Absa to ease terms to boost mortgages

By Hanna Ziady

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Absa is loosening the credit taps in its mortgage business, hoping to grow its share of new home loans now that Barclays is no longer dictating its credit criteria and risk appetite.

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After Barclays' sale of its majority stake in the bank, Absa Home Loans was the first business unit to approach the group's credit committee to increase its credit risk, Carel Grnum, head of Absa Home Loans, said on Wednesday, 2 August.

"The Barclays sell-down will provide us with the opportunity to make our own decisions," Grnum said.

These sentiments echo those voiced by Barclays Africa Group CEO Maria Ramos last week. Delivering the group's maiden set of financial results since the sale, she said there was a fresh energy at the bank.

"The sell-down will unlock opportunities for us to do things differently and foster an owner-based entrepreneurial culture," said Grnum.

With enhanced credit limits, Absa planned to grow its share of new flows in the mortgage market to 20% from a level of

18% and a low of 15% in November 2016. This would be done at an improved margin and without increasing the risk profile of the book, Grnum said.

The green shoots that had been observed from the change to its credit policy were likely to be evident only in the second half of 2017, he said. For the six months to July, Home Loan's earnings fell 9% to R764m on a reduction in net interest income, as loans granted declined 1%.

Banks in SA have extended loans cautiously in a sluggish economy, growing total combined advances 4.1% in 2016 to R3.6tn - the weakest loan growth in five years, according to EY. Consumer credit applications have also fallen.

Even in the weak economic climate, with consumers under immense financial pressure, there were pockets of quality, said Grnum. "The race for quality is on. In order to attract quality customers, [a bank] has to be able to offer 100% bonds."

Absa had been forced to turn down good quality customers seeking 100% bonds because of the constraints on the number of full-value or close to full-value bonds it could offer, he said.

As at July 2017, Absa had a home loan book of R225bn, or 25% of the country's total mortgage book of R908bn. Standard Bank had a share of 24% at December 2016, claiming 35% of all new flows into the mortgage market, Absa's data showed.

Absa was not aspiring to a "blind market share" number and would ensure the business was profitable and sustainable, said Grnum.

Absa, which used to be the largest mortgage originator in the country, has staged a successful turnaround in its home loans book. After posting a R1bn loss in 2012, the unit's earnings recovered and peaked at R1.8bn in 2014. Non-performing loans more than halved over that time, while customer complaints, which reached 4,000 in December 2012, fell by 60%.

Applications had previously taken 14 days to process and were now done in fewer than four days, said Grnum.

The unit would target young professionals, private bank customers and the core middle market, he said.

Source: Business Day