National Debt Awareness Month
February 2021

DEBT INDEX
Q4 2020

For further information, contact our Public Relations office at debtometer@idmgroup.co.za.

Foreword by Benay Sager, Chief Operating Officer

- **Publishing of the Q4 2020 Debt Index coincides with the launch of the National Debt Awareness Month**. We are launching the **National Debt Awareness Month** at this critical juncture, where the impact of a global pandemic and lockdowns have become pronounced in South Africa, and many South Africans are not aware of their debt or options to deal with their debt burden.

- During 2020, consumer benefitted from successive interest rate reductions by the South African Reserve Bank. Starting from Q2 2020, we have observed that average interest rates for bonds and vehicle finance started to decrease. Since both asset classes are linked to repo rate changes, consumers with assets benefitted from reduced interest rates, as well as bank payment holidays. **For bonds, the average interest rate (at time of application to debt counselling) decreased from 11.1% to 8.3% p.a., whereas for vehicle finance the decrease was from 13.7% to 12.0% p.a.**

- As a result, consumers with assets were provided significant relief during middle of the year. Consumers with unsecured debt did not reap such benefits as **unsecured debt interest rates still hover around 21% p.a**. We have seen consumers with more unsecured debt seeking help in debt counselling, temporarily increasing the share of unsecured debt in applicants to 60% in Q3 2020, which subsequently dropped to ~51% in Q4 2020. **This means that the payment holidays granted last year have worked their way out of the system, and the temporary sense of relief that consumers had has now turned into a debt burden as their debt repayment are due**.

- It is clear that in absence of meaningful increase in real income growth, SA consumers are supplementing their income with more unsecured credit. Compared to 2016, **those clients who applied for debt counselling in Q4 2020 ha**d:

  - **Negative real income growth**: Nominal incomes were 2% lower compared to 2016 levels; when cumulative inflation growth of 18% is factored in for the same period, real incomes shrank by 20% over the four-year period!

  - Those taking home over R20 000 per month ne**ed to spend 60% of their monthly net income to repay debt**, and their **debt-to-income ratio is highest in years at over 130%**.

  - **Unsecured debt that was 32% higher than that in 2016 levels**; **for those earning R20 000 or more, the unsecured debt levels were +45% higher**. This is a direct result of erosion of net income (take home pay) – consumers need to supplement this erosion with unsecured credit.

- With all this said, in the spirit of debt awareness month, there are some great news for the consumers:
  - **Unsecured debt interest rates can be reduced by over 90% while under debt counselling from an average of 21% to ~1.2%, benefitting consumers who most need the relief**. In fact, thanks to interest rate reductions, 2020 was the best year for consumers in debt counselling in terms of interest rate reductions.
  - The number of clients completing debt counselling successfully has increased by 40% per annum over the last four years. **In Jan 2021 alone, consumers who had R142m worth of debt** (when they joined debt counselling) **completed debt counselling and received clearance certificates**.
  - In **Q4 2020, 55% of new applicants were male, indicating that more men are becoming proactive about their debt.** In a society where debt is often not spoken about (especially by men), this is a welcome development.

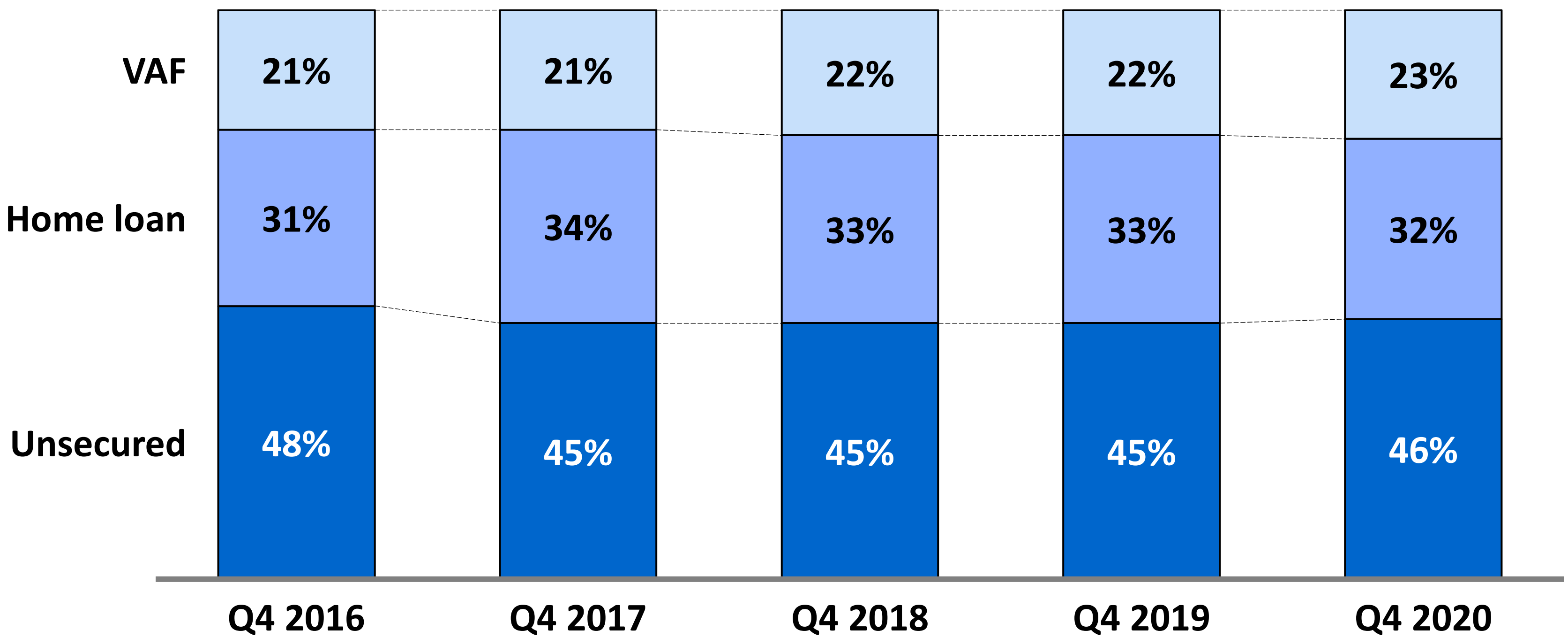
- While it is early days, there is an overwhelming demand from consumers for debt counselling in 2021– **inquiries are up by more than 40% YOY** compared to same period last year. Many consumers are seeking help proactively, and we encourage consumers to take advantage of this National Debt Awareness Month to inform themselves of options available to tackle their debt burden.

Nature of debt: The share of clients with home loans has remained consistent, but vehicle finance debt has increased

TOTAL DEBT BOOK

Breakdown of DebtBusters debt under management

Percent by type, by value at end of Quarter



VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: Debtbusters

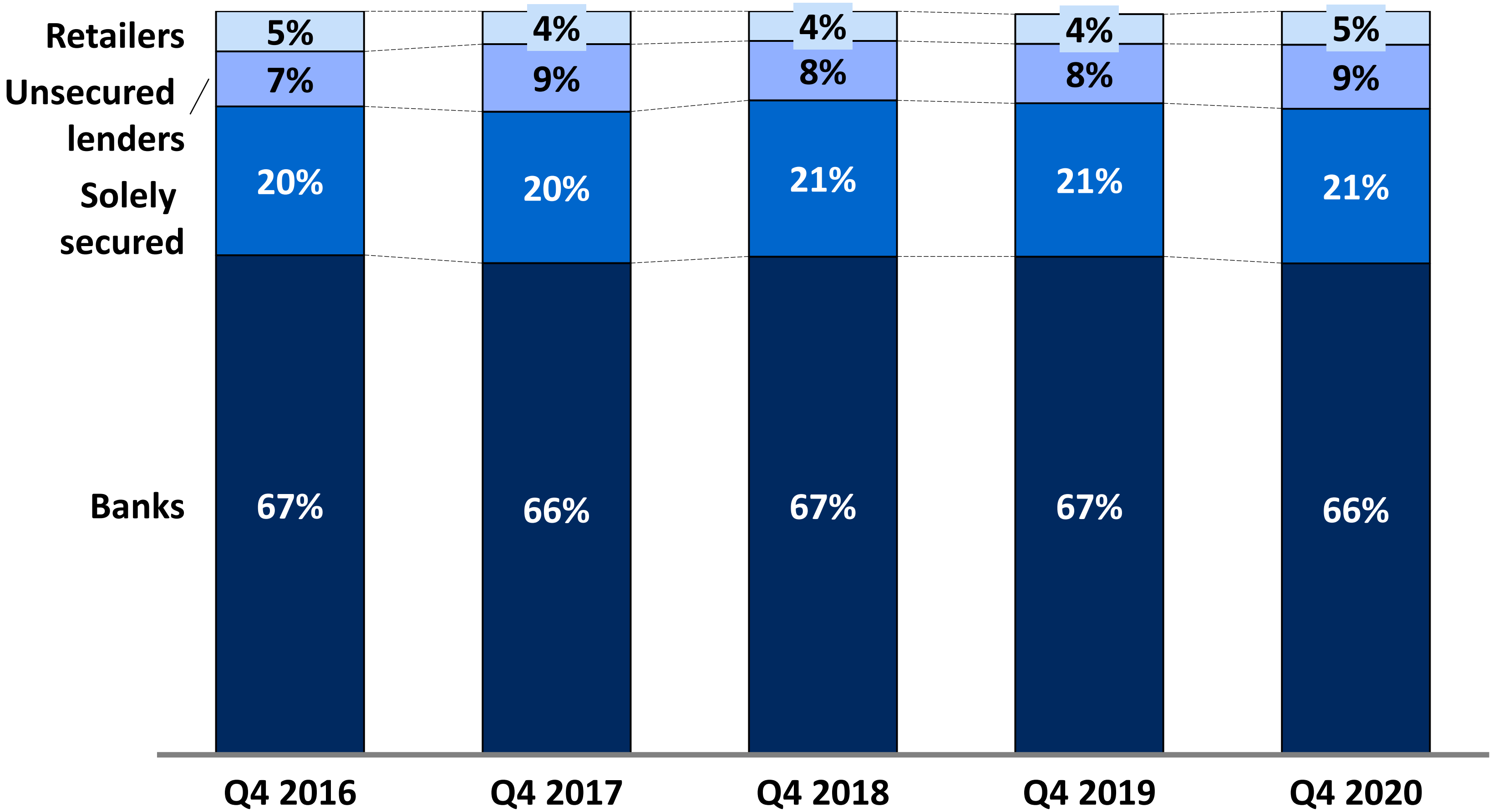
DEBT BUSTERS

Lending institutions, total debt book: Increase in retail and unsecured lender originated debt in the last year indicative of consumer priorities during the lockdown and economic climate

TOTAL DEBT BOOK

Breakdown of DebtBusters debt under management

Percent by type of lender, by value at end of Quarter



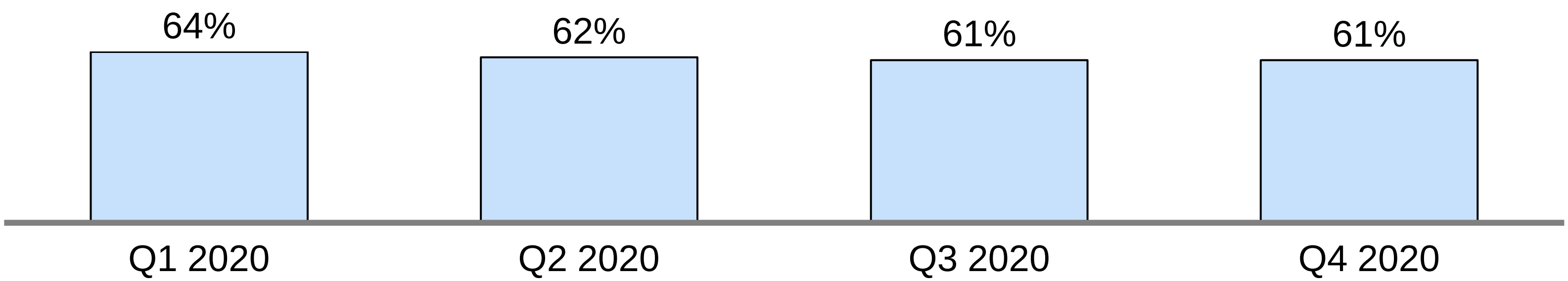
* Solely secured: Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW, who grant secured credit only

^ Banks: Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

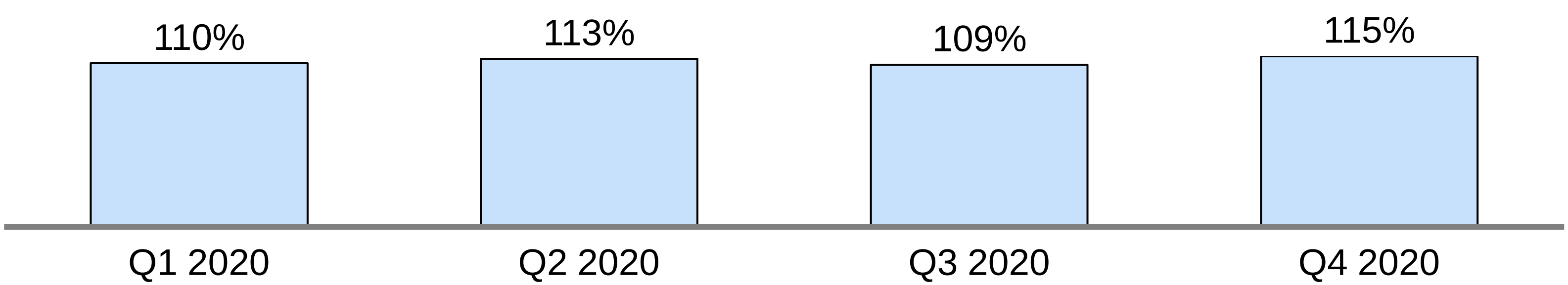
Source: Debtbusters

Debt repayment to net income[1] ratio and debt exposure for our clients are both above sustainable levels with a noticeable increase in overall debt levels towards the year end

Original (median) monthly debt repayment to net income ratio remained the same..
Percent of net income that was required to pay debt before signing up with DebtBusters



…and quarter-on-quarter overall debt levels remained high
Total debt exposure to annual net income ratio, when clients sign up with DebtBusters



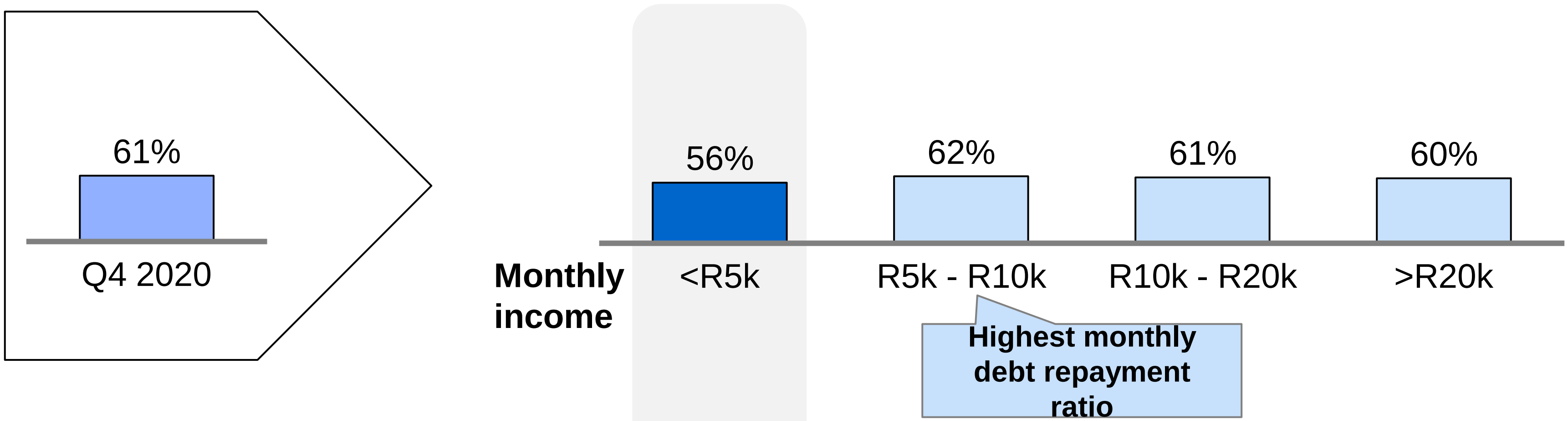
1 Median debt to net income ratio for all new clients signed up in that quarter

Source: Debtbusters

Those taking home over R20 000 per month need to spend 60% of their monthly net income to repay debt, and their debt to income ratio is highest in years

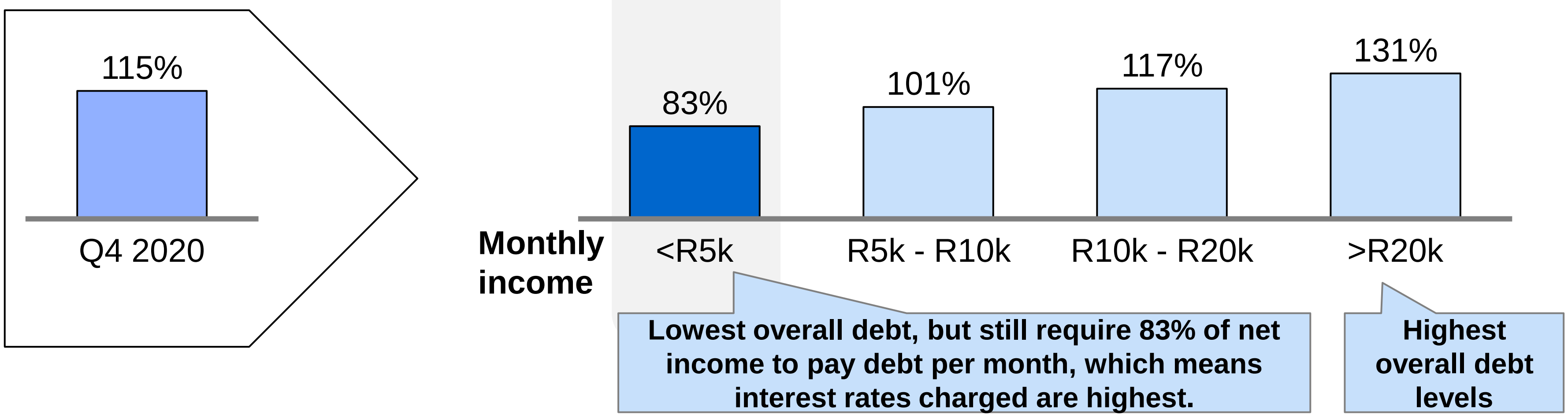
Original monthly debt repayment to net income ratio[1]

Percent of net income that was required to pay debt before signing up with DebtBusters



Original overall debt to annual net income ratio[1]

Debt exposure to net income ratio, when clients sign up with DebtBusters

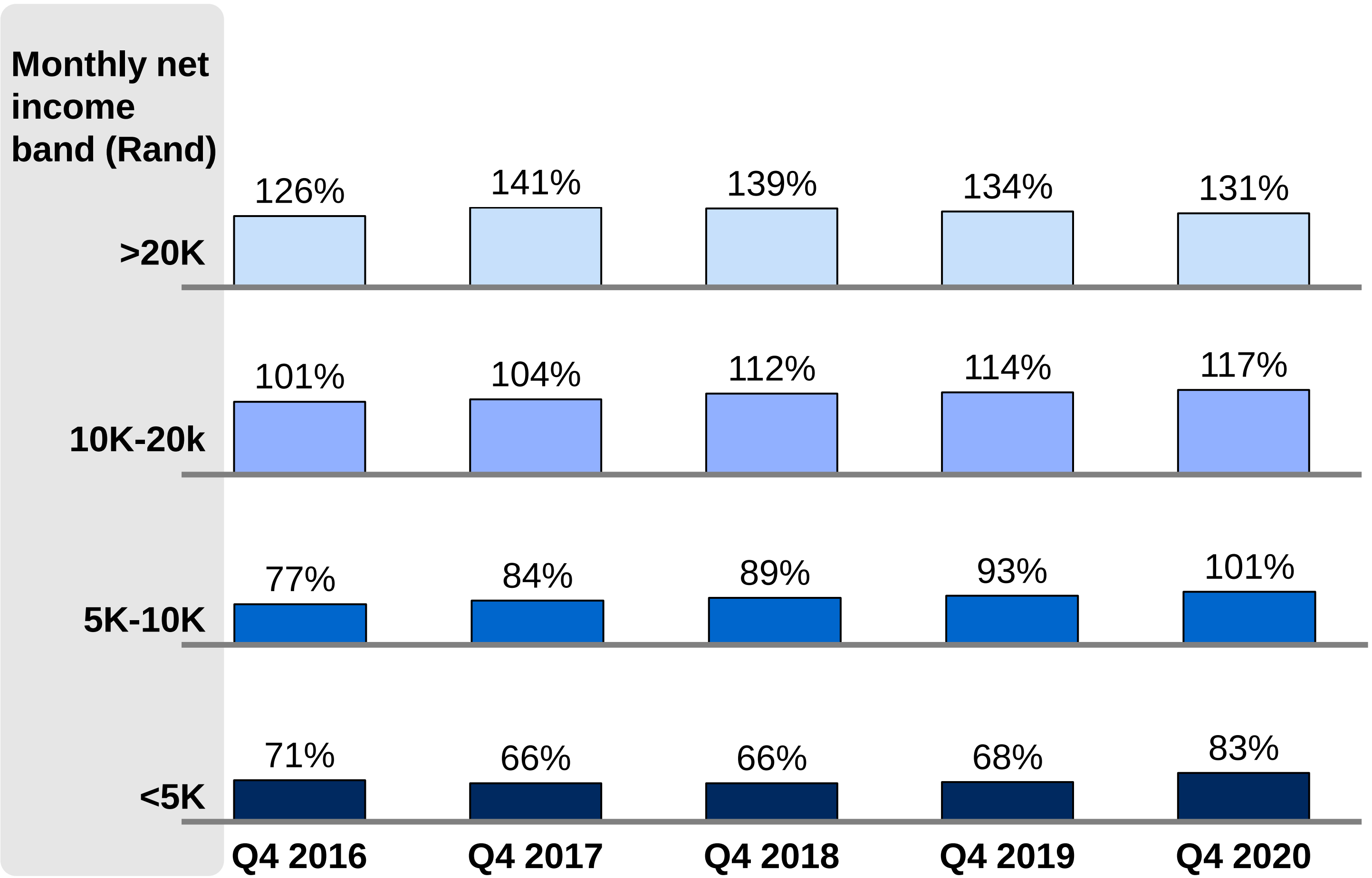


1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: Debtbusters

Total debt exposure to annual net income[1] ratio comparison indicates earners in all income brackets are worse off compared to four years ago; those taking home between R5 000 and R20 000 are under most pressure

Original overall debt to annual net income ratio[1]
Debt exposure to net income ratio, when clients sign up with DebtBusters



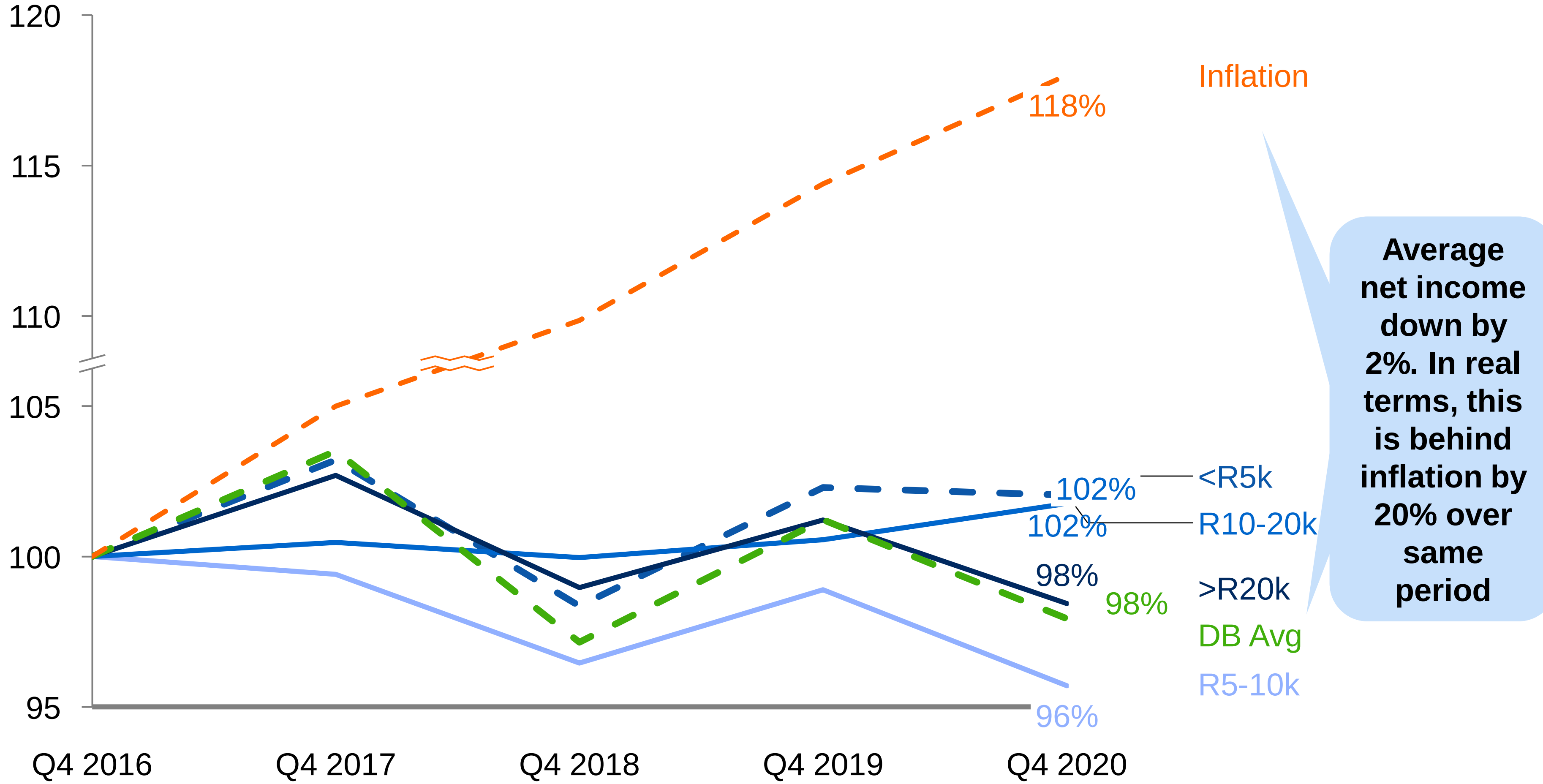
- Debt exposure worsened the most for clients in the R5k-R10k and R10k-R20k brackets
- South Africans in the highest income bracket have the highest exposure to debt

1 Debt exposure to Income ratio is calculated by looking at the median in each quarter
Source: Debtbusters

This is driven by the fact that the average net income (take home pay) was down by 2% in four years compared to 18% growth in inflation over the same period, resulting in -20% growth in real income over that period…

Clients signed up in the quarter

Change in net income levels per income band
Indexed to 2016 levels
2016 = 100



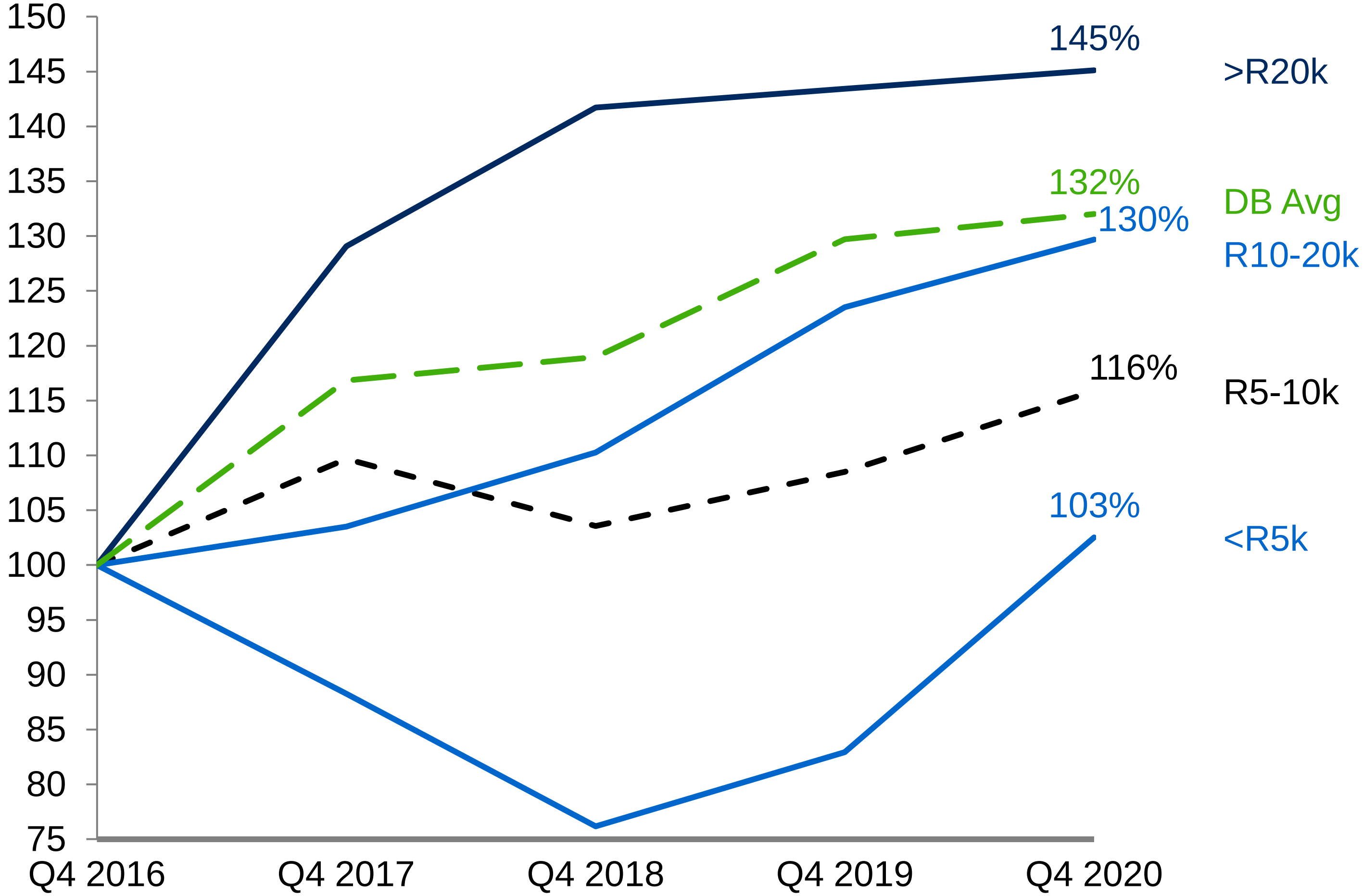
Source: DebtBusters

DEBT BUSTERS

…and growth in unsecured debt levels on average was 32% over the same four year period. This means consumers are increasingly using unsecured loans to supplement their incomes

Clients signed up in the quarter

Change in unsecured debt levels per income band
Indexed to 2016 levels
2016 = 100

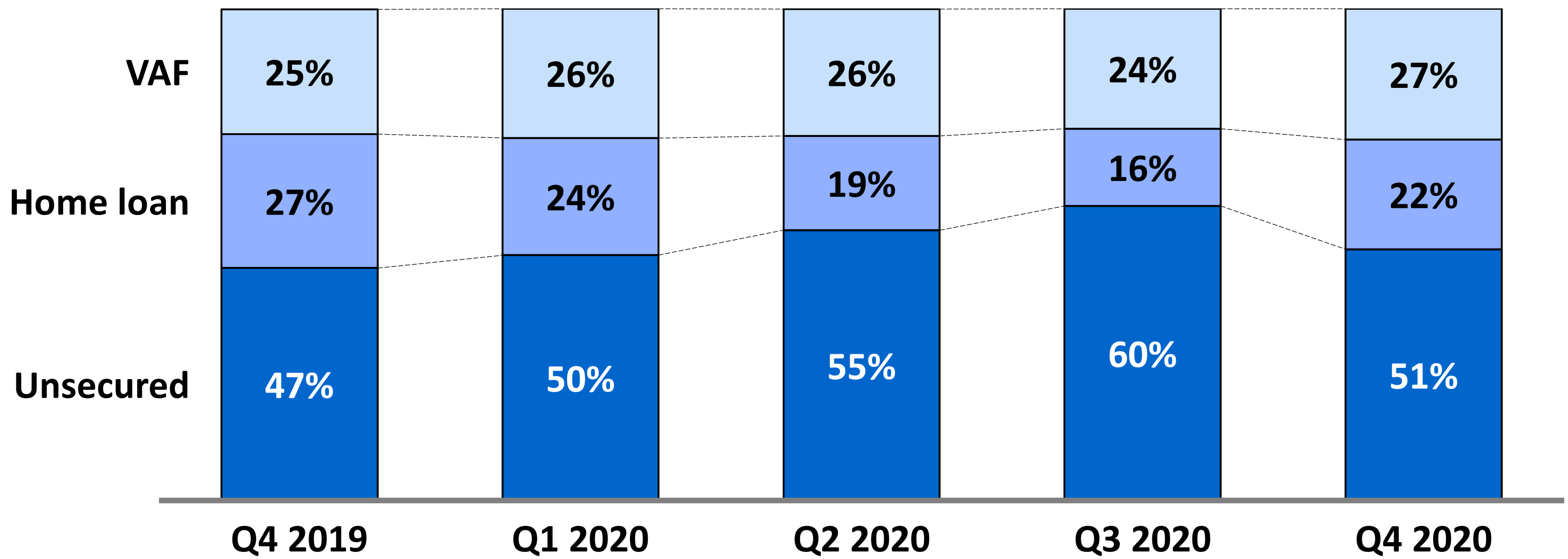


- **Unsecured debt for the average client is 32% higher than 2016 levels; for top earners the figure is 45%**
- **This indicates consumers are using unsecured loans to supplement their incomes**

Source: Debtbusters

The debt mix for new applicants has shifted dramatically over the last year, through a combination of payment holidays (which now expired) offered by banks and reduction in interest rates…

Breakdown of new applicants debt
Percent by type

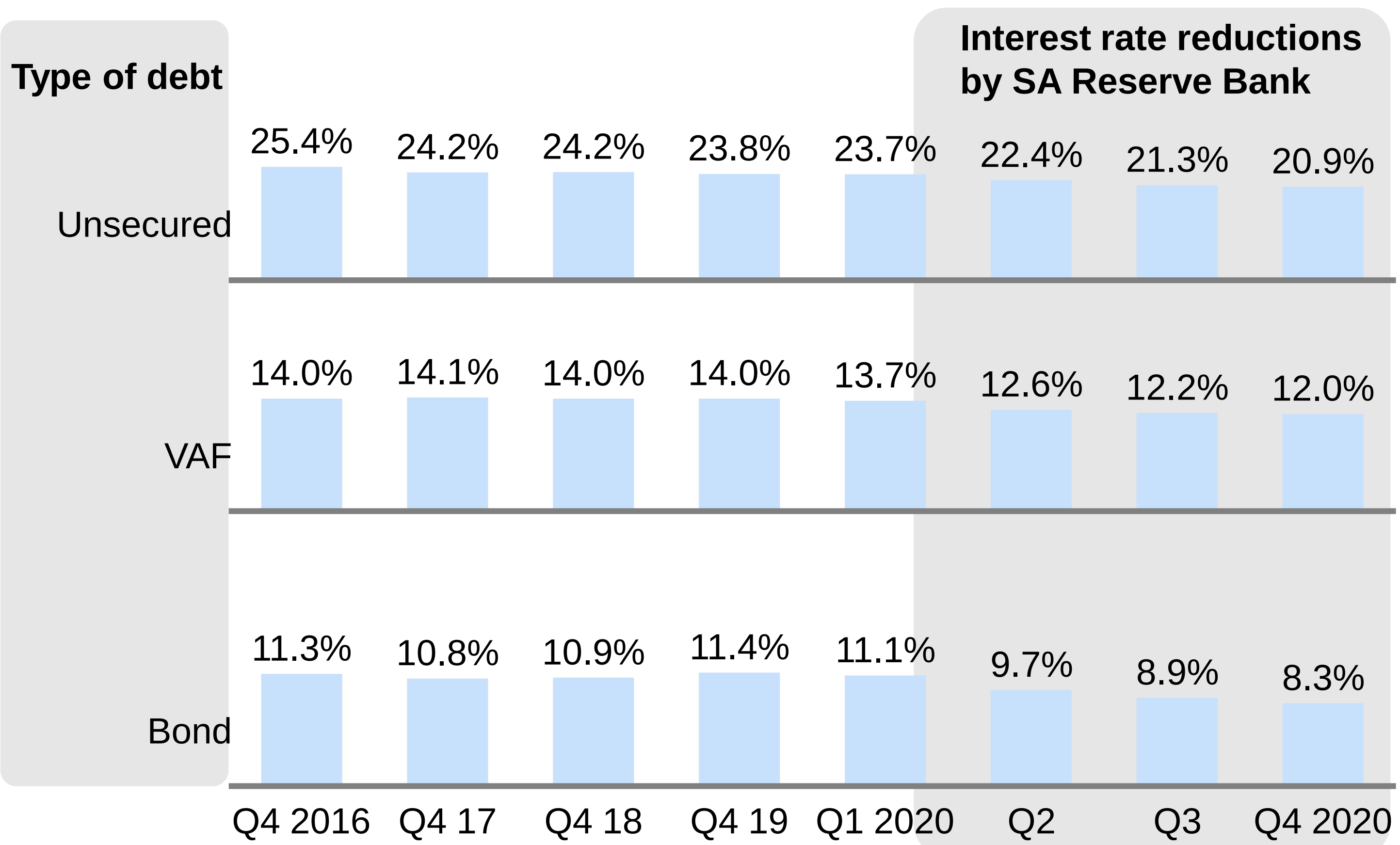


- **Interest rate reduction combined with bank payment holidays most pronounced in Q3 2020 as share of assets dipped**
- **Starting from Q4 2020 (with expiry of payment holidays) more consumers with assets are seeking help**

VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.
Source: Debtbusters

…as most consumers with assets have benefited from successive interest rate reductions by the SA Reserve Bank. However, the impact of interest rate reduction has been very limited on unsecured debt…

Average interest rate for new applicants (before debt counselling)
Percent



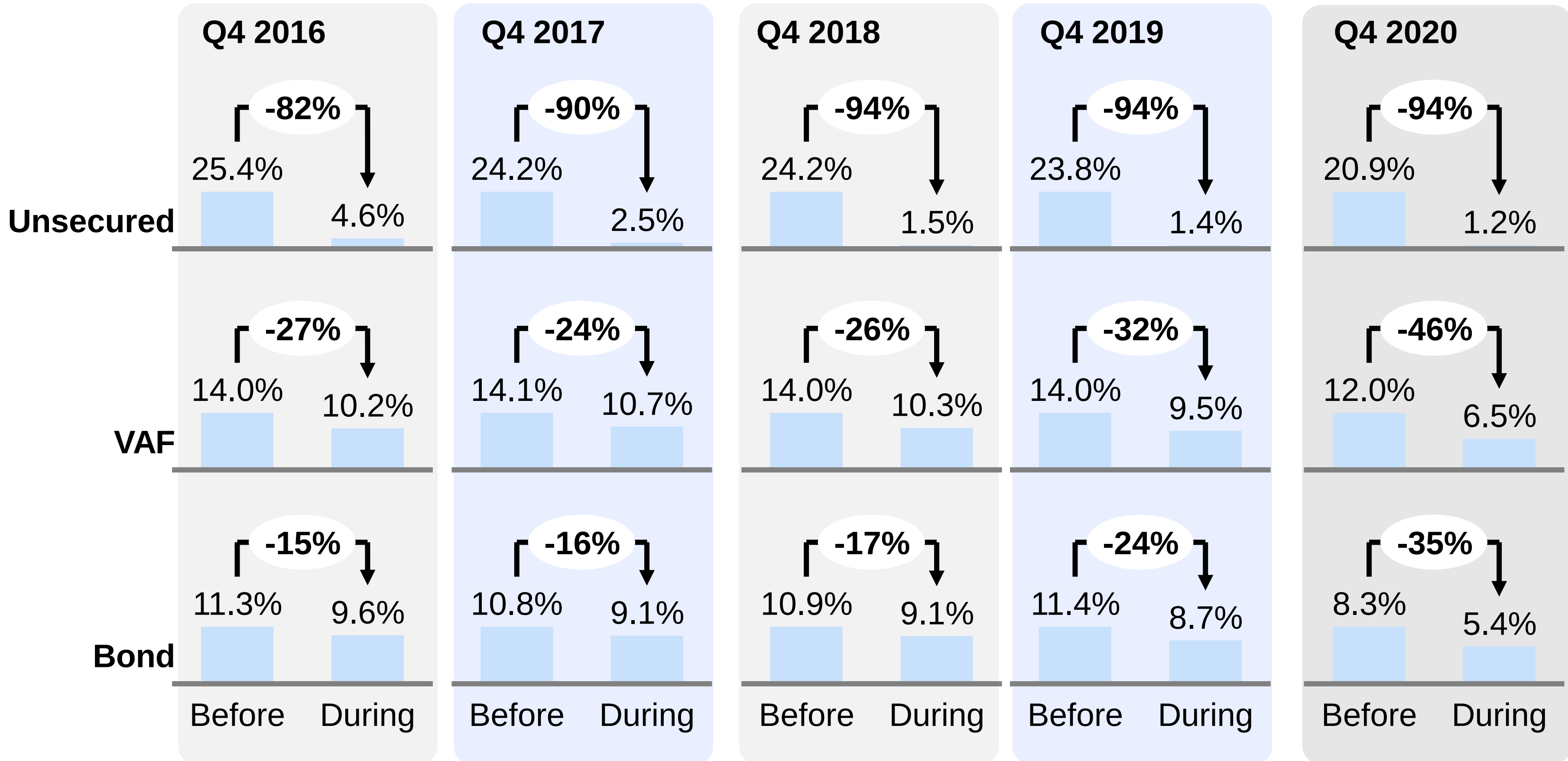
- Significant reduction in bond interest rates, less so for VAF
- **Very little impact on unsecured debt interest rates – unsecured interest rates still around 21%**

VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.
Source: Debtbusters

DEBT BUSTERS

Debt interest levels can be reduced dramatically as a result of the DCRS system – this has consistently been the case over the last several years. Unsecured debt interest rates can be reduced by over 90% while under debt counselling, benefitting consumers who most need it. In fact, thanks to interest rate reductions, 2020 was the best year for consumers in debt counselling in terms of interest rate reductions

Average interest rate for new applicants (before and proposed during debt counselling)
Percent



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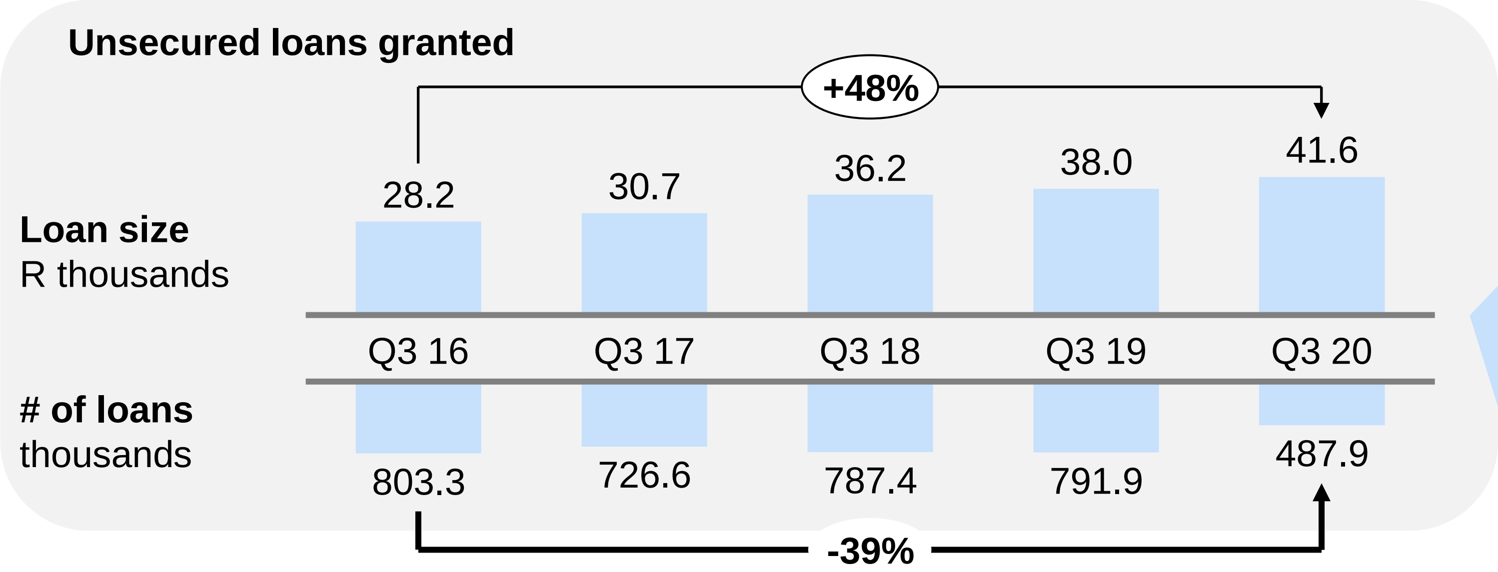
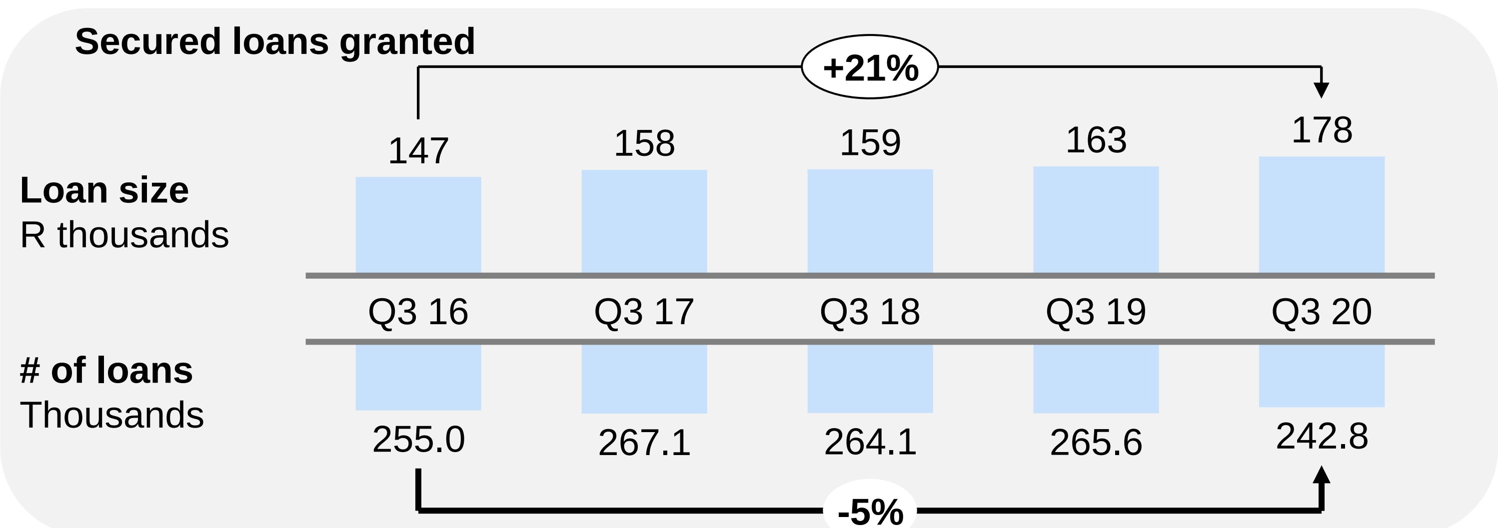
Source: Debtbusters

 DEBT BUSTERS

The changing landscape with larger-size unsecured loans is also supported by NCR data (Q3 2020 latest available), where the average unsecured loan size increased by 48% in four years to an ever-shrinking pool of applicants





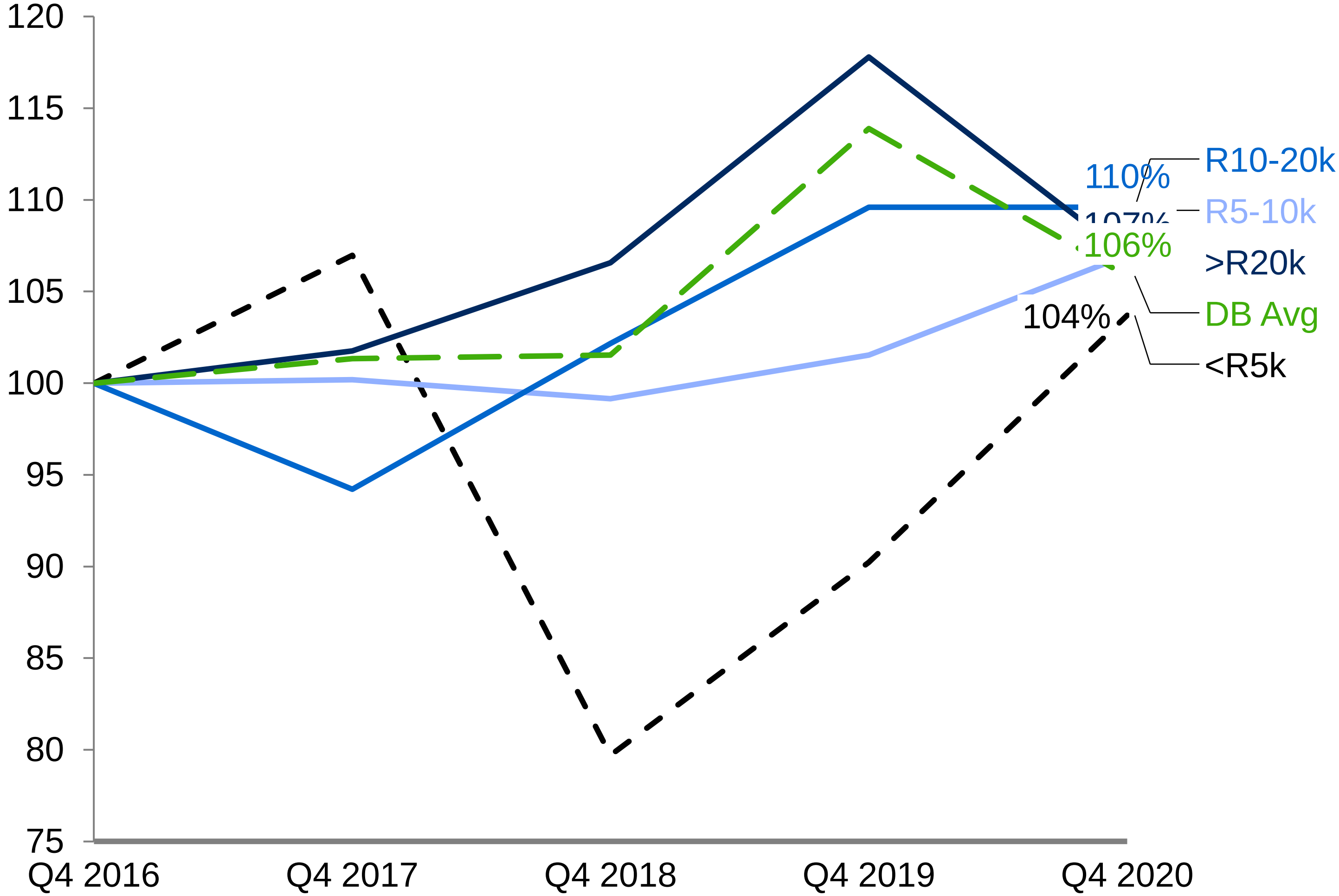
- **Loan size grew by 48% but recipients shrunk by 39% over the same period, indicating more unsecured loans are granted to a smaller pool of applicants**
- **The same effect was not observed in secured lending**

Source: NCR Consumer Credit Market Report Data Q2 2007 – Q3 2020

Total debt levels have increased by 6% compared to Q4 2016, indicating that debt growth is really driven by growth in unsecured debt

Clients signed up in the quarter

Change in total debt levels per income band
Indexed to 2016 levels
2016 = 100



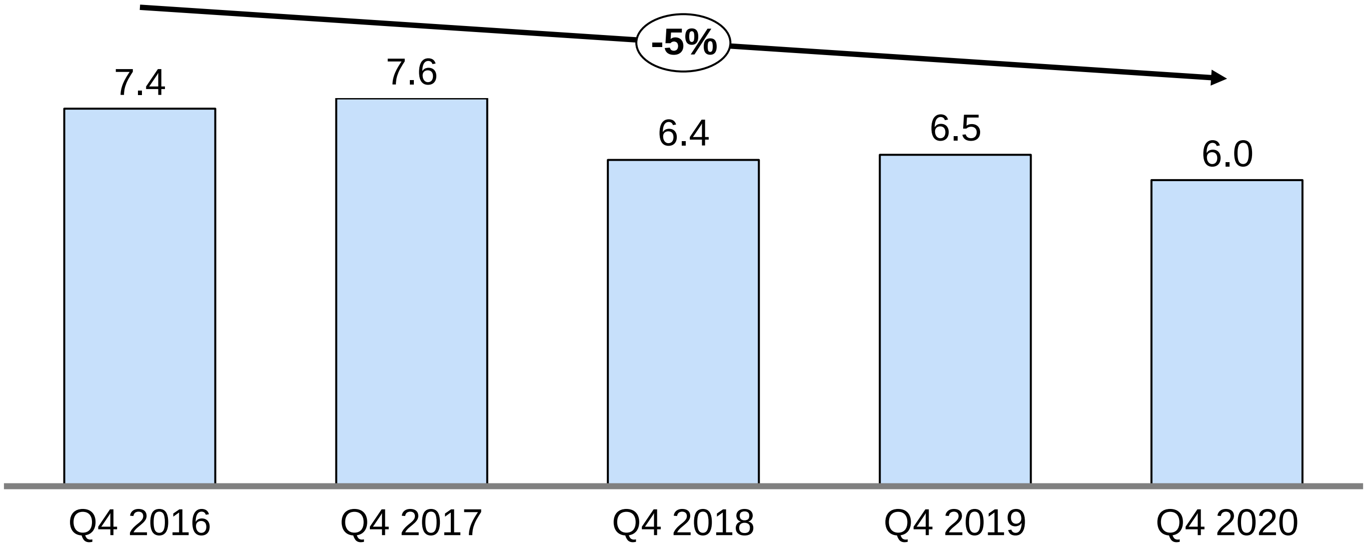
Source: DebtBusters

In comparison to 2016, the total debt level increased by 6% on average

The average number of credit agreements for new clients was six. This shows clients are feeling the burden of debt earlier than before

Credit agreements per new client: Year-on-Year

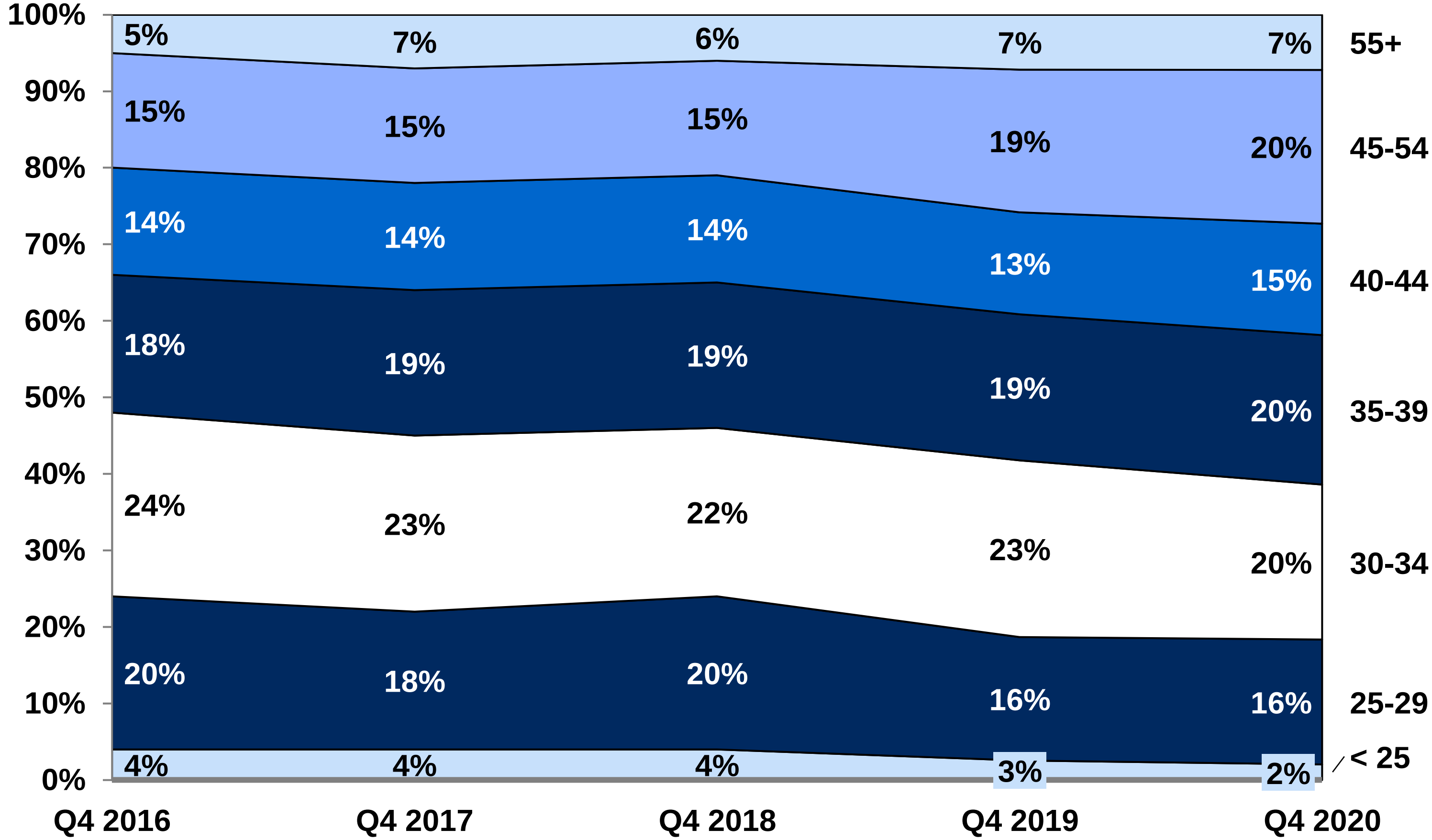
Number, when clients sign up with DebtBusters



Source: Debtbusters

Client age profile: The average age of new clients is 39, which is marginally higher than previous years

Age profile of new clients
Age range



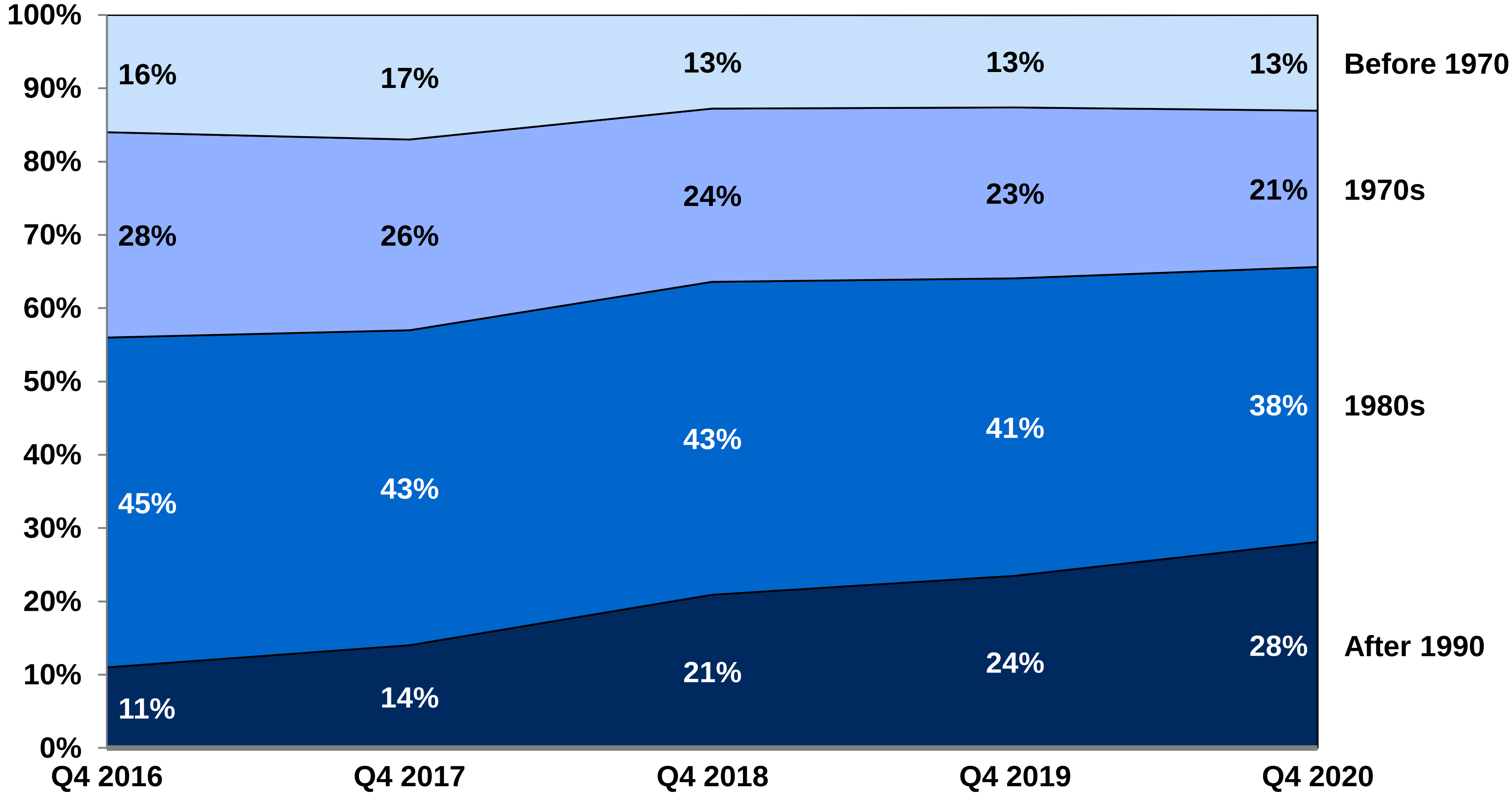
Average age of new clients

Q4 2016	Q4 2017	Q4 2018	Q4 2019	Q4 2020
37	38	38	38	39

Source: Debtbusters

55% of new applicants were male, indicating that more men are becoming proactive about their debt

Decade profile of new clients
Decade of birth



Share of male applicants	48%	51%	51%	53%	55%

Source: Debtbusters

THE END