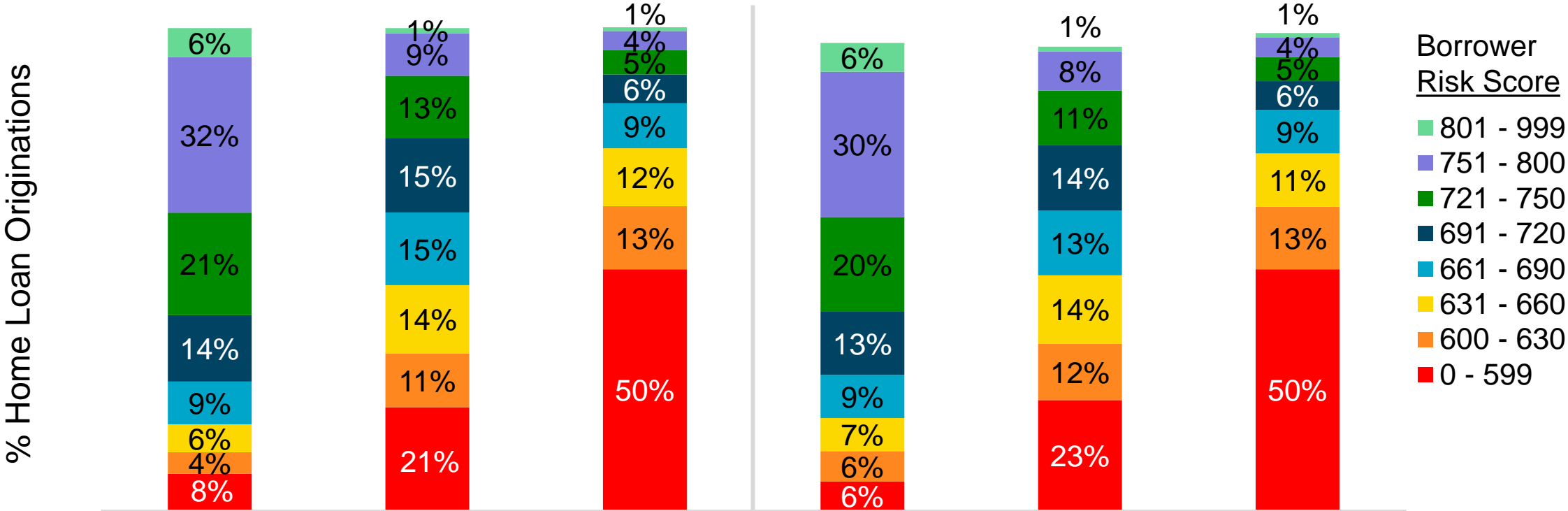
# FTHB consumers generally have a lower income as compared to Non-FTHB consumers, but higher than the overall credit population

Estimated Monthly Income Distribution of FTHB versus Non-FTHB



# When comparing risk, FTHBs tend to be much riskier than Non-FTHBs, but less risky than the overall credit population

Risk Distribution of FTHB versus Non-FTHB

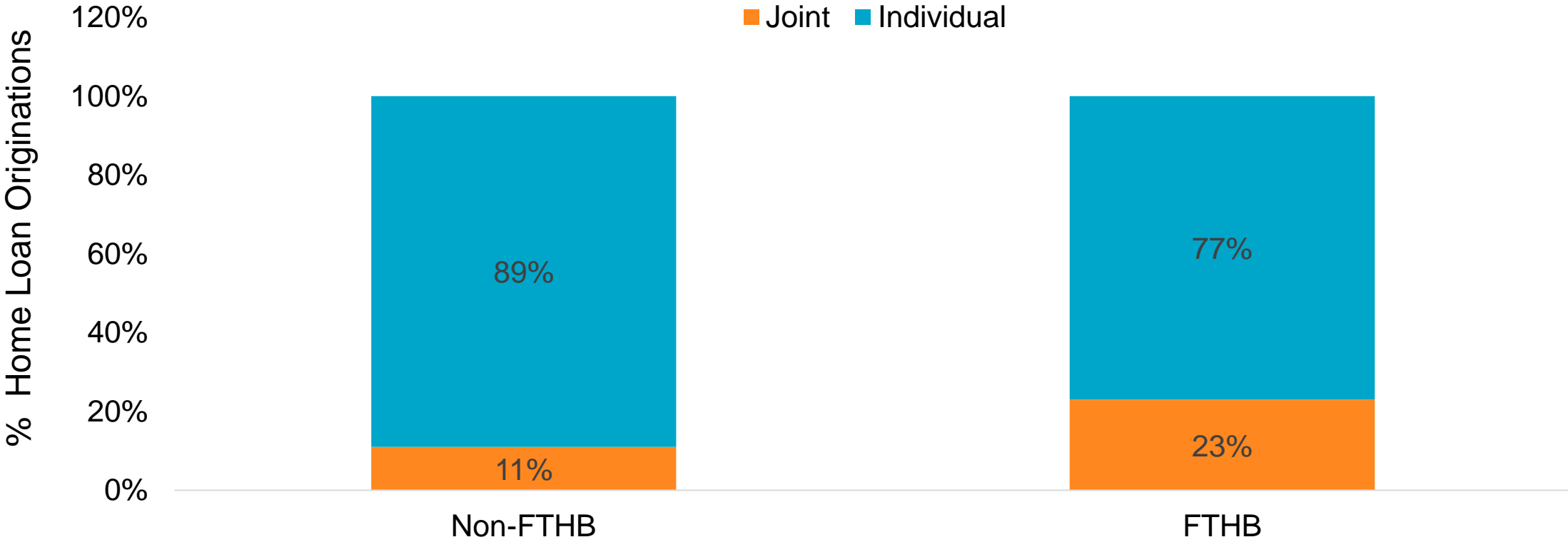


CreditVision™ risk score:  
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# About 77% of FTHB's take a home loan as an individual borrower, compared to nearly 90% for Non-FTHBs

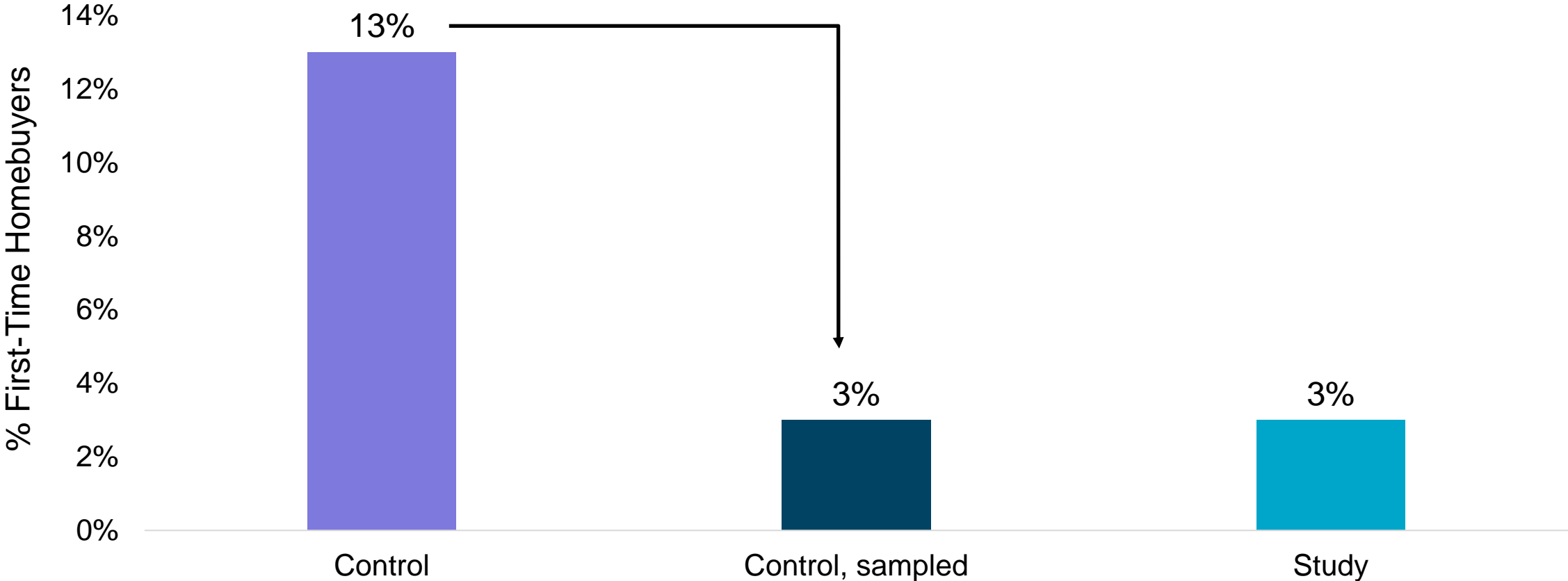
Home Loan Originations by Individual vs Joint





# Because of the differences between the populations, we sampled down the different consumer cohorts to control for risk and age

Example of Sampling Down for Age and Risk of FTHB – Age 40-49 & Super Prime



CreditVision™ risk score:  
Subprime 0-625; Near prime 626-655; Prime 656-695; Prime plus 696-720; Super prime 721-999



# We also studied two additional populations that did not have home loan originations during our time window



## Home Loan Holders

- Existing home loan holders opening non-home loan products at t
- AND last home loan trade opened at least 2 years ago, and home loan is still open

## Credit-Active Non-Home Loan Holders

- Credit active consumers with no active home loan trade on file

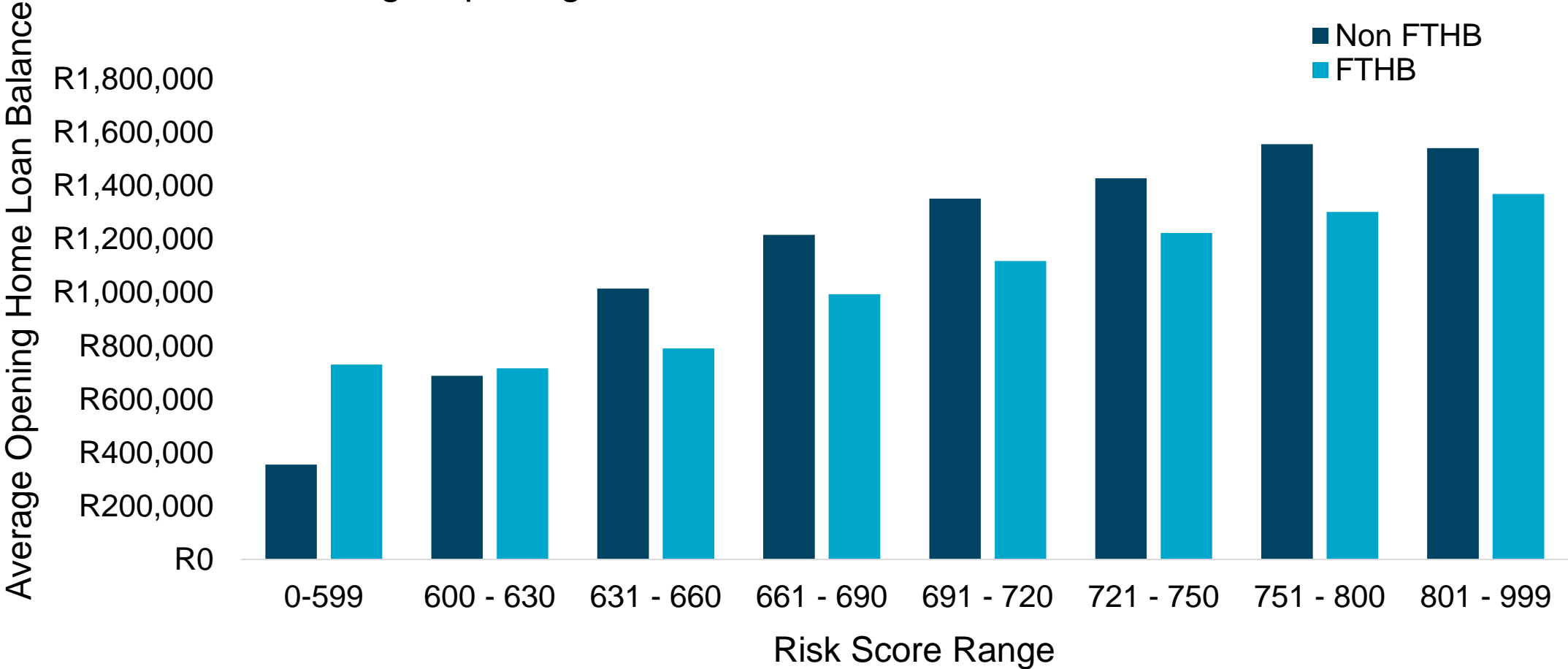
t

Consumers open a credit card, vehicle loan, or personal loan at t

- Measured at t
- Products in wallet
  - Credit history

# FTHBs on average originate smaller home loan amounts than Non-FTHBs, particularly in better risk tiers

Average Opening Home Loan Balance of FTHBs versus Non-FTHB

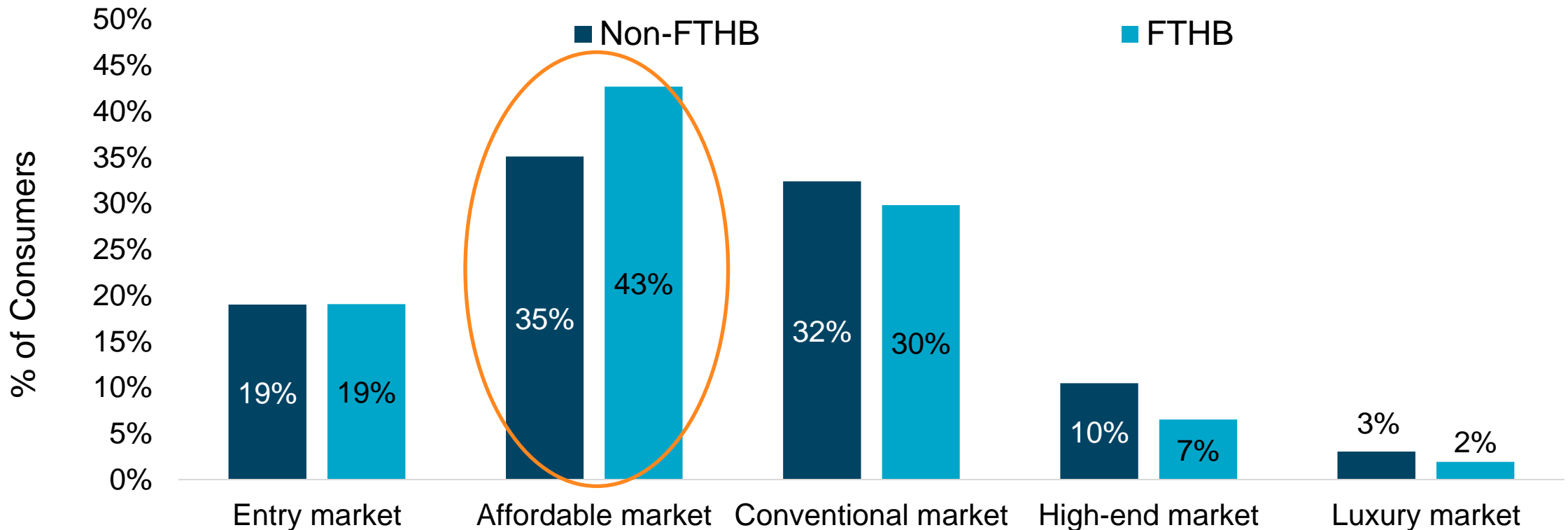


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# FTHB consumers generally look for affordable housing for their first home, but many also participate in the higher end of the market

## House Price Classification of FTHBs versus Non-FTHB



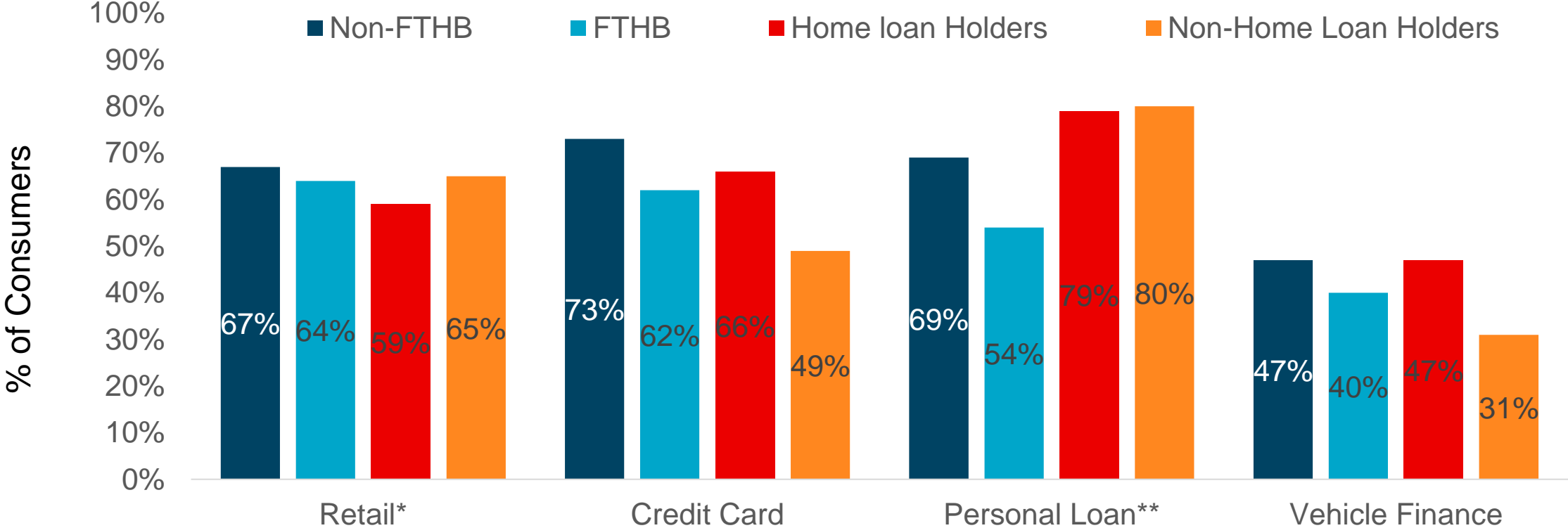
Note: House Price classification based on valuation price:  
Entry Market: < 500,000 ; Affordable Market: 500,000 – 1,200,000;  
Conventional Market: 1,200,000- 2,500,000; High-end Market: 2,500,000-4,000,000;  
Luxury Market: 4,000,000-7,500,000

Note:  
\*Not all consumers included here

Source: Riskcape Home Valuation Data

# A majority of home buyers already have other products in their wallets at the time of origination, with FTHB slightly behind Non-FTHB

Consumer Credit Participation by Lending Product at t



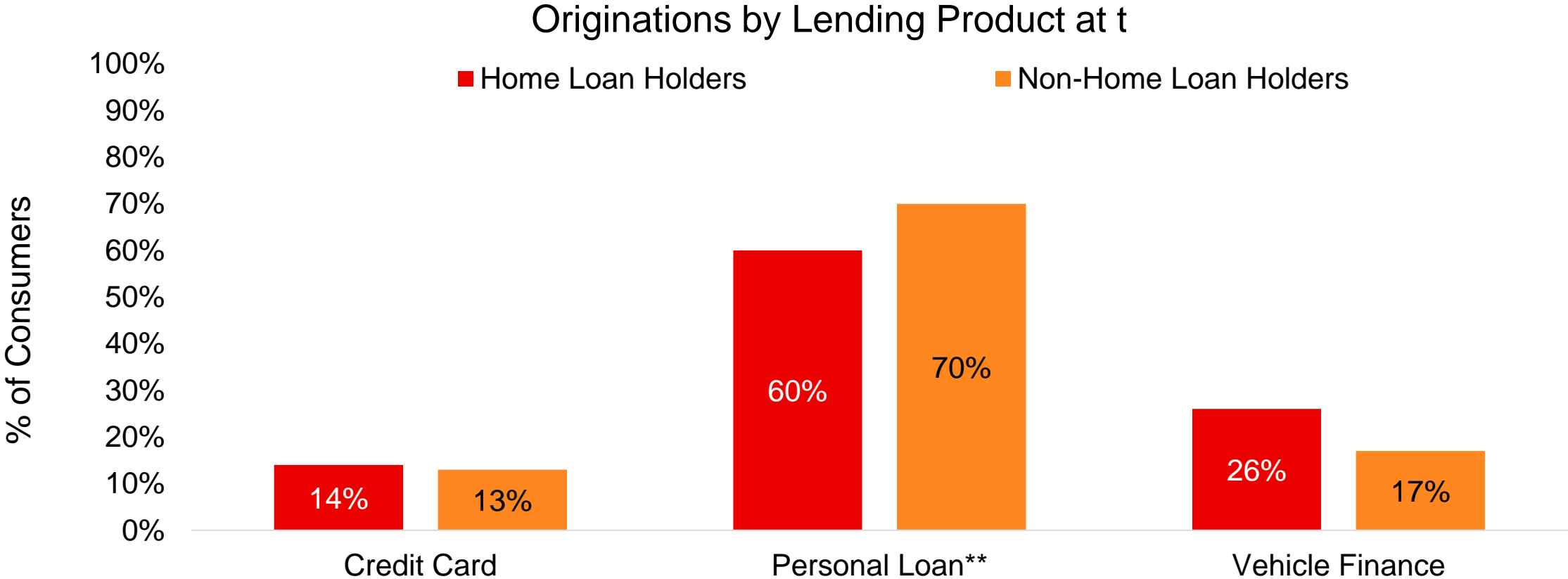
Note:  
 \*Retail consists of Clothing Accounts, Retail Revolving and Retail Instalment Facilities  
 \*\*Personal loans consists of Bank issued Personal Loans and Non-Bank Issued Personal Loans



What are the specific credit behaviours of consumers during the home loans journey?



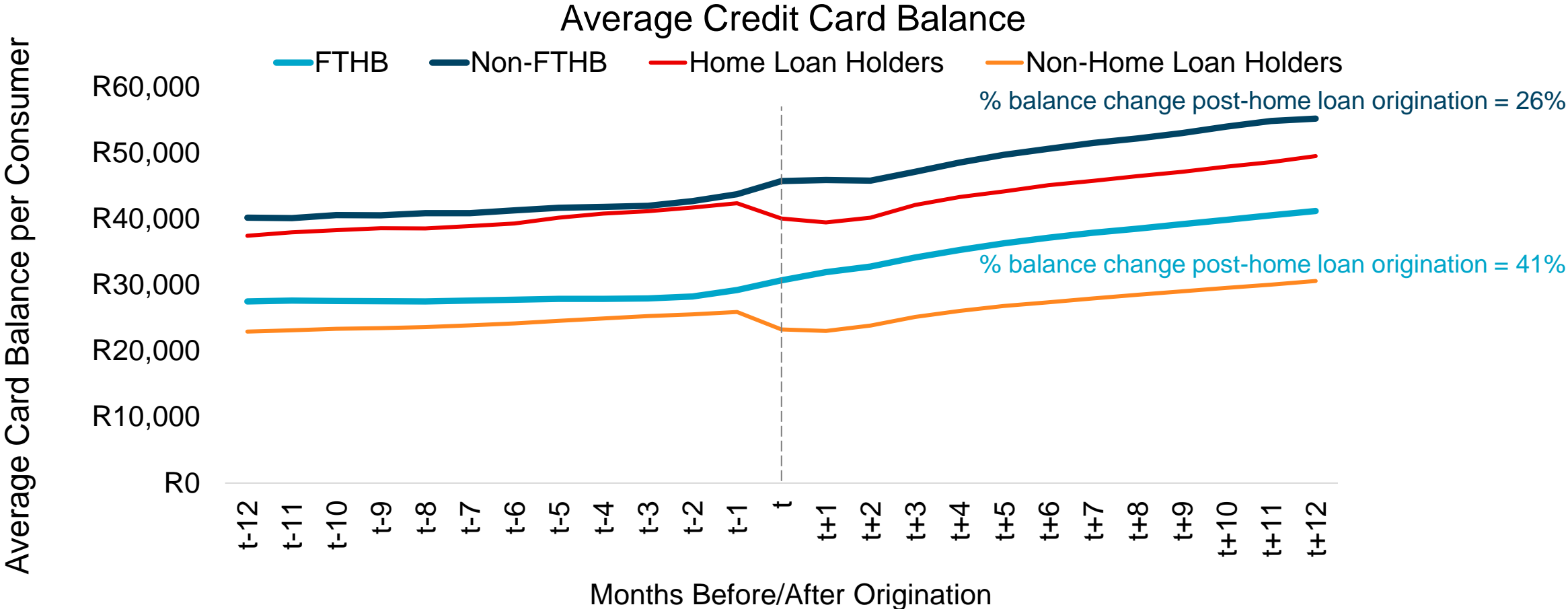
# For reference, a large majority of the products opened by home loan and non-home loan holder groups are personal loans



Note:  
\*\*Personal loans consists of Bank-issued Personal Loans only

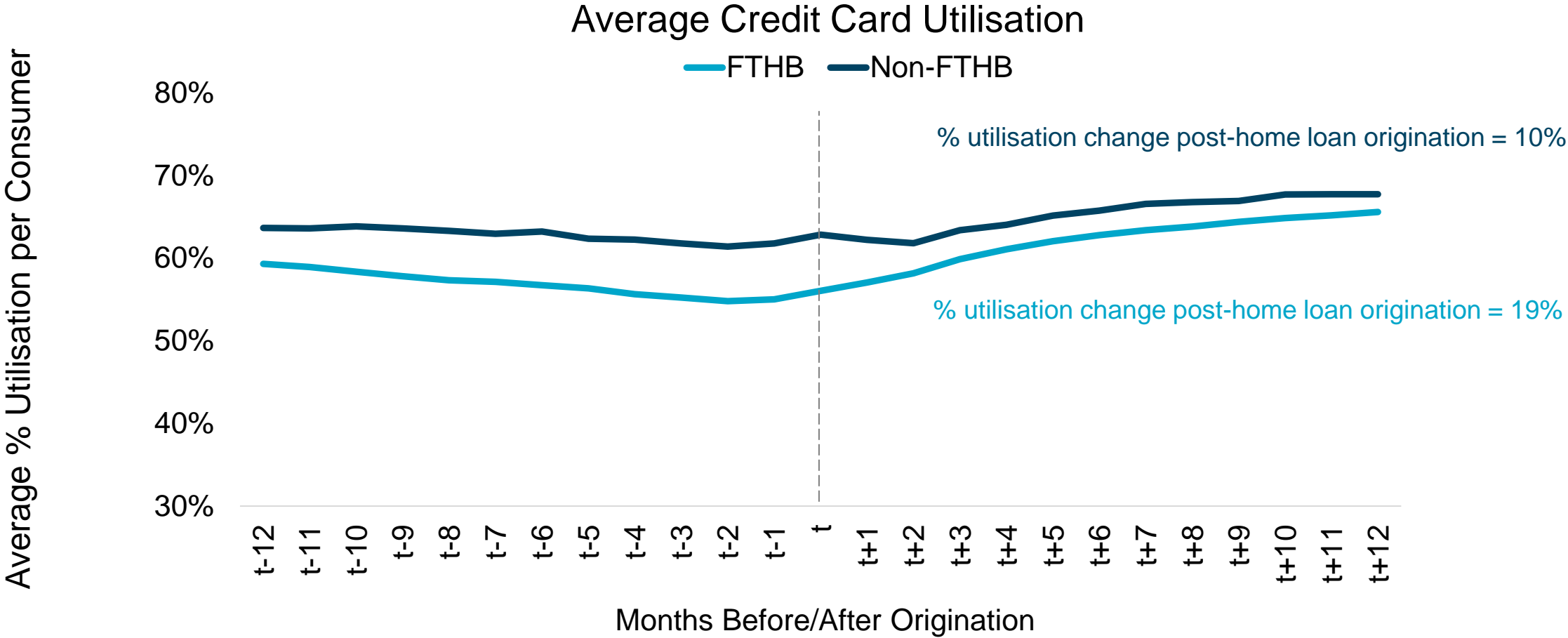


# Non-FTHBs have a higher balance on credit cards than FTHB, and balances for both tend to increase quickly post-home loan origination

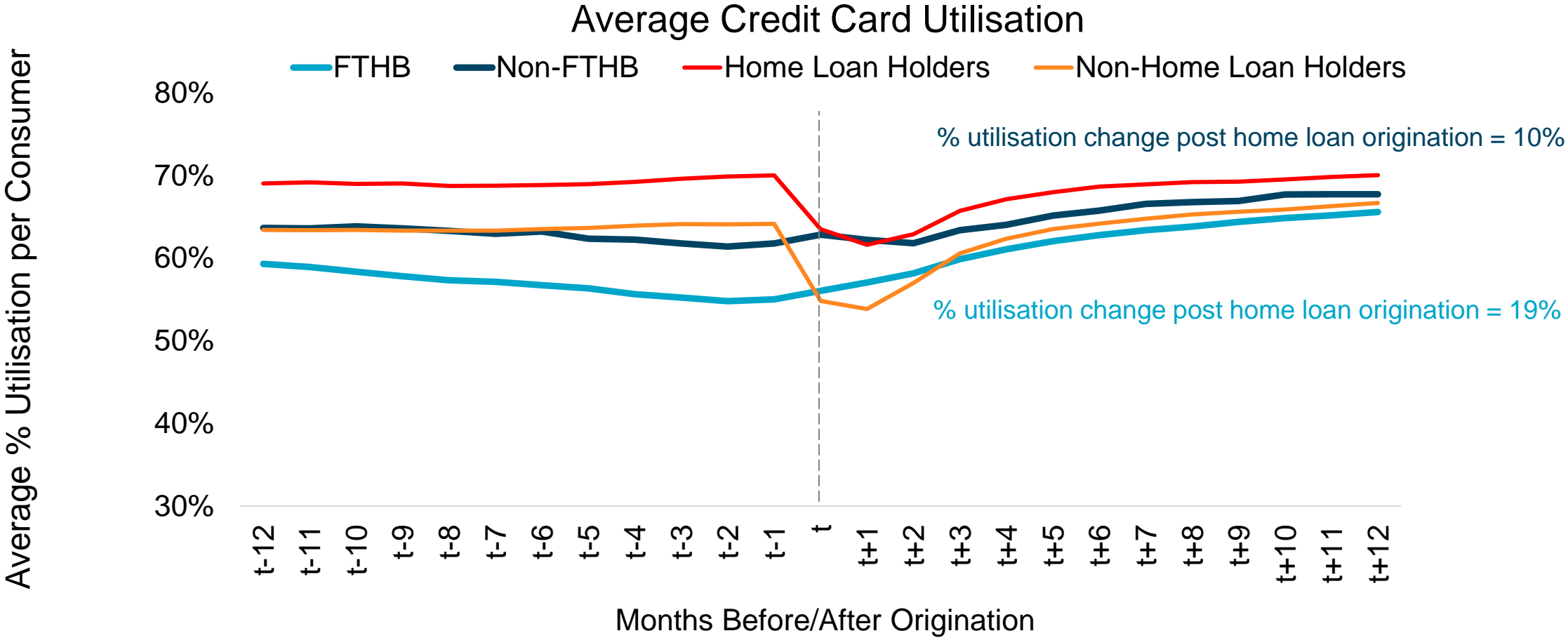




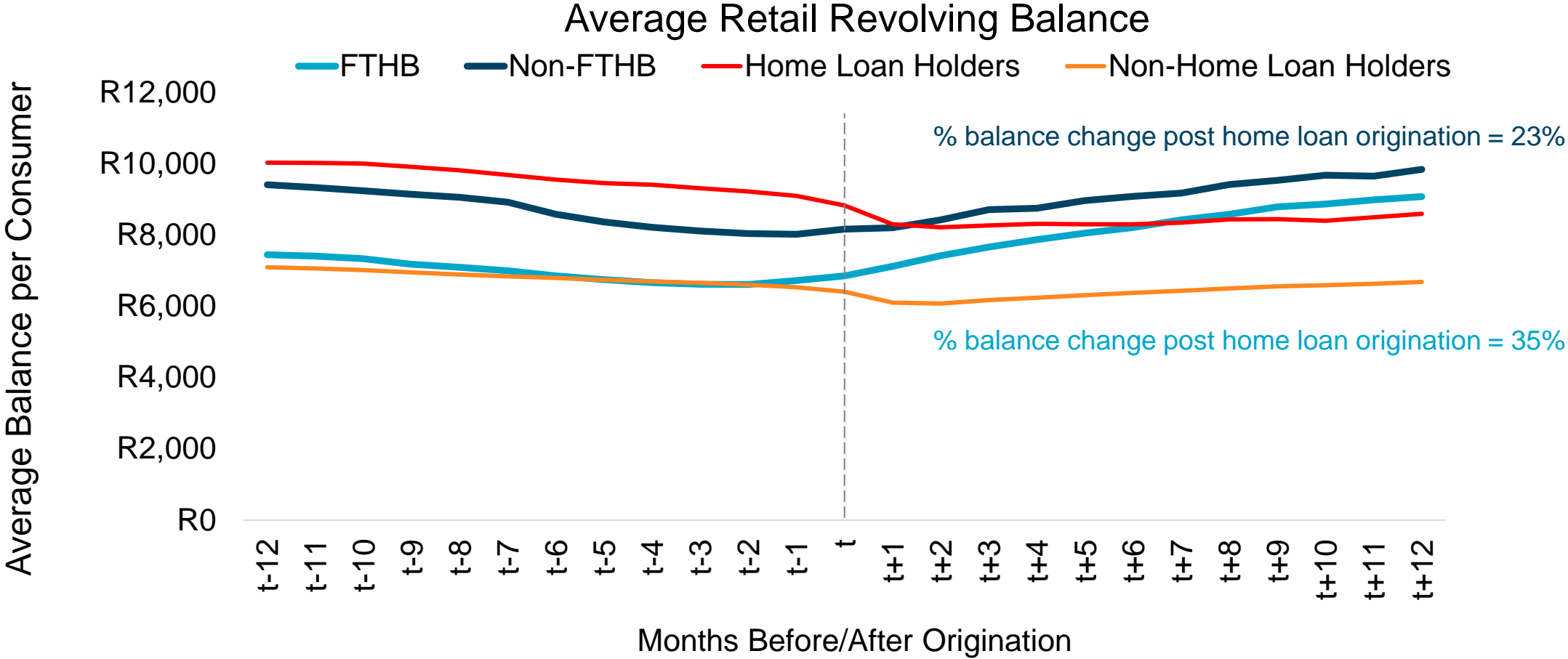
# All consumers ramp up their card utilisation shortly after a new origination



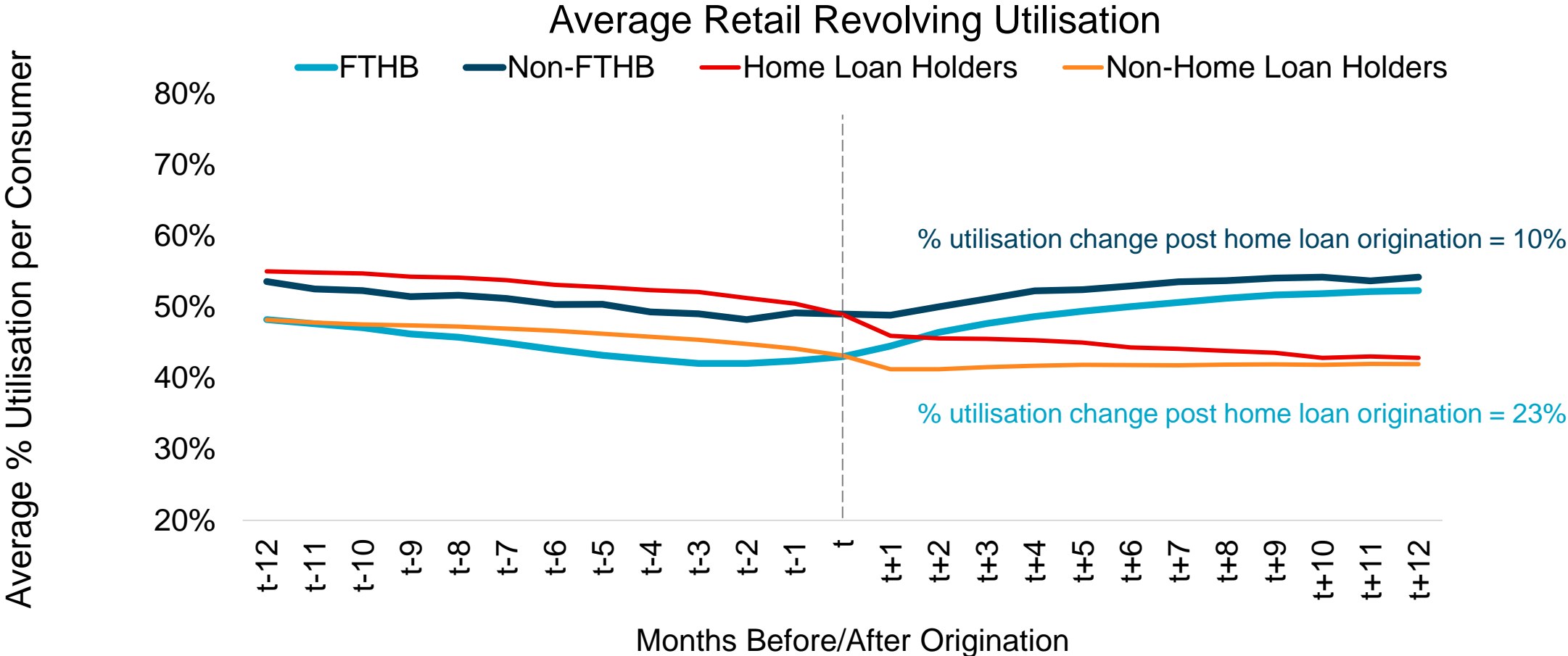
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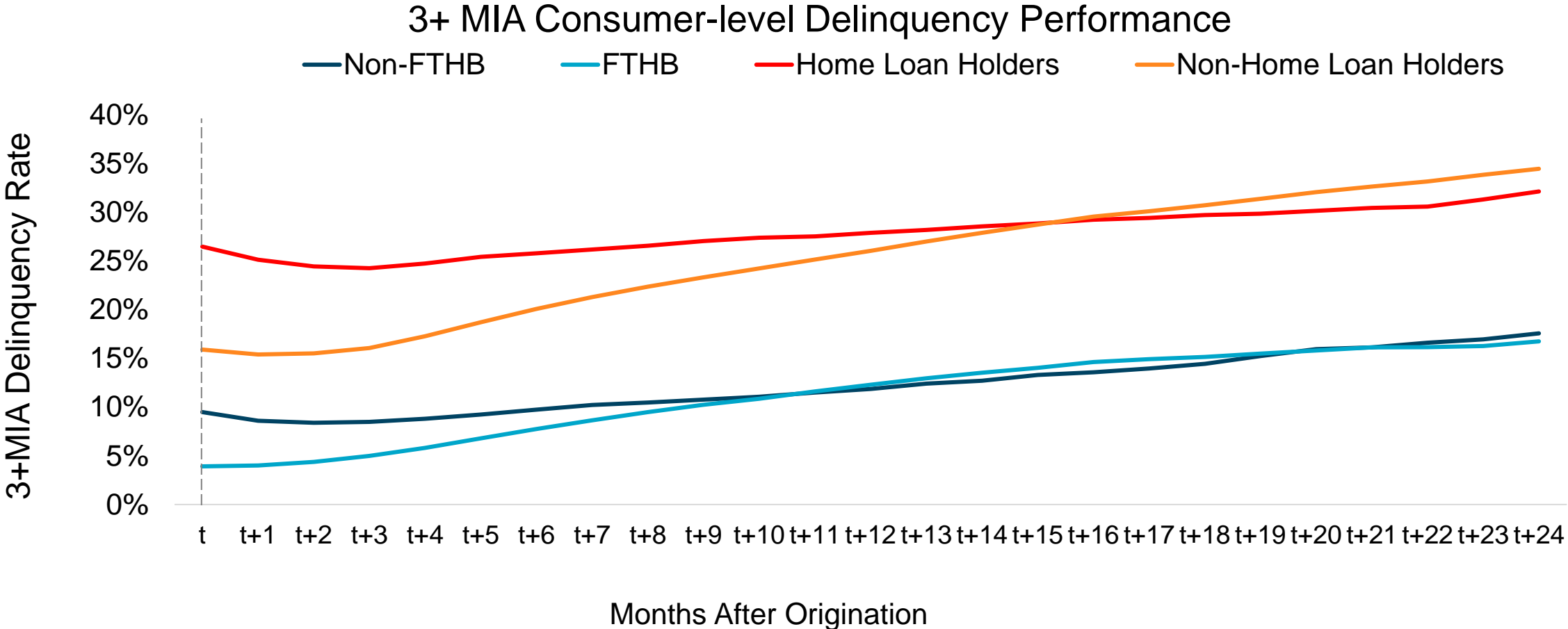
# Credit-savvy consumers decrease their retail spend leading up to a major product opening, likely to receive better offers



# Utilisation of retail revolving is higher for home loan originators post-origination, whereas it declines for others



# FTHB generally have lower delinquencies when opening their first home loan, and increase to match Non-FTHB after about 9 months



Note:  
\*Not all consumers mature to t+24



# In summary:

## Credit profile factors

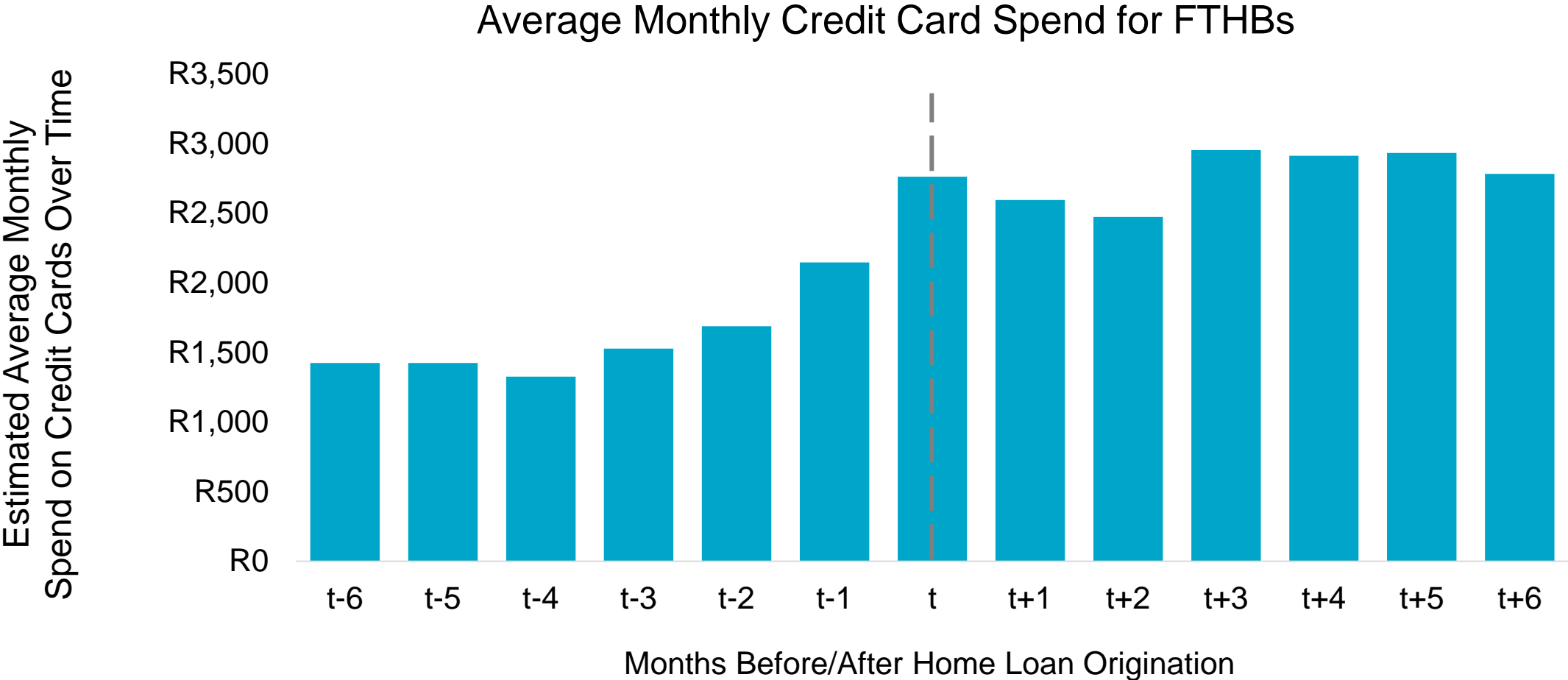
## *First-time homebuyers:*

Controlled by Sampling	Age	Are often younger than non-first time homebuyers
	Risk distribution	Have lower credit scores than non-first time homebuyers
Behaviour, Participation and Performance	Credit activity	Are credit active but have a lower participation across products than non-FTHBs
	Credit responsibility	Have similar delinquency rates at the consumer level as non-FTHBs, indicating readiness for taking a home loan
	Non-Home Loan behaviour	Tend to leverage revolving credit facilities and build balances after buying their first home, indicating credit demand

How can lenders benefit  
from the first-time  
homebuyer market?

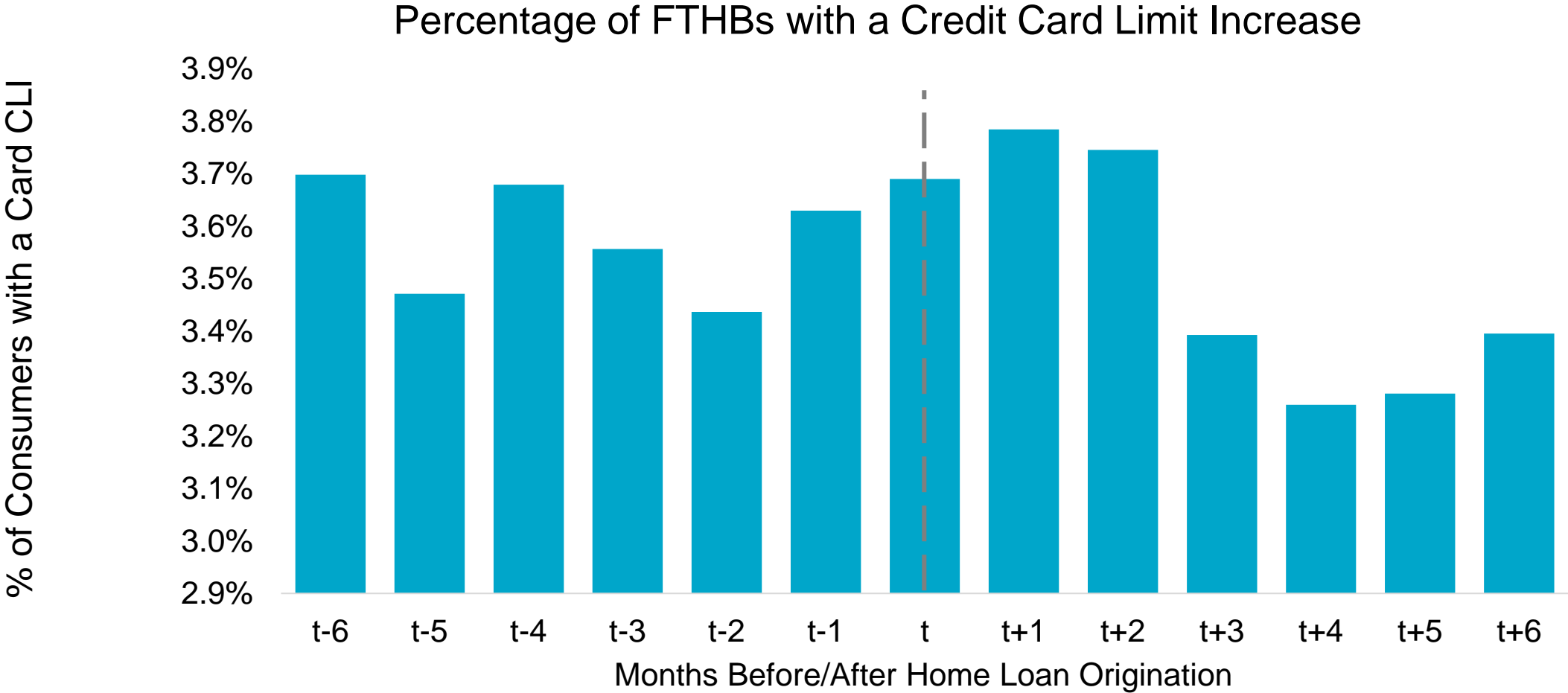


# Spending on credit cards generally goes up for FTHBs post-home loan origination



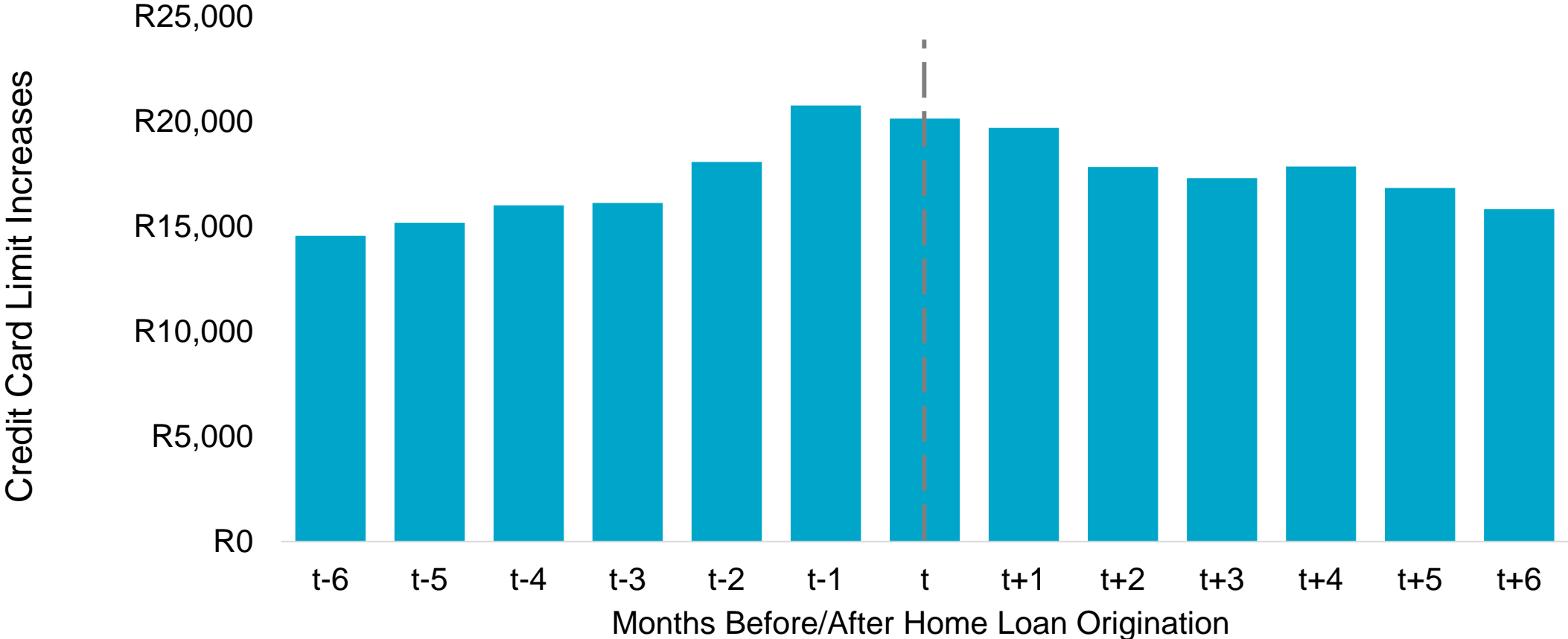


# The number of FTHB consumers with a credit limit increase declines several months after initial home loan origination

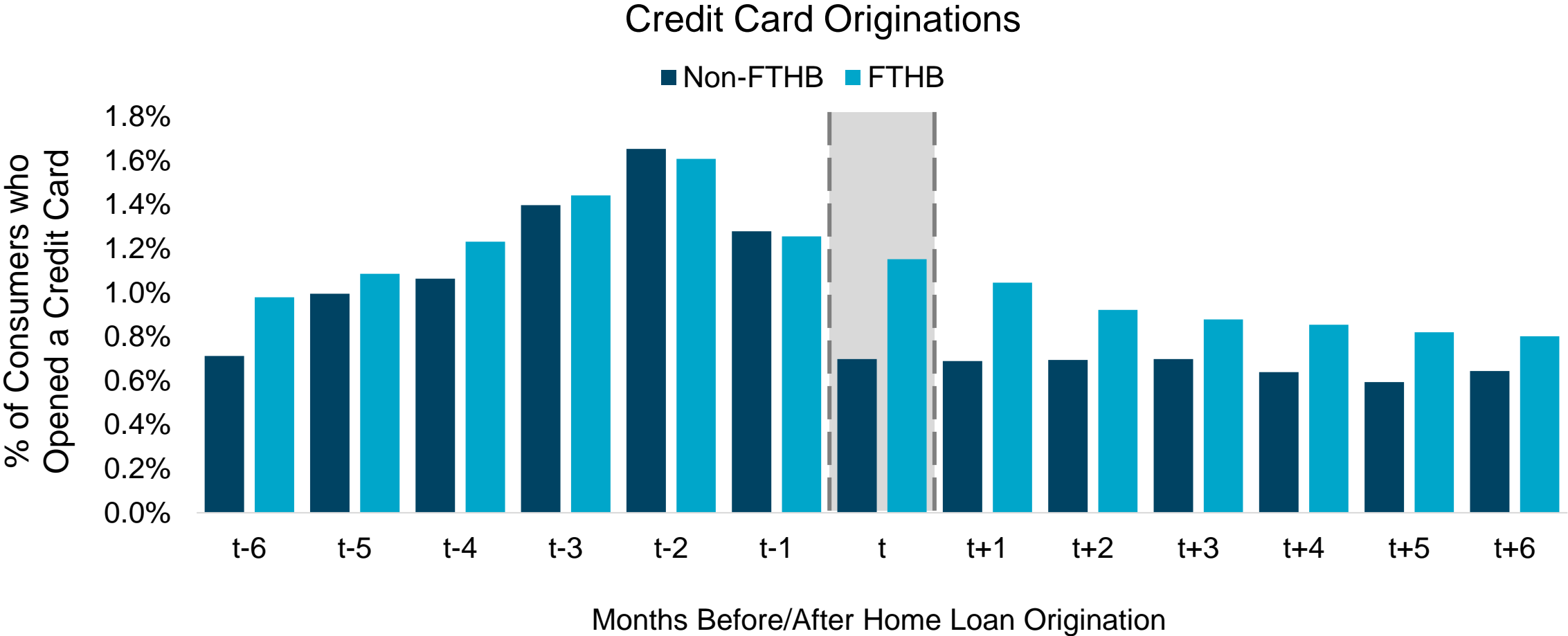


# On an average, higher credit limit increases occur right before home loan origination for FTHB consumers, and fall off in later months

Average Credit Card Limit Increase for FTHBs

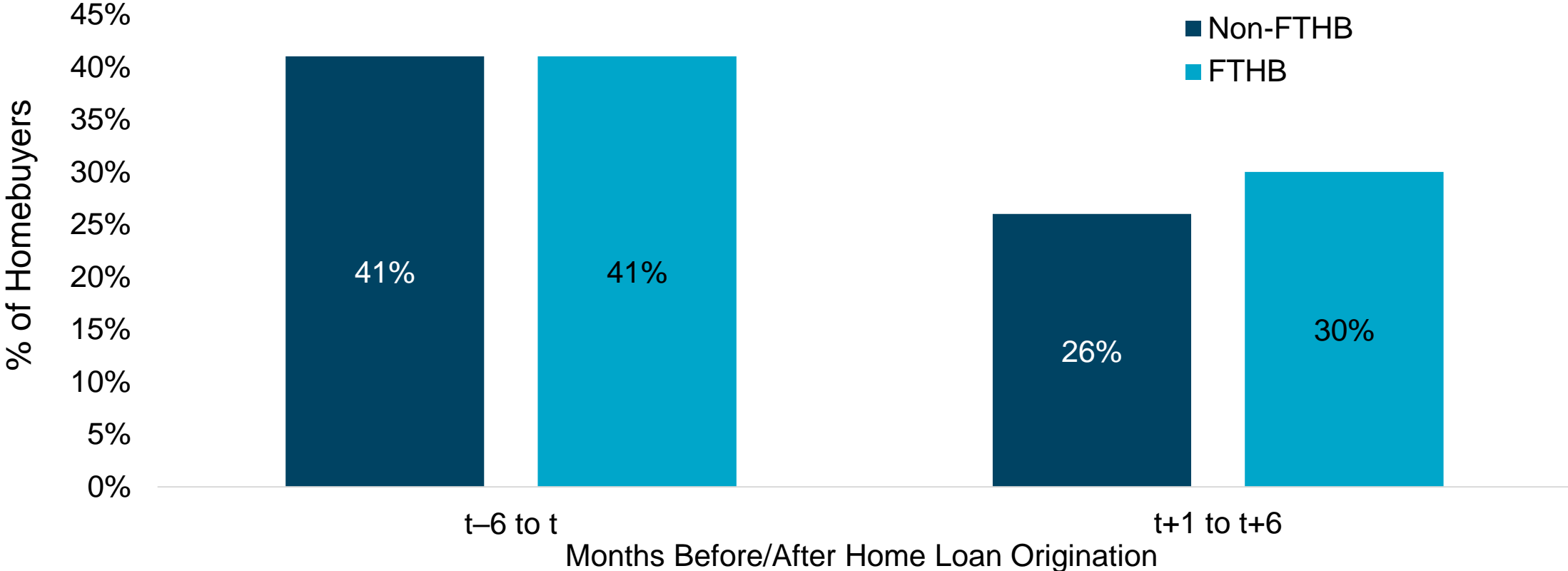


# FTHBs are more likely to open a new credit card post-home loan origination as compared to Non-FTHBs



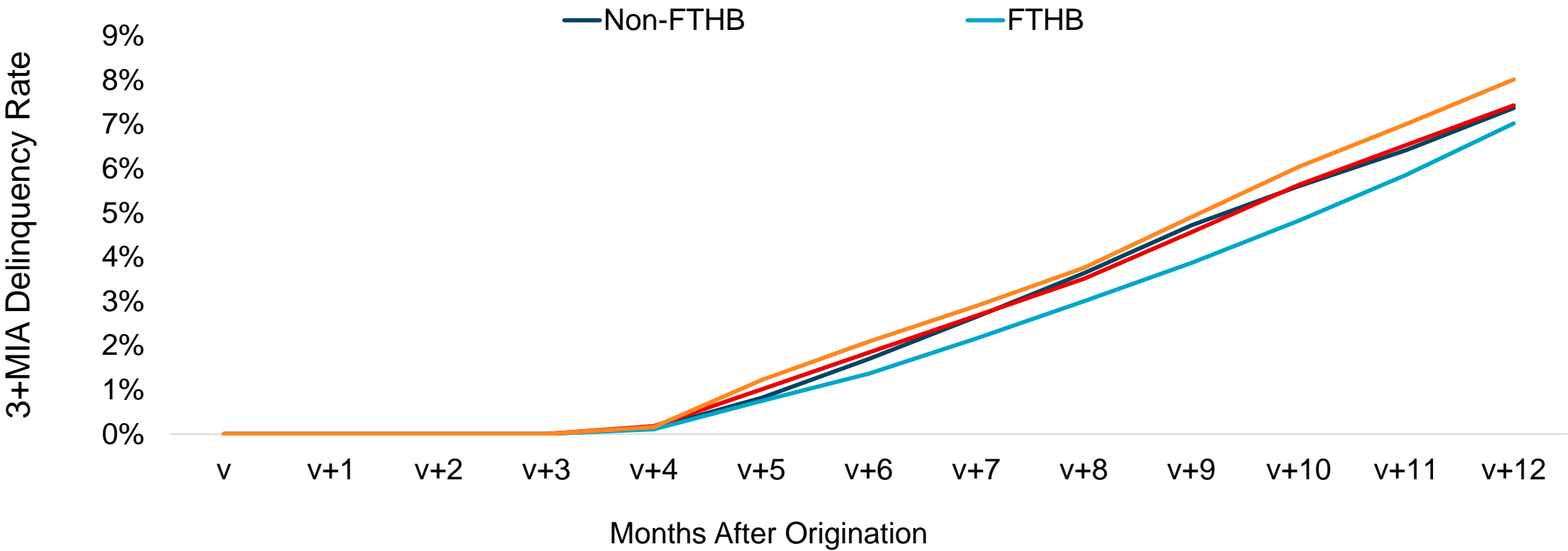
# Many consumers in both groups tend to open a new credit card with the home loan lender, indicating high loyalty

Percent of Consumers Opening a Credit Card with the Same Lender as Home Loan

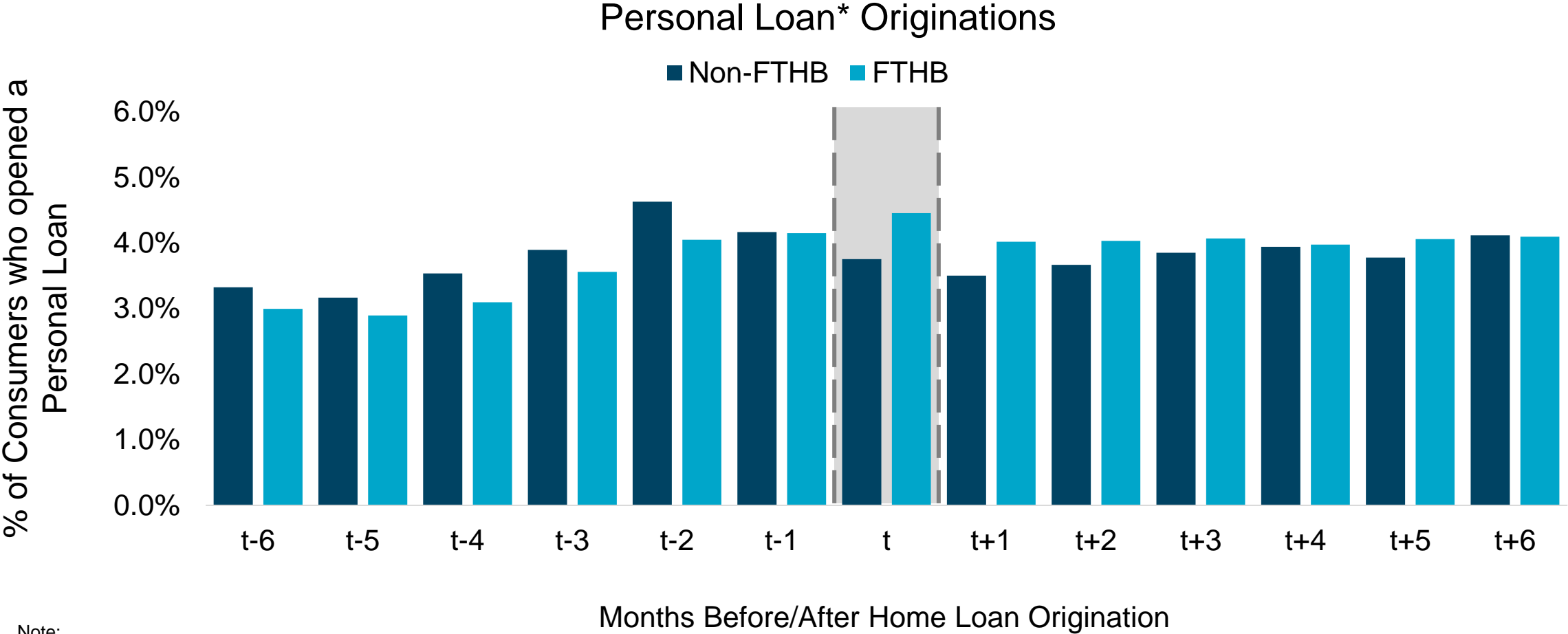


# FTHB consumers perform well on the new credit cards opened following their home loan origination as compared to other consumers

3+MIA New Credit Card Vintage Delinquency Rates 12 MOB



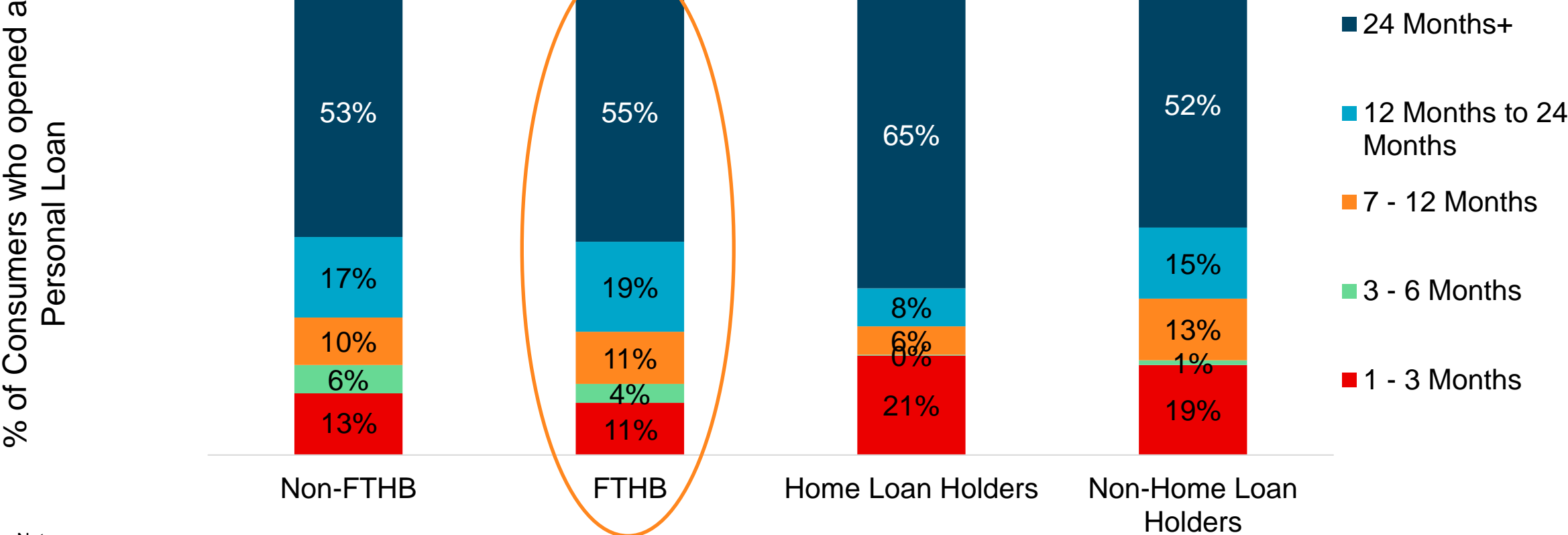
# FTHBs are likely to open a new personal loan soon after home loan origination, potentially to finance purchases for the home



Note:  
 \*Personal loans includes Bank issued Personal Loans and Non-Bank issued Personal Loans

# FTHB consumers tend to get slightly longer-term personal loans compared to Non-FTHB

Personal Loan\* Originations By Loan Term

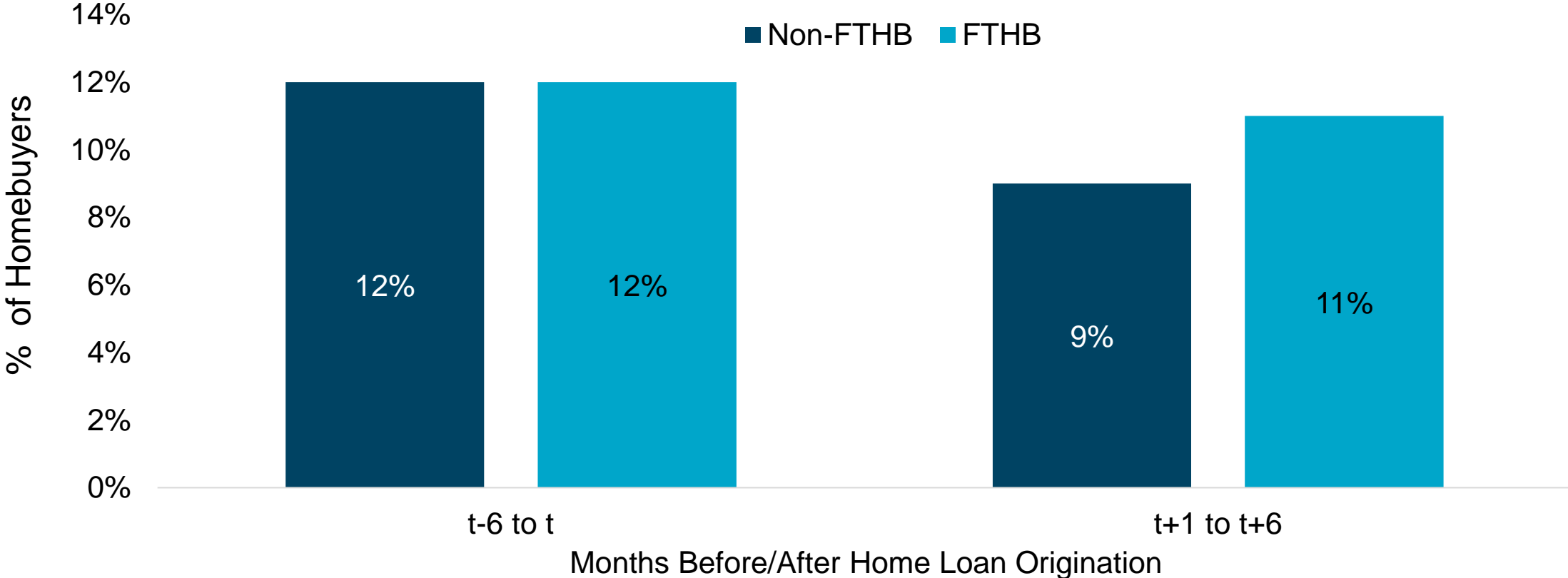


Note:  
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# Both groups show loyalty while opening a personal loan pre- and post- home loan origination

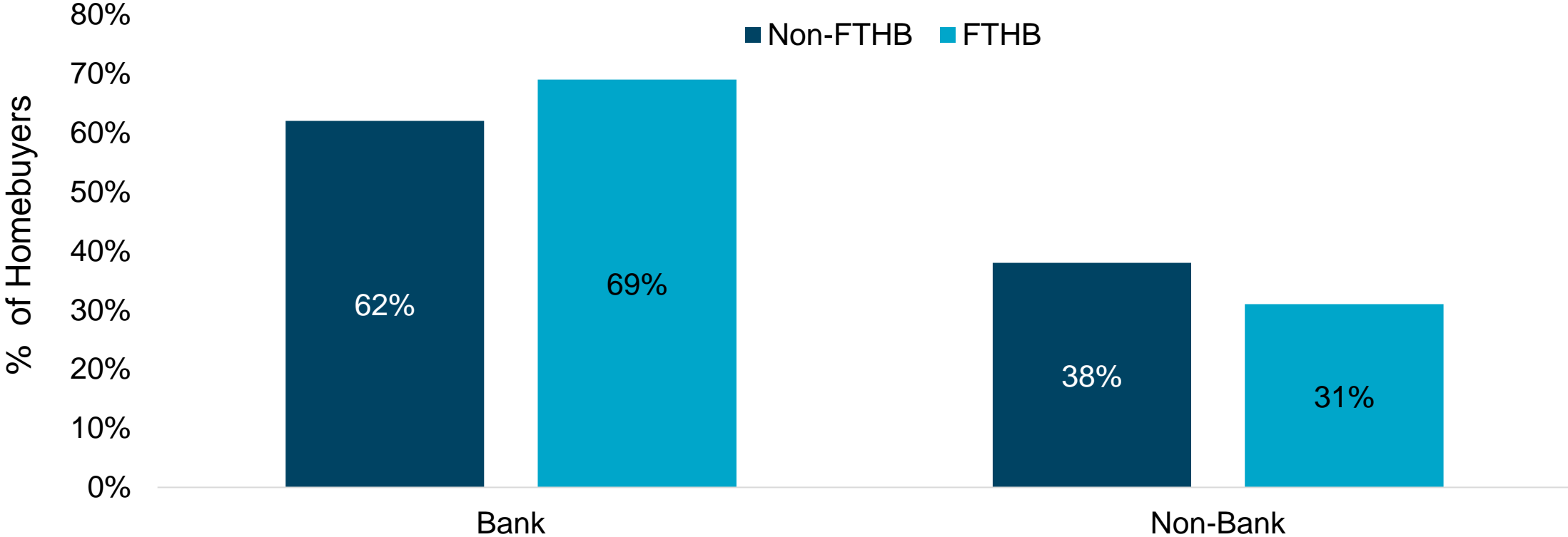
Percent of Consumers Opening a Personal Loan with the Same Lender as Home Loan



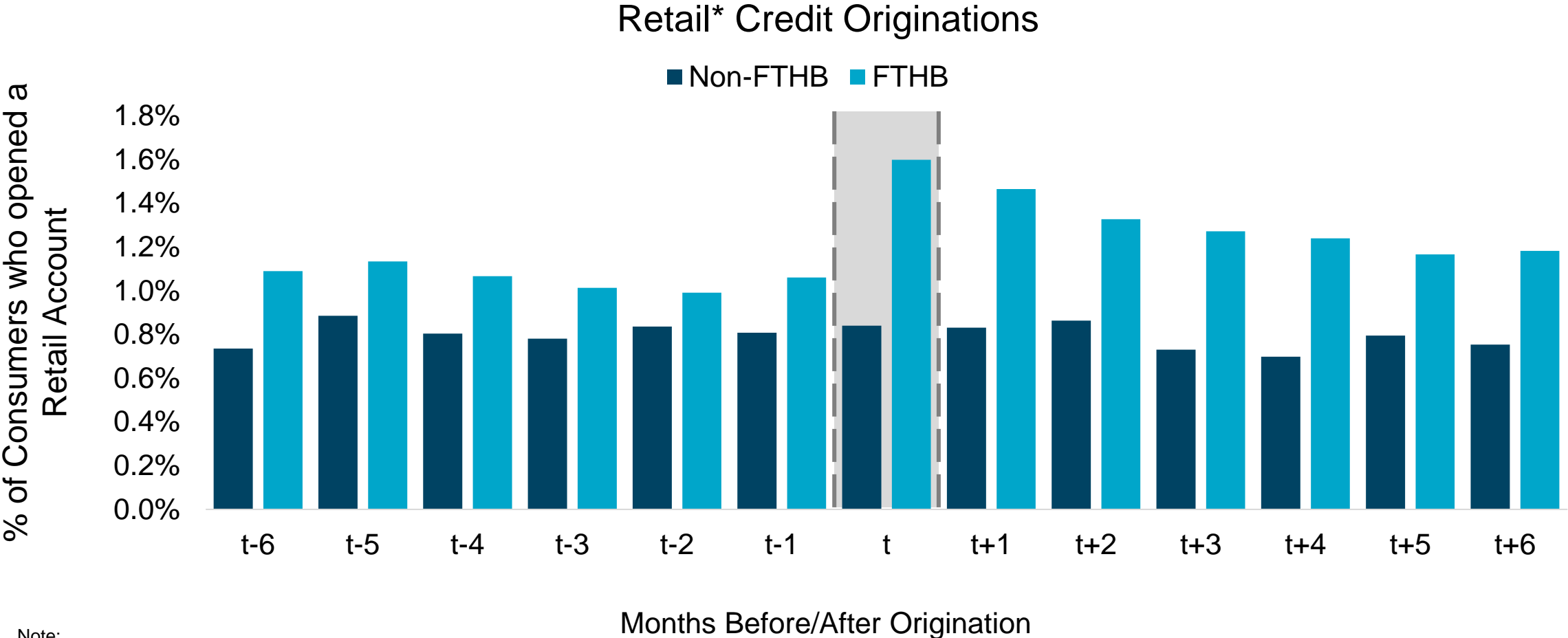


# A majority of new personal loans for both groups are made with banks, with FTHB's more likely to originate with banks

Bank vs Non-Bank Personal Loan Origination



# In general, FTHBs originate more retail credit than Non-FTHBs, and activity goes up post-home purchase – an indication of credit demand

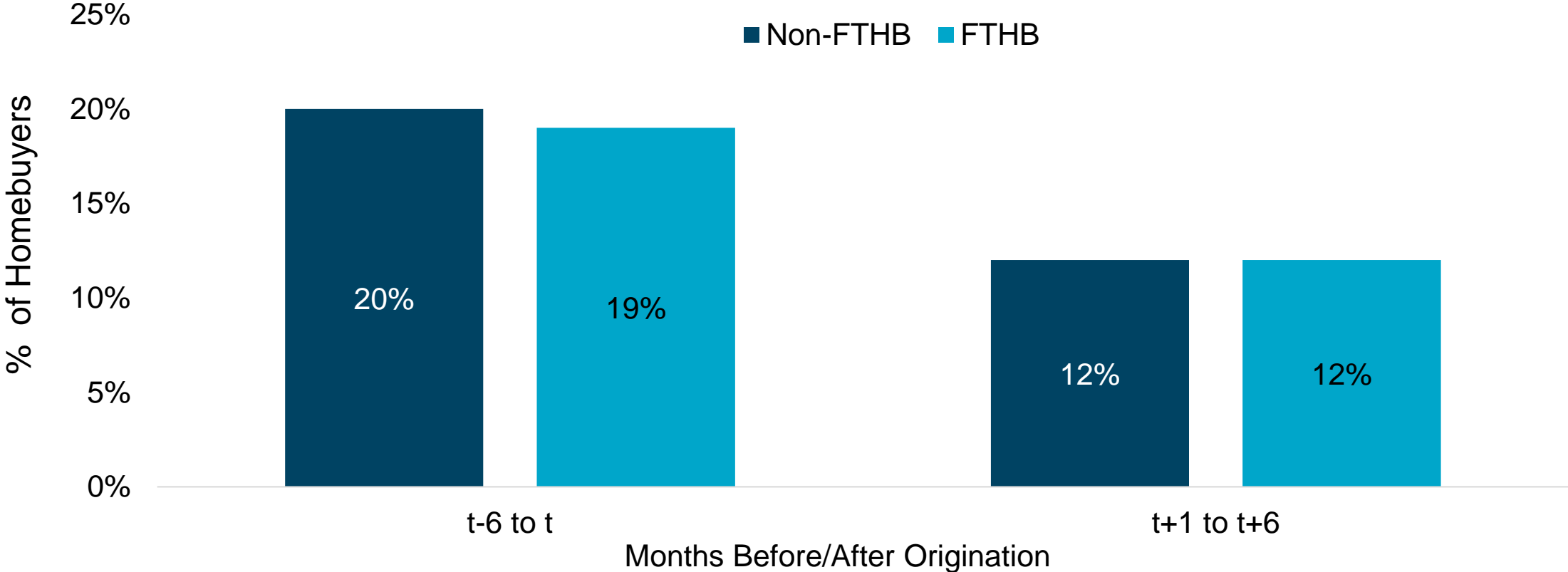


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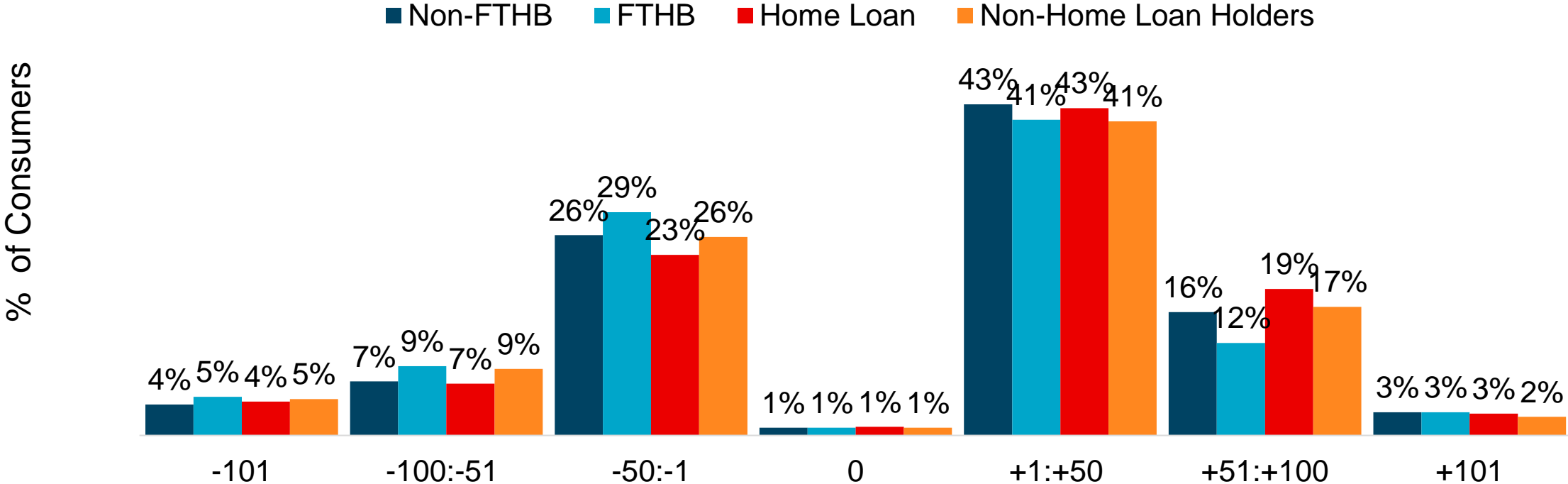
# There appear to be opportunities for home loan lenders to cross-sell vehicle loans and increase loyalty

Percent of Consumers Opening a Vehicle Loan with the Home Loan Lender



# After the first year following home loan origination, around 56% of FTHB consumers improve scores

Risk Migration 12 Months Post-Home Loan Originations



CreditVision™ risk score:  
 Subprime 0-625; Near prime 626-655; Prime 656-695; Prime plus 696-720; Super prime 721-999



# Cross-selling other credit products to FTHBs along with a home loan can enhance client relationships and boost lenders' revenue

## Educational Marketing

Help FTHBs understand how additional credit can be beneficial to them during the home-buying process. Examples: Information about using a personal loan for home improvements, buying furniture, or even covering unexpected expenses.

## Bundling Products

Offer bundled credit packages that include a home loan + a suite of credit products. These can be presented as a one-stop-shop solution for homebuyers' financing needs, and can provide the opportunity for lenders to offer discounts or lower rates on the bundled products.

## Personalised Offers

Use customer data to personalise offers based on the client's needs and financial profile. Example: Presenting a vehicle finance offer for borrowers starting a family and may be in need of a more child-suitable vehicle. Personalisation = Primacy

## Timely Engagement

Engage with first-time home buyers at key points in their home-buying journey. Given the tendency of FTHB's to open credit products pre-home purchase, strategic engagement (e.g., at point of home loan enquiry) can enhance cross-selling success.

## Loyalty Programs

Introduce loyalty programs that reward FTHB's for taking multiple products from the same lender. Rewards could include lower interest rates, cash back, partner-retailer discounts.

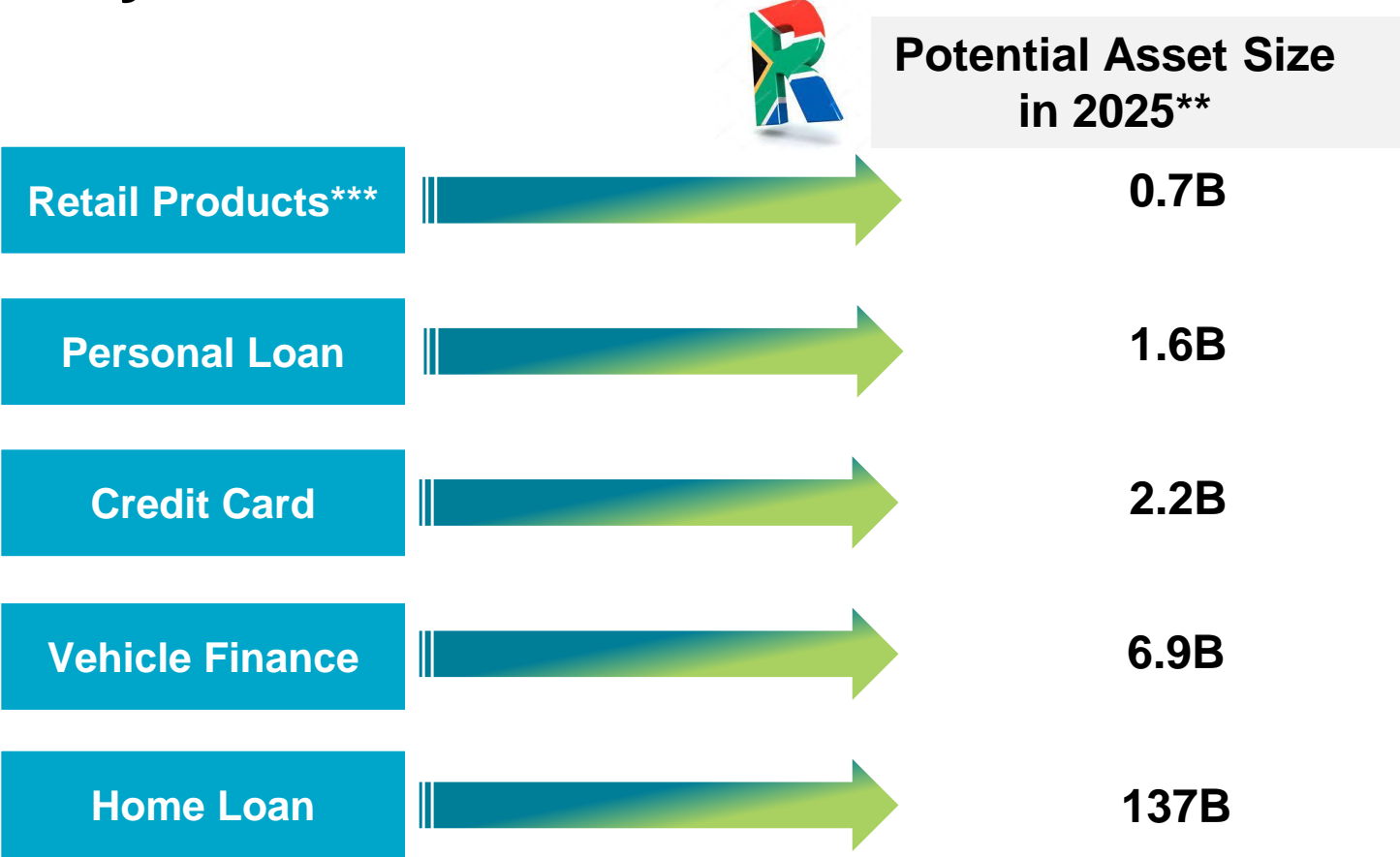
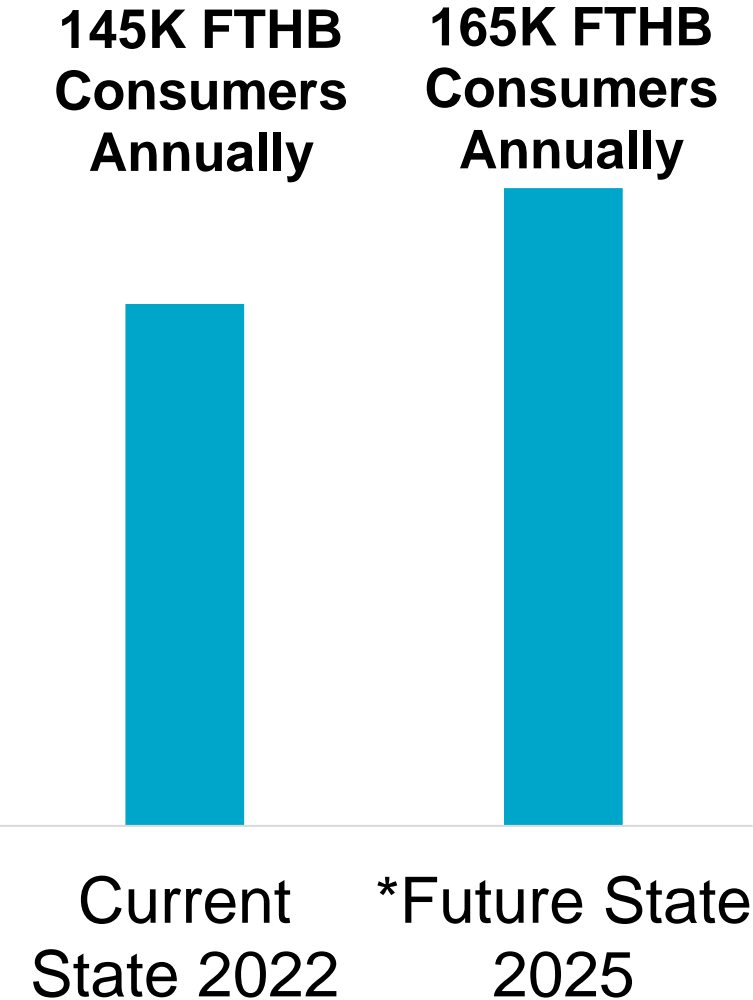
## Easy and Seamless Process

Make the onboarding application process as simple and seamless as possible. Digitise the product application process, including pre-filling online forms, and provide pre-approvals which can make it easier for customers to apply for and open additional credit products.

What is the potential size  
of first-time home buyer  
opportunity in the next few  
years?



# Material growth in FTHB's is expected over the next 3 years, offering lenders significant opportunity



\*Future state accounts for population entering FTHB age range and forecast interest rate cuts  
 \*\*Value determined based on constant average 2022 opening amounts  
 \*\*\*Retail Products (Includes Clothing Account, Retail Revolving and Retail Instalment)



# So, are FTHBs an attractive segment for lenders to target?

## Sizeable Market Potential

- ✔ FTHBs represent a significant segment of the SA home loans market, with 60% of all consumers originating a new home loan in the past two years being a FTHB.
- ✔ As the economy recovers and inflation trends lower, the reserve bank is likely to begin lowering interest rates, which could attract over 470K FTHBs to enter the market over the next 3 years.

## Healthy Credit Demand and Performance

- ✔ FTHBs have a healthy level of credit activity pre- and post-home loan origination, opening new cards, personal and vehicle loans at elevated levels, often with the same lender, as well as building balances.
- ✔ FTHBs demonstrate solid credit performance on new trades, with delinquencies in line with or better than existing and non home owners.

## Opportunities to Consider

- ✔ FTHB's represent a growing opportunity for cross-selling other credit products, such as cards, personal and vehicle loans, as well as for capturing higher spend through credit limit increases.
- ✔ More than 50% of FTHBs improved their credit scores in the year after home loan origination, showing a positive trajectory in their credit journey and strengthening credit profiles.
- ✔ Loyalty is built by providing a positive experience at the time of a major life event. Buying a first home is one such event, and being that lender can create a loyal lifetime customer.





# Thank You

23<sup>rd</sup> August, 2023