



VBS Mutual Bank: a tale of woe

As the curatorship of VBS Mutual Bank starts to unfold, what looked like a liquidity problem in an emerging niche bank appears to be more of a solvency crisis that is likely to leave investors - including 15 municipalities - with only a small, if any, recovery of their investments (ewn.co.za). This Personality of the Month chronicles the unfolding financial debacle that is still likely to compromise a number of Limpopo, North West and Gauteng municipalities; many of which are in no position to shoulder any financial shocks.

A mismatched, problematic banker for local government

At the time of VBS's curatorship 3 months ago, there was a fierce social media backlash against the South African Reserve Bank, and to some extent National Treasury, for impeding municipalities from investing in the emerging financial services institution (www.businessinsider.co.za, see our Briefing at the time, municipaliq.co.za).

But curatorship has been vindicated by emerging evidence of malfeasance at VBS (with R900m unaccounted for, mq.co.za), which is also likely to support Treasury's (regrettably unheeded) advice in August 2017 against investing in a mutual bank (which is not considered registered for the purposes of the MFMA, www.moneyweb.co.za, www.politicsweb.co.za).

Ultimately, local government's investment timeframes were fundamentally incompatible with a mutual bank that primarily issued 20-year mortgage loans.

Those municipalities that did not take these considerations into account are likely to pay dearly. According to Deputy SARB Governor and Registrar of Banks, Kuben Naidoo, municipal investments in VBS are unlikely to be fully recouped, with the focus on saving 13,000 individual investors' life-savings (less than R50,000), and furthermore, that loan recovery (if at all) may take up to 7-10 years (ewn.co.za).

So which municipalities are affected? A collation of news reports, Section 71 returns and the list released in Minister Zweli Mkhize's Budget Vote show up varying details of exposure for the following municipalities:

Gauteng –

- Merafong (R50m), and
- Rand West (R81m) (under investigation by Gauteng Provincial Treasury)

Limpopo –

- Makhado,
- Collins Chabane (R122m of R344m operating revenue),
- Vhembe (R311m),
- Capricorn,
- Ephraim Mogale,
- Greater Giyana District (R158m of R302m operating revenue),
- Greater Tubatse (R210m of R548m operating revenue),
- Elias Motsoaledi (R40m alleged), and
- Makhuduthamaga (R30m) (under investigation by Limpopo Provincial Treasury).

(Polokwane and Capricorn District investments matured early last year, no exposure)

North West –

- Madibeng,
- Mahikeng - R83m,
- Ruth Segomotsi Mompati District, and
- Moretele.

The preponderance of municipalities in Limpopo can be explained by VBS's establishment in 1982, as the Venda Building Society, becoming a mutual bank in the early 1990s, with vhaVenda King, Toni Mphephu Ramabulana, a major shareholder (city-press.news24.com).

In the North West, former Premier, Supra Mahumapelo's overt support for the institution (municipaliq.co.za), is likely to have had some influence. Investments in Gauteng are curious and indeed worthy of investigation with rumours of questionable commissions paid to those enticing investments (www.timeslive.co.za, www.fin24.com).

Whatever comes of the various probes, the sad certainty is that there will be a good deal of financial pain for affected municipalities and their residents.

© Municipal IQ. Not for circulation or quotation without permission.

You are receiving this as a registered user of Municipal IQ