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Face to Face - Simon Stockley

Presenter: Erika van der Merwe **Guest(s):** Simon Stockley

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Summit Business TV speaks to SA Home Loans founder Simon Stockley about his newest venture that promises home buyers better rates

ERIKA VAN DER MERWE: Simon Stockley is chief executive of the group Integer. Simon, you are Mr SA Home Loans - you did that in 1999 and it seems like you're doing it again?

SIMON STOCKLEY: I was Mr SA Home Loans - I sold up my stake three years ago actually almost to the day. Yes, I'm doing it all over again - as I was saying earlier I think I should know better at my age but somehow I don't...

ERIKA VAN DER MERWE: What's different about Integer compared with SA Home Loans?

SIMON STOCKLEY: I think it's a fuller product offering - the Integer product comes with full transactional banking. SA Home Loans was groundbreaking at the time, but it's a relatively unsophisticated product. Integer comes as a home loan - but with the home loan you have a debit card which allows you access to the internet, and you have a full range of internet banking services and facilities - and in addition we pre-load on the debit card a 1% credit facility, so you get 1% of the value of your home loan on your debit card but at the home loan interest rate.

ERIKA VAN DER MERWE: As though we need it!

SIMON STOCKLEY: You don't have to take it if you don't need it....

ERIKA VAN DER MERWE: What a temptation. How do you set the home loan rate?

SIMON STOCKLEY: We price off prime...

ERIKA VAN DER MERWE: That's different from SA Home Loans...

SIMON STOCKLEY: SA Home Loans priced off the Johannesburg Interbank Agreed Rate (Jibar). The market has moved on so it allows us - once we fund ourselves from the capital market we are able to offer consumers a price off prime. Really it's determined by reference to the underlying loan and your collateral in the property and basically what you earn - so we will be offering loans somewhere between prime less 1% and prime less 2%.

ERIKA VAN DER MERWE: Offering 85% of the value...

SIMON STOCKLEY: That's 85% of the value as a start - I think that's a

function really of a conservative approach to lending, and what's been happening in international markets. There's been a lot of noise and flak in the international markets and we really need to take cognisance of what's happening globally.

ERIKA VAN DER MERWE: Of course you've chosen to come back to the market at a time when the National Credit Act (NCA) is in place - is this a big rigmarole for you?

SIMON STOCKLEY: Challenging, yes. It's not only the meltdown in global credit markets, but also the NCA. I guess we're in the fortunate position of being able to launch post the NCA so our systems have been designed taking that into account - so it's not as if we had to take an existing system and adapt it to comply with the NCA. The NCA to a large extent levels the playing field - it focuses on issues of affordability - and I guess from my perspective that's welcome in the home loans space. It seemed to me fundamentally good business practice that people should be able to pay back the loan that you advance them - so from that perspective we're NCA compliant, and we welcome participation under the Act.

ERIKA VAN DER MERWE: Of course another element is that interest rates have gone up by 300 basis points over the last year and a bit - would there still be appetite for a product such as this given that people probably are at the maximum debt level?

SIMON STOCKLEY: There again we're in the happy position that we are not having to defend or adapt an existing portfolio to a rising interest rate environment - we will be lending into this environment. That been said though we do believe that we are at the top of the interest rate cycle - and whilst there may be another 50 base points in it, we think it's going to flatten - but the fundamentals in our view are still strong. There's still good demand for property - really it's a question of prudent lending, seeking out the best underlying collateral and building a mortgage portfolio slowly.

ERIKA VAN DER MERWE: Who is your target market? Will you be stealing away customers - you won't like that verb - but will you be taking away customers from other banks?

SIMON STOCKLEY: We like stealing - no we will be poaching. We're in the switch market and we're in the new purchase market - we really are impervious as to where we find our customers. It's a middle income target market offering in the sense that we are in the range of R400,000 to R2.5million - so in essence that's in the mass retail market within the South African bank sector.

ERIKA VAN DER MERWE: Will you be having a very aggressive sales force, and what about relationships with mortgage originators and estate agents because it seems as though the banks have "cosied up" with all these people?

SIMON STOCKLEY: The chosen strategy of distribution is to allow clients to choose their preferred method of interacting with us - so we're launching off the back of a call centre and through an internet based application, and we've also contracted with selected originators. The second phase of our rollout will be our own branded sales force - so we're really going to give customers the opportunity of selecting how best they would like to interact with us.

ERIKA VAN DER MERWE: Let's look at the back end of the deal - you will be funding the whole process with securitisation. There seems to be huge growth in this method in South Africa...

SIMON STOCKLEY: The market has taken off exponentially - the first securitisation transaction I was involved in was in 2001. That was the first in the market, and since 2001 from a zero base as at August 2007 there was about R70billion worth of assets in issue so the market has taken off -

there's strong investor appetite. Clearly investors are concerned as to what is happening in global markets, but our sense is that there will be a retreat to quality - and investors will when normality returns to the market be looking for quality collateral, and that's what we're aiming to provide.

ERIKA VAN DER MERWE: Have these concerns pushed up the price of debt?

SIMON STOCKLEY: There has been a widening of spreads - AAA RMBS had moved in all the way to about 36 basis points. Spreads have widened now and I would think the next issue that comes to market is probably going to be somewhere between 45 and 55 basis points - so issuers are going to have to pay away something more to investors.

ERIKA VAN DER MERWE: All the best. This is certainly for consumers - not good news for the banks.

SIMON STOCKLEY: A little competition never hurt anyone.

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