Feasibility (Pty) Ltd

Clarity & Strategy Through Economic Research

The cost of credit, access to credit and associated market practices

Report synopsis

National Credit Regulator

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A report by:

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We want to thank all those credit providers who took part in the survey. It was a voluntary process and time consuming. Moreover, we are indebted to those who granted us interviews. Without the co-operation and insights of all who participated, the research would not have been possible..

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1. Introduction

In February 2011 Feasibility was appointed to assist the National Credit Regulator (NCR) in meeting its annual market research reporting requirements in terms of the National Credit Act (NCA). Feasibility was also required to assist the NCR in gaining an in-depth understanding of the credit products available to consumers.

The key areas of research included (1) the pricing of credit, (2) the access to consumer credit, (3) product types and (4) market practices. The emphasis was on understanding developments in the consumer credit market since 2008, when the NCR conducted a similar review. The research methods employed to evaluate the market included a survey of credit providers; interviews with the providers; interviews with market practice experts; focus group discussions with consumers; and a mystery shopping exercise.

The final research document exceeds 250 pages - excluding appendices. What is presented here is a synopsis. While such a birds-eye view provides a useful insight to the industry, it runs the risk of oversimplification in certain areas.

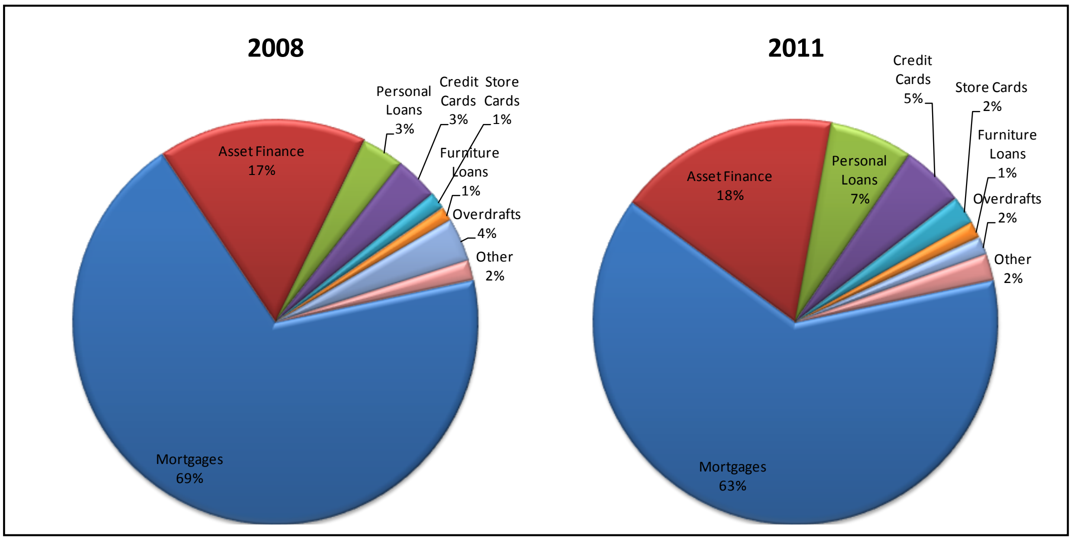
2. The credit market

The aggregate value of the surveyed consumer credit book in December 2010 was R1076.4 billion, representing 33.8 million accounts. In value, this represents 91% of the NCR's gross debtor's book and 97% of the accounts of all registered credit providers (NCR, Consumer Credit Market Report, March 2011). In June 2008, the surveyed book was R1058.5 billion in value and represented 32 million accounts. Both surveys are representative of the consumer industry at the time of surveying.

While the size of the consumer credit market has grown marginally when comparing these two periods, as Figure 1 shows, there have been shifts within the market. The share of the value of mortgages has diminished (from 69% to 63% of the book) and the value of overdraft facilities has also declined from 4% of the value to 2%. This reduction in value has been taken up by the growth in the share in personal loans and credit and store cards. The growth in personal loans has been most substantial, with the share of personal loans more than doubling from 3% to 7%. Credit cards have grown from a 3% to a 5% share and the share of store cards has doubled. The share of asset finance has increased marginally from 17% to 18% of the value of the book. The share of furniture loans has remained stable, as has "other" – which includes developmental finance, education loans, small business, and so on.

This aggregate view confirms that the share of mortgages has shrunk as the importance of personal loans and credit cards and store cards has grown.

Figure 1: Consolidated book values of the 2008 & 2011 Surveys[1]



Source: Feasibility Surveys 2008, 2011

The number of surveyed accounts has grown from 32 million in 2008 to 33.8 million in 2011. This represents a growth of 5.6%. The share of personal loans has grown most substantially from 5 million accounts to 6.4 million (some 28%). The number of credit cards has increased by 15% (from 6 million to 6.9 million). The decline in furniture loan accounts is most marked – from 3.3 million to 2.8 million, with a slight fall in the number of store card accounts. The number of mortgages has also fallen slightly from 1.9 million to 1.7 million. The number of accounts for asset finance and overdrafts has remained relatively stable.

In 2010, 40 survey respondents completed returns to the survey, compared to 59 in 2008. The survey remains representative of the consumer credit market – as is evident from the share of the book it represents. The drop in the number of respondents reflects change in the industry over recent years, with some high profile take-overs, selling of books and in some cases, failure of market participants. The possibility of consolidation was always seen as a likely outcome of the implementation of the National Credit Act, and economic pressures in recent years have also played their part.

As background we set out the regulations of the NCA regarding pricing of credit facilities and agreements. Over and above the capital amount borrowed, the NCA allows credit providers to charge the following types of interest and fee categories:

- Interest, which is based on an interest rate stipulated in the credit agreement and which should not exceed the maximum specified under the NCA.
- An initiation fee, which compensates the lender for originating the agreement, which is also subject to a limit stipulated in the NCA.
- A monthly service fee, which may not exceed R57, inclusive of VAT.

At the time that the survey was conducted by Feasibility, the maximum prescribed interest rates on different types of consumer credit were as shown in Table 1 below. These are

[1] The latest data which the 2011 survey, was able to canvass was for December 2010.

linked to the Reserve Bank's Repurchase (Repo) Rate - and as the repo rate changes in line with macroeconomic factors - so too does the maximum prescribed rate for each credit category. The exception is the monthly rate applicable to short-term credit transactions.

Table 1: Maximum prescribed interest rates

Sub-sector/ Type of credit	*Maximum prescribed interest rate 2011*	*Maximum prescribed interest rate 2008*
Mortgage agreements	17.1% per annum	31.4% per annum
Other credit agreements	22.1% per annum	36.4% per annum
Credit facilities	22.1% per annum	36.4% per annum
Unsecured credit transactions	32.1% per annum	46.4% per annum
Short-term credit transactions	5.0% per month	5.0% per month
Developmental credit agreements	32.1% per annum	46.4% per annum

Source: NCA, SARB Quarterly Bulletin

There has been no change in the prescribed fees since the inception of the NCA. In line with the fall in the repo rate of 6.5%, the NCA maximum interest rate has fallen by 14.3% over the period.

Whereas many providers were operating below the interest and fee caps in 2008,some providers are now operating at the maximum. The outcome is that pricing in the credit market is not always cheaper than in 2008.

Summaries of each of the sub-markets are now presented. Comparisons are provided with the 2008 data. In order to make comparisons regarding access to credit, providers were asked about required minimum incomes for different sizes of loan. In the 2011 survey it became apparent that affordability was more important than absolute incomes. For this reason, the income data often reflects *actual average* incomes of recently successful applicants rather than *required* incomes and credit worthy applicants below this level of income may still be successful.

2.1 Mortgages

- There were seven credit providers in our 2011 survey. They all provided loans secured by property. Such loans included partial mortgages and second mortgages. In 2008, there were twelve such credit providers.
- At the end of 2010, the value of the debtor's book of the providers surveyed was R682.5 billion, representing some 1.8 million accounts. In June 2008, the providers in the survey had a book of R730 billion, representing 1.9 million accounts.
- In 2008, the data suggest that consumers should be able to get residential mortgages equivalent to around 20 to 25 times their gross monthly income, if they satisfied the affordability assessment of the provider. In 2011, the link between declared income and size of mortgage is very much more variable. Based on average required income provided by those surveyed, consumers could qualify for mortgages equivalent to around 7 to 36 times their gross monthly incomes. This variability suggests that it is the disposable income of the individual consumer that dominates the size of the mortgage offered (i.e. the affordability), rather than the gross monthly income *per se*.

- In December 2010, 48% of the number of loans outstanding were for mortgages and home loans of values less than R300 000. (In 2008, the share of loans less than R300 000 was 55%.) Loans of between R300 000 and R1 million made up 44% of the 1.8 million housing loan accounts, while loans of more than R1 million outstanding made up 8.3% of the total. (In 2008, the respective values were 38% and 6.3% of the book respectively.) This trend towards higher values speaks of the increase in prices in the property market and the relative dearth of low-value properties.

- The survey results indicate that the total number of mortgages advanced by respondents increased by over 58 500 over the year to December 2010. Ninety four per cent (or 55 000) of these new loans were in the category of mortgages with values between R300 000 and R1 million. In 2008, the increase over the year was 186 000 units. Once again, the bulk of these were in the R300 000 and R1 million categories.

- In interviews, most mortgage providers indicated a wariness of mortgages as their margins had been eroded by the slump in property prices and the margin taken by bond originators. The debt review process has contributed to the relatively high costs associated with realising the security of the asset. In 2008 providers indicated an appetite for mortgages, but said that they were encouraging consumers to provide a deposit, or provide a higher deposit than before.

- In the 2011 survey, most providers charged close to the maximum permissible initiation fee, but less than half of the providers charged the maximum monthly service fee. This contrasts with the 2008 survey where the initiation fees – particularly for entry level mortgages - were markedly below the maximum permitted.

- The weighted Annual percentage rate (APR) – inclusive of credit life insurance, but excluding property insurance – for all mortgage sizes canvassed, ranges from 9.6% to 8.8% per annum. In 2008, the range was 15.0% to 14.5% per annum.

- The range of weighted APRs across all providers surveyed - exclusive of insurance and property insurance – was 9.0% to 8.7%). The prime rate is currently 9% p.a. The analysis shows that the pricing of mortgages is well below the maximum permitted by NCA regulations, and there is no sense that providers intend to raise prices as far as possible in response to what we believe may be unmet demand. The long-term association of the mortgage rate being around the prime rate of interest appears to be intact, however, relative to the prevailing prime rate, mortgages were more expensive in 2010 than they were in 2008. In 2008, the calculated APR ranged from 14.5% to 14.1%. At the time, prime was 15.5%.

Table 2: Pricing of mortgages

	Mortgage Value			
	R 280,000	**R 650,000**	**R 1,300,000**	**R 4,000,000**
	Inclusive of credit life insurance			
Weighted Average APR 2010	9.6%	9.3%	8.9%	8.8%
Weighted Average APR 2008	15.0%	14.9%	14.7%	14.6%
	Exclusive of credit life insurance			
Weighted Average APR 2010	9.0%	8.7%	8.7%	8.7%
Weighted Average APR 2008	14.5%	14.3%	14.2%	14.1%

Source: Feasibility Surveys 2008, 2011

- At the end of 2010, the combined value of the mortgage book in arrears was R97 billion. This represents 14.2% of the value of the book we surveyed. In 2008, the value of arrears was not canvassed, but the historical data provided suggests a value of around 11% of the book in arrears in mid-2008.

- At the end of 2010, virtually all providers required deposits for a mortgage loan. The weighted average deposit ranged from 11% for mortgages up to R300 000 to 25% for mortgages more than R3 million. The high deposit requirement suggests risk aversion at the top end of the market, which is not altogether surprising given that almost 20% of the loans in the R3 million or more category are in arrears.
- Mortgages continue to play a key role in terms of consumer access to reasonable credit, as mortgages remain the cheapest form of household credit available. However, the reduced appetite of providers to provide such loans may well imply a credit-crunch in terms of the provision of mortgages. In 2008, availability of stock at the lower end may have been a supply constraint.
- Our analysis shows that average prices for mortgages have decreased since 2008. Relative to the existing prime rate, however, mortgages appear to have become marginally more expensive, but not nearly as expensive as permitted by regulation. The stickiness in mortgage prices is accounted for the fact that the historical book influences the overall prices. In aggregate terms the availability of these mortgages has decreased.

Table 3: Mortgages at a glance (2008 and 2011 surveys)

Comparator	***2011 survey***	***2008 survey***
Number of providers	7	12
Size of book surveyed	R682,5 billion	R730 billion
Number of accounts	1.8 million	1.9 million
Size of mortgage equivalent to	7-36 times gross monthly income	20-25 times gross monthly income
Share of accounts <R300 000	48%	55%
Average initiation fee (R280 000 loan)	R3,868	R3,163
Average initiation fee (R1,3 million loan)	R5,439	R5,268
APR range (exclusive of insurance – expressed in relation to prime)	Prime less 0.3% to prime	Prime less 1.4% to prime less 1%
NCR interest rate cap	17.1%	31.4%

Source: Feasibility Surveys 2008, 2011

2.2 Asset finance

- Eight respondents to our survey originated loans secured by motor vehicles or similar assets. In 2008 there were eleven respondents.
- The value of the debtor's book of the providers surveyed was R179 billion at the end of December 2010, representing some 1.75 million accounts. This compares with R176 billion, at the end of June 2008, representing 1.77 million accounts.
- About 59% of the loans outstanding were for loans of values between R100 000 and R300 000. In June 2008, this was also the largest category, representing 46% of all loans. Compared with 2008, loans of more than R300 000 outstanding were more important in 2011, making up 24% of all loans. In 2008, these larger loans represented less than six per cent of the total.
- According to providers' returns, the number of loans fell by 33 000 in the year ending December 2010. This is the outcome of the number of smaller loans declining and the number of larger loans expanding, but at a slower rate than the contraction in smaller loans. Specifically, loans with values of between R100 000 and R300 000 and above R300 000, expanded by 31,700 and 23,300 respectively. Loans with values of less than R60 000 and between R60 000 and R100 000 declined more substantially by 47,700 and 41,000 respectively. This probably reflects repayment

and account closure of smaller values, as well as a shift to higher value or new car sales. This follows a similar pattern to 2008, where the numbers of smaller loans fell and the biggest gains were in loans of between R100 000 and R300 000.

- In 2010 providers required, in general, a higher salary to secure a loan. For example, the weighted required income to secure asset finance for an entry-level (or cheaper second-hand) vehicle, with an average price of R46,000 is R11,100 in the 2011 survey. In 2008, the weighted minimum income required for a loan of R42,919 was around R6,753 per month. Based on average required income provided by those surveyed, a consumer could qualify for asset finance equivalent to around 3 to 9 times his or her gross monthly income. This suggests that it is affordability and the risk aversion of the provider that dominates the transaction – rather than gross monthly income.

- Since the implementation of the NCA, providers are no longer restricted to a 60-month term. As the term extends, the monthly repayment becomes more affordable. Since 2008, the average term has extended by between two and eight months. It is common practice that the term extends as the value of the loans size increases. The data show that for loans up to R60 000, the average term (weighted for size of book) is 49.9 months (2008: 47.9 months) and for loans of between R100 000 and R300 000, the average term is 64.5 months (2008: 56.7 months.)

- All respondents charge the maximum initiation fee permissible under the NCA. With the exception of a single niche provider (with less than 0.2% of the surveyed book), all respondents also charge the maximum monthly fee. The situation was much the same in 2008. Price differentiation, both between credit providers and between different sizes of loan offered by the same provider, is therefore reflected in the interest rates charged, not the fees.

- The weighted APR – inclusive of credit life insurance – for all motor vehicle loans surveyed ranges from 14.7% to 12.7% per annum (2008: 20.4% to 16.1% per annum).The weighted APR - exclusive of insurance - across all values and providers surveyed ranges from 12.5% for lower value loans, to 9.1% in the case of higher value loans. In 2008, the range was 20.2% to 16.1%. Relative to the prevailing prime rate, asset finance seems cheaper in 2010.

Table 4: Pricing of asset finance

	Asset finance Value			
	R 45,000	**R 80,000**	**R 225,000**	**R 400,000**
	Inclusive of credit life insurance			
Weighted Average APR 2010	14.7%	14.3%	13.2%	12.7%
Weighted Average APR 2008	20.4%	19.0%	17.7%	16.1%
	Exclusive of credit life insurance			
Weighted Average APR 2010	12.5%	11.5%	9.9%	9.1%
Weighted Average APR 2008	20.2%	18.9%	17.5%	16.1%

Source: Feasibility Surveys 2008, 2010

- At the end of 2010, the combined value of the asset finance book in arrears was R17,5 billion. This represents 9.8% of the value of the survey book. In 2008, the value of arrears was not canvassed, but the historical data provided suggests a value of around 21% of the book in arrears at the end of 2008. In early 2008, providers pointed out that they felt there was a sub-prime crisis looming in asset finance.

- In 2011, the average APR (excluding credit life insurance) for a loan of R225 000 is priced at around 2.9% above prime. In 2008, the mark-up for a loan of R225 000 was 1.1% above prime in 2008. For loans of around R45 000, the exclusive APR is some 3.5% above the prime rate of interest.

Table 5: Asset finance at a glance (2008 and 2011 surveys)

Comparator	*2011 survey*	*2008 survey*
Number of providers	8	11
Size of book surveyed	R179 billion	R176 billion
Number of accounts	1.75 million	1.77 million
Average size of asset finance equivalent to	3-8 times gross monthly income	8-13 times gross monthly income
Share of accounts (R100 000 to R300 000)	58.9%	46%
Average term length (R100 000 to R300 000)	64.5 months	56.7 months
Average deposit (R100 000 to R300 000)	11%	
APR range (exclusive of insurance – expressed in relation to prime)	Prime plus 0.1% to prime plus 3.5%	Prime plus 1.1% to prime plus 4.7%
NCR interest rate cap	22.1%	36.4%

Source: Feasibility Surveys 2008, 2011

2.3 Personal loans

- Nineteen respondents to the survey provide personal loans, although only a handful provide loans across the values canvassed - from less than R1 000 to R100 000 and more. Collectively, the combined book of outstanding personal loan debt at the end of December 2010 was R71 billion, virtually twice the size of the book in June 2008 when it was R36.1 billion, as canvassed from 23 respondents. While the number of accounts grew by 24% from 5 million to 6.2 million over this period, much of the growth in the book reflects a growth in the size of loans.
- All but one category of loan – term loans up to R8 000 – grew over the year to December 2010. Some 84% of the number of all personal loans were for loans between R1 000 and R25 000. In June 2008, 89% of all loans fell into this category. The largest areas of growth have been for loans greater than R25 000, which now make up 12% of all loans originated.
- The arrears book as at December 2010 amounted to R14.7 billion. This amounts to almost 21% of the total book, with the highest level of default in loans of up to R8 000 – here the arrears book value amounts to 41% of loans. Data going back to June 2008 suggests that this category of loans has long been the worst performing category in terms of arrears for some time.
- The maximum reported APR in 2011 – inclusive of insurance - for the smallest loan was 112%, with the lowest 25.7%. The weighted APR is 35.5%. (In 2008 the figures were 133.8% and 22%, with a weighted APR of 92.7%.) The apparent reduction in the APRs for the R1000 loan is surprising, since this type of loan is subject to a flat rate of interest that has not changed since the inception of the NCA. There are two explanations that we can offer. First, more providers who exclusively offer short-term loans were canvassed in 2008, since some who were canvassed in 2008 have since fallen out of the market. Second, the bigger providers who do provide small loans tend to offer prices which are much closer to the prices of their larger loans. Hence, where consumers are able to obtain loans from the bigger providers, the average APR may be achieved. However, where the consumer continues to source loans from a small provider – typically referred to as micro lender, we would suggest that the range (up to 112%) - rather than the average- better reflects the likely experience of the consumer.
- The weighted APR (exclusive of insurance) was 27.4% in 2010, and 35.6% in 2008 which represents an 820 basis points fall. In 2008, the range of the inclusive and exclusive differential was between 4.1% and 6.7%. In 2010, the range is larger - from 1% for the smallest loan to 6.9% for R50 000 loan.

Table 6: Pricing of personal loans

	Loan Values				
	R 1,000.00	R 7,500.00	R 15,000.00	R 50,000.00	R 100,000.00
	Inclusive of credit life insurance				
Weighted Average APR 2010	35.5%	21.0%	31.5%	26.7%	24.9%
Weighted Average APR 2008	92.7%	45.0%	42.3%	32.3%	
	Exclusive of credit life insurance				
Weighted Average APR 2010	34.5%	23.0%	27.4%	19.8%	20.0%
Weighted Average APR 2008	88.6%	38.6%	35.6%	27.6%	

Source: Feasibility Surveys 2008, 2011

- Since 2008, there has been a shift into larger loans, for a longer term. This may have something to do with the high levels of default in the shorter term loans, and may also reflect unmet demand for credit in other categories of credit. In particular, loans above R100 000 have grown by over 1000% since 2008. No averages are available for the biggest loans in 2008.
- In the NCA environment, short-term loans are those for up to R8 000, for a term of no more than 6 months. For loans of up to R1 000 for a term of six months, the average loan size reported was R466, a significant drop from the average size of R727 for this category in 2008. A typical client would need to have a monthly income of around R5 844 to qualify for the loan (up from R2000 in June 2008). In 2011, for the first time, loans above R100 000 were canvassed. In this category, the average size of loan was R129 000, for 48 months, with a required income of R5 739.
- The majority of providers of term loans charge the maximum initiation and monthly fees permissible for each loan value, and the majority charge credit life insurance. By contrast, short term providers do not necessarily charge credit life insurance.

Table 7: Personal loans & unsecured credit (2008 & 2011 surveys)

Comparator	*2011 survey*	*2008 survey*
Number of providers	19	23
Size of book surveyed	R71 billion	R 36.1 billion
Number of accounts	6.25 million	5 million
Share of accounts (R8000 to R25 000)	84%	89%
Average loan size (R8 000 to R25 000)	R11 629	R10 514
Average term length (for stated loan size)	31.5 months	27.5 months
Average required / actual income (for stated loan size)	R6 461	R6 649
NCR interest rate cap	32.1%	46.4%

Source: Feasibility Surveys 2008, 2011

2.4 Credit card facilities

- Five respondents to the survey provided credit card facilities. Collectively, their combined book of outstanding credit card debt as at the end of December 2010 was more than R52.8 billion, representing around 6.7 million accounts. At the end of June 2008, the value of the book of six respondents was R36.8 billion, representing some 6 million accounts.
- The bulk of the accounts (some 1.9 million or 28% of the total number of credit cards) were for facilities between R8,000 and R20,000. This contrasts with June 2008, where the bulk of the accounts (36%) were for facilities less than R3 000. In the year ending December 2010, some 22 600 new accounts were created, compared to the year ending June 2008, when some 430 000 new credit card facilities were brought into existence by the respondents.

- For the category "less than R3 000" the average size of facility was R1 358. A typical client would need to have a monthly income of around R2 509 to qualify for the facility. In June 2008, the average facility in this category was R1 828, for which a minimum income of R2 150 was required. This apparent reduction in size may have something to do with the relatively high level of arrears in this category.
- The arrears in the smallest category of facility surveyed – up to R3 000, has remained high over the past three years, and in December 2010 amounted to R1.7 billion of the R2.6 billion book in this category. This implies that in terms of value, 65% of this category of loans is in arrears. The overall value of arrears of the credit card book amounts to some R6.9 billion or 13%, representing some 760 000 accounts (11.5% of the total).
- The average size of the facility in the category above R20 000 is R38 740, for which an average minimum income of R21 808 seems specified. The range of minimum incomes ranges from R10 000 to R30 000. In 2008, for a facility of R39 500, the minimum income required was around R14 200.
- Initiation fees are typically charged. The exception is one provider who does not charge an initiation fee for higher facility values (above R20 000) but who applies initiation fees for smaller facility values. In 2008, there were some providers who did not charge initiation fees. Monthly service fees range from just over R10 to R60. In 2008, the range was R5 to R57.
- Credit life insurance is viewed as compulsory by two of the respondents. As in 2008, this can add between five and ten per cent to the APRs.
- The pricing of credit cards for the smallest facility – of R3 000 - appears to have normalised so that whereas there was a premium charged for smaller facilities in 2008 (the price was some 11% p.a more than the next facility size of R8 000), this is no longer the case in 2010. This is good news for consumers using smaller facilities with a fall in the average pricing of the smallest facility by some 1640 basis points over the period. The weighted APR in 2010 was 28.6%, and 45% in 2008.

Table 8: Pricing of credit cards

Facility value	***Credit cards***			
	R 3,000	**R 8,000**	**R 20,000**	**R 40,000**
	Inclusive of credit life insurance			
Weighted Average APR - 2010	28.6%	25.2%	19.4%	12.5%
Weighted Average APR - 2008	45.0%	33.6%	**30.6%**	**25.8%**
	Exclusive of credit life insurance			
Weighted Average APR - 2010	27.0%	21.5%	15.5%	9.8%
Weighted Average APR - 2008	41.2%	30.3%	**27.3%**	**23.1%**

Source: Feasibility Surveys 2008, 2011

- The weighted average APR (exclusive of insurance) declines from around 27.0% for a R3 000 facility (2008:41.2%) to 9.8% for a R40 000 facility (2008:23.1%).

Table 9: Credit cards at a glance (2008 and 2011 surveys)

Comparator	***2011 survey***	***2008 survey***
Number of providers	5	6
Size of book surveyed	R52.8 billion	R36.8 billion
Number of accounts	6.6 million	6 million
New accounts created in previous year	22,600	430,000
Average size of facility (less than R3,000)	R1,358	R1,828
Average required / actual income for this facility	R2,509	R2,150
Value of arrears in loans up to R3,000	65%	58.5%
NCR interest rate cap	22.1%	36.4%

Source: Feasibility Surveys 2008, 2011

2.5 Store card facilities

- There were five respondents to the survey provide store card facilities. Collectively, their combined book of outstanding store card debt at the end of December 2010 was R24.5 billion, representing some 11.3 million accounts. In June 2008, the surveyed book of eight respondents was more than R14.2 billion, representing around 11.7 million accounts. If the survey is representative, then the number of accounts has shrunk in recent years. This may have something to do with the persistently high levels of arrears in the store card book.
- Around 4.4 million of these store cards (about 39%) were for facilities between R3 000 and R8 000. In 2008, the biggest share (35%) was represented by facilities less than R1 500.
- The average size of facility, less than R1 500, was R1 080. A typical client would need to have a monthly income of around R3 157 to qualify for the facility. In 2008, the average facility size in this category was R860, for which an income of R2 150 was required.
- The weighted APR inclusive of credit life insurance ranges from 33.7% for R1 500 facility to 11.8% for a R15 000 facility. The price of a R3 000 store card facility remains cheaper than for a credit card facility of similar size.

Table 10: Pricing of store cards

	R 1,500	***R 3,000***	***R 8,000***	***R 15,000***
	Inclusive of credit life insurance			
Weighted Average APR - 2011	33.7%	16.1%	10.3%	11.8%
Weighted Average APR - 2008	27.0%	26.9%	26.6%	26.1%
	Exclusive of credit life insurance			
Weighted Average APR - 2011	31.9%	15.2%	9.9%	11.5%
Weighted Average APR - 2008	27.0%	26.9%	26.6%	26.1%

Source: Feasibility Surveys 2008, 2011

- In 2008 the weighted average APR (inclusive and exclusive of insurance) ranged from around 27% to 26.2%. What is marked in the case of store cards is that whereas in 2008, there was little difference in the pricing of the smallest facility (of R1 500) relative to larger facilities, this is no longer the case. The smallest facility now appears to have become so risky that the inclusive cost of the smallest loan in 2010 exceeds the pricing in 2008 by 670 basis points. All other facilities cost less than the 2008 prices (between 1030 and 1460 basis point lower). It is also notable that in 2008, no store card provider appeared to be charging credit life insurance, whereas in 2010 half of those surveyed were doing so.

2.6 Furniture finance

- Four furniture groups responded to the survey, as in 2008.
- The combined book for this product category at the end of December 2010 was R14.1 billion, representing 2.8 million accounts. At the end of 30 June 2008, the surveyed book was R12.1 billion, representing 3.3 million accounts.
- There appears to have been a shift in the size of loans. While the majority of the loans in 2008 and 2011 were for loans of between R2 500 and R8 000, they currently account for 67% of the number of loans, relative to 52% in June 2008. Loans of R2 500 or less make up 9% (265 000) of the number of loans compared with 35% (or 1.1 million) of the total. Loans of between R8 000 and R15 000 now represent 19% of the accounts. The figure was 11% in 2008.
- Terms range from 11 to 46 months, compared with 8 to 36 months in 2008. The lengthening of the term is clearly designed to facilitate repayments.
- The data show that initiation fees are typically charged, although these fees are generally below the maxima permissible.
- Together, credit life and asset insurance add between 9.8% and 21.6% to the monthly instalment of a R5 000 loan.
- Both the exclusive and inclusive APR for furniture loans for R2 000 and R5 000 in 2010 exceeded the average pricing in 2008. The same is not true for higher value loans. This suggests the effect of competition from other credit types from higher value loans.
- The data show that regardless of facility size, credit life insurance adds substantially to the cost of furniture finance.

Table 11: Pricing of furniture loans

	Loan Value			
	R 2,000	**R 5,000**	**R 10,000**	**R 20,000**
Inclusive of credit life insurance				
Weighted Average APR - 2011	60.9%	61.1%	43.2%	31.2%
Weighted Average APR - 2008	58.7%	59.6%	54.0%	51.9%
Exclusive of credit life insurance				
Weighted Average APR - 2011	43.7%	40.9%	28.3%	21.3%
Weighted Average APR - 2008	37.2%	38.1%	32.9%	30.2%

Source: Feasibility Surveys 2008, 2011

- The charge for credit life insurance varies in its coverage. One provider pointed out that its credit life insurance includes provision for the loss of income, cover for death and disability, as well as some form of asset protection.

Table 12: Furniture loans at a glance (2008 and 2011 surveys)

Comparator	*2011 survey*	*2008 survey*
Number of providers	4	4
Size of book surveyed	R14.1 billion	R12.1 billion
Number of accounts	2.8 million	3.3 million
Share of loans (R2,500 to R8,000)	67%	52%
Term of loan (range)	11 months to 48 months	8 months to 36 months
Average size of facility (between R2,500 and R8,000)	R4,702	R5,379
Average required /actual income for this facility	R4,106	Insufficient data
Percentage of value of arrears	26.4%	Insufficient data
NCR interest rate cap (secured lending)	22.1%	36.4%

Source: Feasibility Surveys 2008, 2011

2.7 Overdrafts and Revolving Credit Plans

- Banks offer overdraft facilities, and banks and co-operatives offer revolving credit plans. The combined book of these providers amounts to R25.4 billion. In 2008, the overdraft book (which may have included RCPs) represented outstanding balances to the value of R37 billion.
- Of the 1.95 million overdrafts represented in the survey, 57% fell into the "up to R5 000" category. For RCPs, the biggest category of the 422 000 accounts was facilities between R10 000 and R25 000, representing some 40% of such accounts. In June 2008, 48% of overdrafts fell in the "under R5 000" category. RCPs were not separately surveyed.
- In the 2011 survey, the average size of an overdraft, less than R5 000, was R2 908 for 12 months. In June 2008, the corresponding value was R2 495. Whereas a typical client would need to have a monthly income of around R5 000 to qualify for the facility in 2008, in the latest survey, an income of R6 974 is indicated. However, the high degree of variability of the incomes of existing clients to available facility suggests that affordability rather than income governs the evaluation. For example, for a facility of some R92 000, providers indicated a required income between R46 000 and R1 million.
- The smallest RCP facility on offer is for values between R5 000 and R10 000. The average size of such a facility is R6 840, for which an income of R10 138 appears to be indicated. There appears to be less variation in the income requirements in this category, with the minimum required income for a facility of R45 500 somewhere between R11 700 and R20 700.
- The value of the overdraft book in arrears amounts to some R2.36 billion, or 15.5% of the book. This represents only 4% of the accounts. For RCPs, some R846 million or 8.3% of the value of the book is in arrears. This represents 7.6% of the accounts.
- The data show that initiation fees on overdrafts are charged by four of the six providers, and two of the three providers of RCPs. In 2008, three of the five providers charged initiation fees for overdrafts. These tend not to be the maximum permissible and while most providers of overdrafts and RCPs charge monthly fees, these are well below the prescribed maximum of R50.
- While interest dominates the cost of overdraft facilities, one provider obtains as much as 83% of its income on overdrafts from interest, while another derives only about 47%. In the case of RCPs, while one provider earns 84% of its income from interest, another earns as little as 53%. Monthly and initiation fees account for the rest.
- The weighted APR – inclusive of insurance – for overdraft facilities of R3 000 range from 35.7% to 15.1%. On a weighted average, such a facility will cost 31%. In June 2008, such a facility cost, on average 30.5%. For a facility of R25 000, the weighted average inclusive rate is 16.3%,

compared with 18.5% in 2008. This suggests little change in pricing in a period where the prime rate fell by 650 basis points.

Table 13: Pricing of overdrafts

	Facility Values			
	R 3,000	**R 7,500**	**R 15,000**	**R 25,000**
	Inclusive of credit life insurance			
Weighted Average APRs 2010 Inclusive	**31.0%**	**15.3%**	**15.5%**	**16.3%**
Weighted Average APRs 2008 Inclusive	30.5%	24.1%	21.5%	18.5%
	Exclusive of credit life insurance			
Weighted Average APRs 2010 Exclusive	**28.7%**	**14.1%**	**14.1%**	**14.9%**
Weighted Average APRs 2008 Exclusive	29.8%	23.5%	21.0%	17.8%

Source: Feasibility Surveys 2008, 2011

- Benchmarked against prime, a typical inclusive overdraft facility of R 3000 would cost prime plus 1450 basis points in 2008. In the latest survey, the cost spikes to prime plus 2200 basis points. For a facility of R25 000, the 2008 cost was prime plus 240 basis points, in 2010, the cost is prime plus 540 basis points.
- In 2008, there was no explicit survey of RCPs in 2008 and so only the data for overdrafts have been included.

Table 14: Overdrafts at a glance (2008 and 2011 surveys)

Comparator	***2011 survey***	***2008 survey***
Number of providers	6	5
Size of book surveyed	R15.4 billion	R37 billion
Number of accounts	1.95 million	2 million
Share of loans (up to R5,000)	57%	48%
Average size of facility (up to R5,000)	R2,908	R2,495
Average required /actual income for this facility	R6,974	R5,000
Percentage of value of arrears	15.5%	10.2%
NCR interest rate cap	22.1%	36.4%

Source: Feasibility Surveys 2008, 2011

2.8 Pension and policy backed loans

- Six respondents to the survey provide pension and policy backed loans amounting to a combined book of R7.8 billion, representing under 235 000 accounts. In 2008 no respondents to the survey completed the pension- and policy-backed survey adequately.
- The average term of such loans ranges from 36.4 month for loans up to R10 000 to 105 months for values of over R200 000.
- Arrears on the pension and policy-backed backed loans are typically easy to eliminate, given that outstanding values are typically recouped from the security provided by the policy or pension. Historical data show that in June 2008, the value in arrears amounted to 5.1% of the outstanding book, compared to 1.6% in December 2010.
- With one exception the providers charge initiation and monthly fees and four of the six providers charge credit life insurance.

- The average APR – inclusive of insurance for loans of R8 000 range from 38.7% to 12.1% - with a weighted average of 13.6%. For loans of R75 000 the range is from 23.5% to 9.2% - with a weighted average of 11.6%.
- The weighted APRs - exclusive of credit life insurance - for loans of R8 000 is 12.6%. For a R75 000 loan it is 10.2%.
- There were no explicit data gathered in 2008 on pension and policy-backed loans, so no table is provided here.

2.9 Developmental housing loans

- Developmental housing finance typically refers to lower value, unsecured term loans that are used (usually incrementally) to pay for the construction of, or for alterations and additions to, low income housing. Some providers of this type of finance pay materials suppliers directly, but in other cases there may be no guarantee that the funds advanced are used exclusively for housing purposes.
- Only two responses were received relating to this type of credit in 2010. In 2008, this was not explicitly canvassed, but the historical data provided by respondents in 2010, gives a sense of what has happened to their book over recent years.
- The value of the combined book of the providers surveyed has grown significantly over the period covered by the survey. The value of loans still on the books increased from R109 million in June 2008 to more than R554 million at the end of 2010. While loans of less than R15 000 initially made up almost the entire combined book, loans in the R15 000 to R25 000 and above R25 000 have shown substantially faster growth since mid-2008.
- All loan sizes canvassed increased - with the total number of loans increasing from almost 27 000 in June 2008 to close to 74 000 at the end of 2010 – an increase of 174%.
- The growth in the number of loans has gone together persistently high arrears. The total number of loans in arrears increased from under 15 000 to more than 35 000 over the period covered by the survey. By the end of 2010, 58% of the value of the book was in arrears.
- Developmental housing loans appear to offer people with relatively low incomes the ability to access comparatively high loan values. Indicative minimum gross income requirements range from R2 000 per month to R4 500.
- While one provider charges credit life, and the other doesn't, the net effect on the pricing is very similar, with inclusive APRs ranging from 42.3% to 48.9%

Table 15: Pricing of developmental housing

Loan Provider	Developmental Housing Loan Value		
	R 8,000	R 20,000	R 30,000
Inclusive of Credit Insurance			
CP619	46.9%	42.3%	44.3%
CP754	48.9%	42.4%	
Exclusive of Credit Insurance			
CP619	34.0%	32.0%	35.2%
CP754	48.9%	42.4%	

Source: Feasibility Surveys 2008, 2011

- The combination of high arrears ratios and pricing that is operating at the limits (in the case of fees) and at, or above, the interest cap, does suggest a market with little room to manoeuvre.

This, together with the reduction in numbers of registered providers, suggests it is difficult to operate a developmental housing finance book on a commercial basis, unless the provider is able to reduce the risks of bad debts (through a payroll deduction for example), or can obtain wholesale funds at a substantial discount.

2.10 Educational loans

- Education loans are loans provided to finance various types and levels of education and training, ranging from primary, secondary and tertiary education to (in some cases) adult training programmes.
- Four providers responded to the survey in 2010. In 2008, this was not explicitly canvassed, but the historical data provided by respondents in 2010, gives a sense of what has happened to their book over recent years.
- Bi-annual seasonality is apparent in the aggregate value of the book, reaching a high mid-year and then decreasing at year-end. The book value has declined moderately since June 2008 from R1.68 billion to R1.6 billion at the end of 2010. While there were some 111 000 loans in June 2008, this has declined to 93 000.
- The share of loans above R20 000 has remained relatively stable at around 77% - 78% of the total book, and the share of loans valued at between R10 000 and R20 000 has increased – from just over 12% to around 16% since June 2008. The share of loans valued at under R10 000 has fallen from close to 12% to just above 6%, suggesting rising educational costs.
- The arrears ratio of the total educational loan book rose from just over 8% in June 2008 to 9.4% in the latter half of 2008, but then declined in the subsequent period to end at 4.4% by December 2010.
- The APRs show significant variations in pricing, depending on relative interest rates, fees and the credit life insurance. The variance is particularly pronounced in respect of loans of R7 500, but tend to reduce with loan size. In the case of the R7 500 loans, APRs inclusive of credit insurance range from 9.8% per annum to close to 39% per annum. When credit insurance is excluded, lowest APR drops to prime whilst the highest rate is unaffected because it does not require credit insurance.

Table 16: Pricing of educational loans

Loan Provider	Education Loan Value		
	R 8,000	**R 20,000**	**R 30,000**
Inclusive of Credit Insurance			
CP123	12.3%	12.3%	12.2%
CP757	9.8%	9.8%	9.7%
CP900	38.7%	29.0%	21.7%
CP947	20.4%	18.0%	16.3%
Weighted Average	**35.4%**	**24.2%**	**13.8%**
Exclusive of Credit Insurance			
CP123	9.0%	9.0%	9.0%
CP757	9.0%	9.0%	9.0%
CP900	38.7%	29.0%	21.7%
CP947	16.2%	13.7%	11.8%
Weighted Average	**35.0%**	**23.0%**	**10.5%**

Source: Feasibility Surveys 2008, 2011

2.11 Small business loans

- Six providers responded to the survey in 2010, four banks and two specialists accounting for a book of R2.4 billion and some 76 000 loans. Since June 2008, their aggregate book has almost doubled (from R1.2 billion) and the number of accounts has grown by a third (from 57 000 accounts)[2].
- Over this time, there was a decline of close to 30% in the number of loans valued at between R50 000 and R100 000, and an almost corresponding increase in the number of loans above R100 000. The number of loans valued at less than R10 000 increased by 35% to close to 70 000. Loans valued at less than R10 000 made up only 5% of the total value, but accounted for 92% of the number of loans advanced in December 2010.
- The aggregate value of small business loans in arrears rose from R125 million to R256 million between June 2008 and December 2010. In all, this amounts to around 10.6% of the loan book. There is a high degree of variability of arrears across different loan sizes, ranging from less than 3% of loans valued at less than R10 000 to more than 55% for loans valued at between R10 000 and R50 000.

Table 17: Pricing of small business loans

Loan Provider	Small Business Loan Value			
	R 10,000	R 25,000	R 75,000	R 125,000
Weighted Average APR 2010	43.4%	12.6%	14.2%	11.4%

- There is a lot of variation in the APRs levied on loans of R10 000. They range from 10.5% p.a. to more than 45% in the case of the dominant provider for this loan size. The weighted average APR is more than 43% p.a. There is less variation in APRs levied on loans with values above R10,000 (where the high cost provider referred to earlier is absent). These APRs range from 10.5% p.a. to 15% p.a. The weighted average APR for loans of R125 000 is 11.4% p.a. Because none of the providers charge credit or other insurance, there is no difference between rates inclusive and exclusive of insurance.

3. Access to credit

The creditworthiness of a consumer lies in the eye of the credit provider, and the NCA has done much to colour the spectacles with which providers view consumers. The National Credit Act has resulted in an emphasis on affordability, rather than absolute incomes. This is a key departure from the past. Income levels are becoming an increasingly less accurate measure to determine the volume and type of credit that people have access to. While someone earning R60 000 a month might previously have been assured almost automatic access to almost every type of credit available, the current focus on affordability may now mean that a person earning R6 000 per month might be deemed to be more credit worthy than someone earning ten times as much.

[2] In 2008, eight providers reported a book of R12.3 billion and some 121 000 loans. The book surveyed in 2010 does not appear to be comparable in terms of size and may have much to do with the matter of definition of a small business. In terms of the NCA, “small business” involves firms with assets and or turnover of no more than R1 million. More than one entity suggested they had become better at working within the NCA definition over recent years, which may account for the difference, but operationally, as businesses grow they will be excluded from the NCA returns. For this reason, we have used the historical data provided by the survey respondents in 2010.

Credit providers were requested to indicate the minimum gross monthly incomes required by applicants in order to qualify for different sizes of loans. However, the affordability focus of providers means that relatively few providers use gross incomes as part of their scoring systems. In the case of most products and loan value sizes, the average incomes of recently-successful applicants was higher than the indicative minimum incomes included in scoring systems. Our attempts to estimate the volume of credit extended to adults in different income groups should be treated with some caution.

Nevertheless, we have estimated the volume and type of credit that different people have access to, using the following assumptions:

i) The share of the total credit advanced (the stock or book value) in respect of different credit products accruing to different income groups is reasonably consistent with the lending practices of different credit providers at the time that the survey was conducted. However, there is a lag in terms of how this impacts the stock or book value. For example, while some providers are currently only prepared to offer mortgages to their best clients, there are existing customers who would be excluded in terms of this new benchmark, but who currently do have mortgages – having been granted them in the past. We have attempted to reflect both past and current practices in our distribution.

ii) The minimum income that would typically be required to access different average loan values is reasonably accurately reflected in the responses of the credit providers surveyed. The ability of an income group to access particular credit is largely dependent on whether their income is at least equivalent to that required by providers.

iii) Weighting such required incomes by the relative share of the provider's book in the total outstanding book for that loan size category provides a reasonably accurate assessment of the weighted average income required.

Table 18: LSM categories and population distribution

Category	LSM 1	LSM 2	LSM 3	LSM 4	LSM 5	LSM 6	LSM 7	LSM 8	LSM 9	LSM 10
Average Income of **Group (Rand)**	1,496	1,732	2,052	2,829	3,832	6,398	10,066	13,698	18,414	27,143
Estimated Upper **Cut-off Income**	1,614	1,892	2,441	3,331	5,115	8,232	11,882	16,056	22,779	
Adult Population **(Thousands)**	950	2,223	2,609	4,760	5,701	6,562	3,373	2,747	3,065	2,028
Population as Share **of Total Adult Population**	2.8%	6.5%	7.7%	14.0%	16.8%	19.3%	9.9%	8.1%	9.0%	6.0%

Source: www.saarf.co.za, own estimates.

Table 18 shows the LSM categories, corresponding average income levels, estimated maximum income within the group, and population numbers to which such income is supposed to apply. The respective population shares are also given.

For the purposes of this analysis, the LSM groups were consolidated into four separate income groups as follows:

i) LSMs 1 to 3 with incomes ranging from R0 to R2,441 per month;

ii) LSMs 4 to 6 with income ranging from R2,442 to R8,232 per month;

iii) LSMs 7 to 9 with incomes ranging from R8,233 to R22,779 per month; and

iv) LSM 10 with income above R22,779 per month.

The results of the estimations of access to different types of credit products are shown in Table 19 and represented graphically in Figure 2.

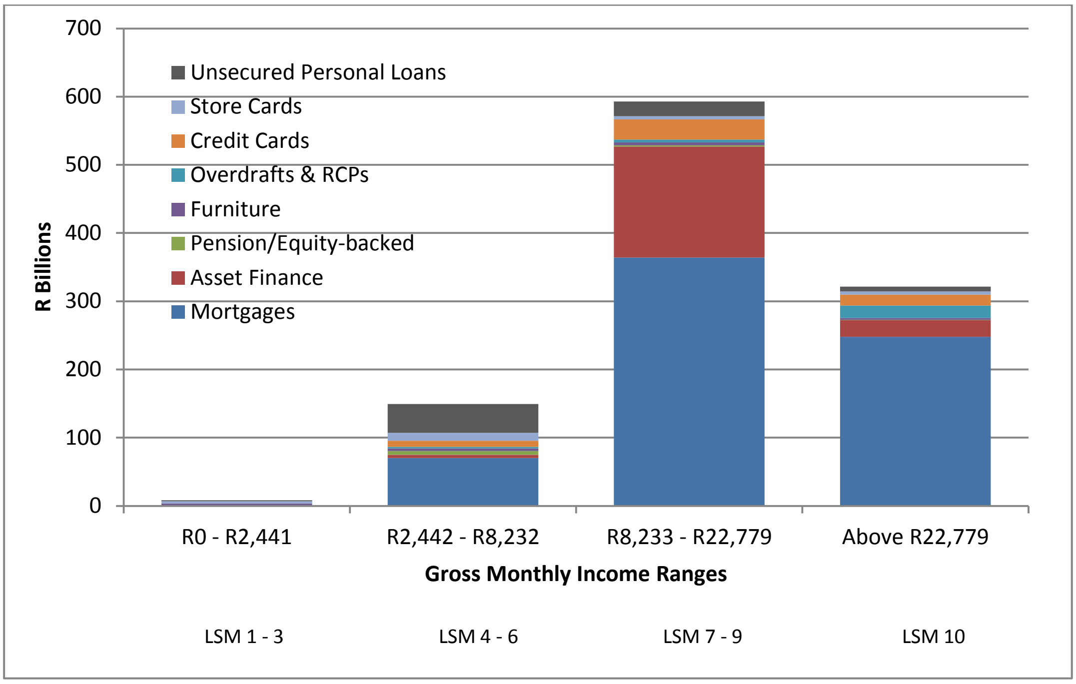
Table 19: Estimated credit extension by LSM group (R Billions) 2010

	LSMs				***Total***
	1 - 3	**4 - 6**	**7 - 9**	**10 -**	1 - 10
Monthly Income (Gross)	**R0 - R2,441**	**R2,442 - R8,232**	**R8,233 - R22,779**	**Above R22,779**	R0 -
Mortgages	**-**	**70.3**	**364.3**	**247.9**	682.5
Asset Finance	**-**	**4.6**	**162.6**	**24.3**	191.5
Pension/Equity-backed	**-**	**5.5**	**1.9**	**0.5**	7.8
Furniture	3.8	3.8	3.9	2.8	14.1
Overdrafts &RCPs	-	2.6	4.5	18.4	25.4
Credit Cards	-	8.7	29.4	15.7	53.9
Store Cards	3.2	11.9	4.7	4.7	24.5
Unsecured Personal Loans	1.5	41.9	21.4	7.1	72.0
Total	**8.4**	**149.3**	**592.7**	**321.4**	**1,071.8**
% Share of Total Credit	**0.8%**	**13.9%**	**55.3%**	**30.0%**	**100.0%**
% Share of Adult Population	**17.0%**	**50.0%**	**27.0%**	**6.0%**	**100.0%**

Source: Feasibility Survey

The table indicates that people in LSMs 1 to 3 (approximately 17% of the adult population) only have access to around R8.4 billion of credit, and that this is limited to furniture loans, store cards and unsecured personal loans. The credit available to this group amounts to 0.8% of total credit extended to the household sector.

Figure 2: Value of credit extended to different income groups 2010

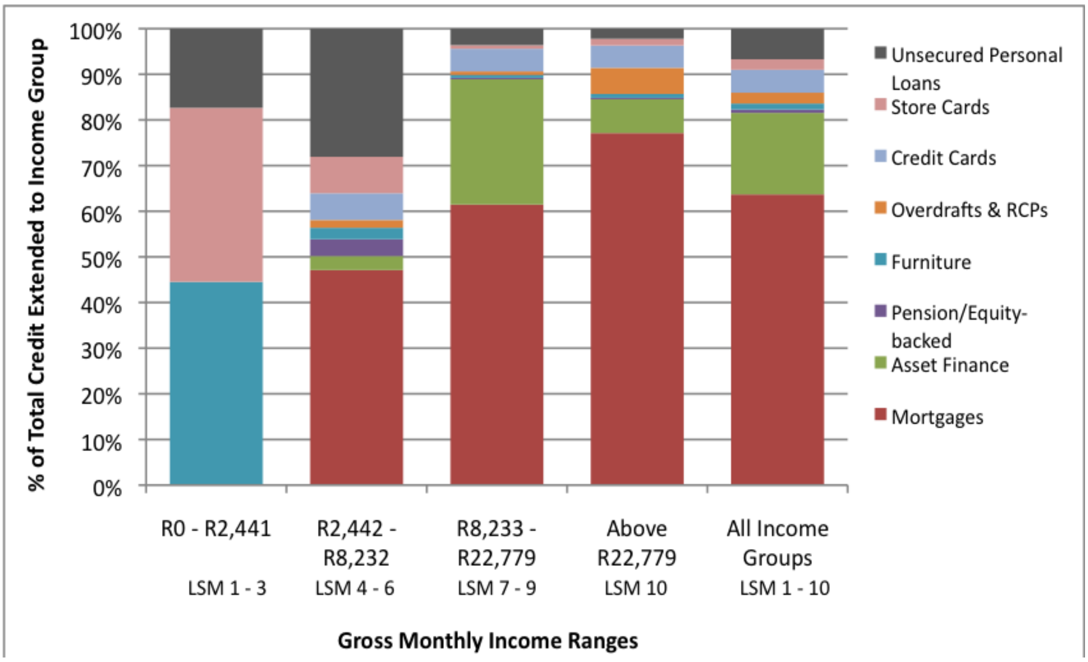


Source: Feasibility Survey

The next broad category of consumers – those in LSMs 4-6 (about 50% of the adult population) have access to every category of credit – but only in relatively small amounts. They have access to around 14% of the credit extended to households. By contrast, people in LSMs 7 to 9 (about 27% of the adult population) have accessed around R593 billion of credit spread across all the different credit types. This represents about 55% of the total credit advanced to households. People in the LSM 10 group account for 6% of the country's adult population, but have access to 30% of the total credit extended to households.

Figure 3 indicates the composition of credit available to each income/LSM grouping by credit type. People in LSMs 1 to 3 obtain almost 85% of their credit through a combination of furniture loans and store cards, while mortgages account for around 62% of the total credit advanced to people in LSMs 7 to 9. Secured credit (meaning credit secured by a property or vehicle asset) constitutes a large part of the credit accessed by higher income groups. As in the past, people in lower income categories have had limited access to such forms of credit. Unsecured loans make up more than a quarter of the credit advanced to people in LSMs 4 to 6. Consumers falling into this income grouping have access to all the broad categories of credit, but are less exposed than their higher earning compatriots.

Figure 3: Estimated composition of credit extended 2010.



Source: Feasibility Survey

Table 20 provides a comparative summary of the estimated shares of each type of credit going to different LSM groups in 2008 and 2010, as well as the weighted average APRs (inclusive of credit life insurance) applicable to such credit at the time that the respective surveys were conducted. The aggregate data are shown at the bottom of the table. While the changes in each category since 2008 are not huge, it appears that there has been a consolidation of the respective shares of total credit to people in LSMs 1 to 6, and those in LSM 10. In 2010 these categories account for smaller shares of total credit extended to households than in 2008. By contrast, those in LSM 7 to 9 have seen their share of credit increase.

In the case of the LSM 1 to 3 group, the share of total credit has dropped marginally from 0.9% to 0.8%, while that of the LSM 4 to 6 group has declined from 15.4% to less than 14%. This decline of credit extension to lower income consumers reflects the phase of the economic cycle, in which lenders have become more cautious as arrears have grown, jobs have been lost and economic growth has flattened. Hence the changes that are now seen in the credit market are related to economic conditions. Those in LSM 10 have seen their share drop from almost 35% to 30%. This change may have to do with a conscious effort by providers to seek out credit worthy clients – and consumers in the LSM 10 category remain some of the most heavily-indebted.

Table 20: Estimated access to different credit products in 2008 & 2010

Type of Credit	*Description*	*LSM* 1 - 3	4 - 6	7 - 9	10 -	1 - 10
Mortgages	LSM Share of Total in 2008	0%	17%	49%	35%	100%
	LSM Share of Total in 2010	0%	10%	53%	36%	100%
Value in 2010: R683 billion	Weighted Average APR in 2008	N/A	16%	16%	15%	
	Weighted Average APR in 2010	N/A	10%	9%	9%	
Asset Finance	LSM Share of Total in 2008	0%	8%	72%	20%	100%
	LSM Share of Total in 2010	0%	2%	85%	13%	100%
Value in 2010: R191 billion	Weighted Average APR in 2008	N/A	20%	19%	18%	
	Weighted Average APR in 2010	N/A	11%	11%	9%	
Pension-backed Loans	LSM Share of Total in 2008					
	LSM Share of Total in 2010	0%	70%	24%	6%	100%
Value in 2010: R8 billion	Weighted Average APR in 2008					
	Weighted Average APR in 2010	N/A	14%	12%	10%	
Furniture	LSM Share of Total in 2008	39%	5%	23%	33%	100%
	LSM Share of Total in 2010	27%	27%	26%	20%	100%
Value in 2010: R14 billion	Weighted Average APR in 2008	70%	70%	63%	54%	
	Weighted Average APR in 2010	61%	61%	43%	31%	
Overdrafts &RCPs	LSM Share of Total in 2008	0%	5%	14%	82%	100%
	LSM Share of Total in 2010	0%	10%	18%	72%	100%
Value in 2010: R25 billion	Weighted Average APR in 2008	N/A	27%	22%	18%	
	Weighted Average APR in 2010	N/A	22%	20%	19%	
Credit Cards	LSM Share of Total in 2008	0%	23%	23%	54%	100%
	LSM Share of Total in 2010	0%	16%	55%	29%	100%
Value in 2010: R54 billion	Weighted Average APR in 2008	N/A	48%	33%	29%	
	Weighted Average APR in 2010	N/A	29%	25%	19%	
Store Cards	LSM Share of Total in 2008	6%	14%	19%	61%	100%
	LSM Share of Total in 2010	13%	49%	19%	19%	100%
Value in 2010: R26 billion	Weighted Average APR in 2008	48%	33%	31%	28%	
	Weighted Average APR in 2010	34%	16%	10%	12%	
Personal Loans	LSM Share of Total in 2008	0%	35%	25%	40%	100%
	LSM Share of Total in 2010	2%	58%	30%	10%	100%
Value in 2010: R72 billion	Weighted Average APR in 2008	81%	48%	42%	32%	
	Weighted Average APR in 2010	35%	32%	26%	19%	
All Credit Types	**LSM Share of Total in 2008**	**0.9%**	**15.4%**	**48.8%**	**34.9%**	**100.0%**
	LSM Share of Total in 2010	**0.8%**	**13.9%**	**55.3%**	**30.0%**	**100.0%**

Source: Feasibility Surveys 2008 and 2010

We now focus on each of the credit categories shown in the above table.

As in 2008, it is estimated that those with incomes in the LSM 1-3 have no access to mortgage credit in 2010. No provider indicated that mortgage finance (or asset finance) is available to this group of consumers. However, the share of mortgage loans accessed by people in LSMs 4 to 6 is estimated to have declined from around 17% to 10%, while those in LSMs 7 to 9 increased from 49% to 53%. The weighted average APRs inclusive of credit life insurance dropped from 15% to 16% in 2008 to between 9% and 10% in 2010. As has been mentioned before, the mortgage pricing is strongly associated with the prime rate of interest, and as this has fallen, so too has the price range for mortgages. While it is tempting to declare that credit is cheaper than ever, there are a few caveats in order. First, bankers have pointed out that the returns on mortgages are too low, second, that they are inclined to offer this form of financing only to their best clients and third, the prices are not cheaper relative to the prime rate of interest. Deposits are now commonly required. Obtaining a mortgage may be more difficult now than at any time in the past decade.

Between 2008 and 2010, the relative share of asset finance accessed by LSMs 4 to 6 declined from 8% to 2%, and by the LSM 10 group from 20% to 13%. This declining share of low-income earners reflects higher credit worthiness criteria, in the light of the 2008 bad debt bubble. The share going to people earning between R8,233 and R22,779 (corresponding with LSMs 7 to 9) is estimated to have increased from 72% to 85% over the same period. The APRs associated with asset finance loans has dropped from between 18% and 20% in 2008 to between 9% and 11% in 2010. Once again the price decline reflects the reduction in the prime rate of interest.

Furniture loans still constitute an important source of credit for people in LSMs 1 to 3, but people in this group are able to access less of this type of credit now than in the past – with their share of total furniture loans declining from 39% of the total to 27%. A relatively bigger share is now estimated to go to people in LSMs 4 to 9, and a smaller share to those falling in LSM 10. The pricing of furniture loans shows a greater variance between lower value loans (assumed to be accessed primarily by people in lower LSM groups) and higher value loans. APRs dropped to between 31% and 61% in 2010, compared with a range of 54% to 70% in 2008. The pricing of furniture loans does not reflect prime, rather the change in the NCA prescribed interest rate and the addition of credit life insurance. For this reason, the variability in pricing is more marked than in mortgage or asset finance.

The shares of credit extended via overdraft facilities and revolving credit plans to people in LSMs 4 to 9 increased between 2008 and 2010, while that advanced to people in LSM 10 dropped from around 82% to 72%. The weighted average APR pricing of these facilities now ranges from 19% to 22%, compared with a range of 18% to 27% in 2008. Once again, the price differential reflects the link between overdraft rates and prime.

Some shifting of credit extended to lower LSM groups seems to have taken place, with people here getting relatively less credit card facility credit, and relatively more store card credit. People in LSMs 7 to 9 now obtain a relatively greater share of credit card credit, but there has been a corresponding decline in the share going to people in LSM 10. Pricing for credit card credit ranged from APRs of between 19% and 29% in 2010, compared with a range of 29% to 48% in 2008. Store card credit reflects APR pricing of between 12% and 34% in 2010, compared with 28% to 48% in the 2008 survey. To the extent that store card pricing is lower than that of the average credit card, stores cards continue to represent relatively cheap access to credit for most consumers.

Not only has the overall value of personal loans advanced increased between mid-2008 and the end of 2010, but a greater proportion of the credit extended through this mechanism now flows to people in the lower LSM groups – particularly LSMs 1 to 6 who now access about 60% of this type of credit, compared with only 35% in 2008. The weighted APRs for personal loans are now substantially lower, and show relatively less variance than in 2008. Average prices ranged from 19% to 35% in 2010, compared with a range of 32% to 81% in 2008. (However, it is still possible to pay 112% APR on a R1000 loan, over a 3-month period.) Part of this reduction in pricing reflects consolidation in the personal loans sub-industry, with a number of smaller and medium sized players no longer operating.

Many of the shifts in access stem ultimately from the Global Economic Crisis, with employment losses affecting mainly lower-skilled workers (falling in the lower LSM groups), and non-wage income losses (commissions, rents, profit shares) affecting people in higher LSMs. The resulting "consolidation around a (relatively) stable centre" suggests a curtailing of access to credit that is in conflict with attempts by credit providers to broaden their client base by extending products into different market segments. In some cases, broader access than is suggested by the data is achieved by taking account of household, rather than individual, income.. Also providers are prepared to offer credit to people earning substantially less than the weighted average income reflected on the survey returns would suggest.

In general, prices have fallen with the repo rate and associated prime rate. Given this is the lowest level of repo in over 30 years, it is not surprising that prices would have fallen to some extent. At the same time, the permissible fees have remained static. What is clear is that compared to 2008, many more providers are charging the maximum permissible fees. Moreover, it remains clear that providers will find other means to recoup revenue lost through lower interest rates, through additional sources of revenue such as credit life insurance, where possible and necessary.

Generally, it appears that if people are creditworthy they will be able to access some form of credit. The predominant constraint is therefore not so much a supply constraint, as an affordability one. In this regard the NCA has been largely successful.

4. Trends in the consumer credit market

Several key trends that have influenced credit market outcomes over recent years. We highlight the following:

- The slump in new mortgages advanced
- The growth of the unsecured personal loan book
- The role of credit life insurance
- The low effective level of the maximum permissible interest rates

4.1 The slump in new mortgages advanced

The growth in mortgages advanced (see Figure 4) shows evidence of a credit crunch in the mortgage market. Our research confirms this, with one provider going so far as to say: *We do not see the mortgage market as profitable. Frankly, our attitude is that if we grant someone a mortgage, we are doing them a favour*.

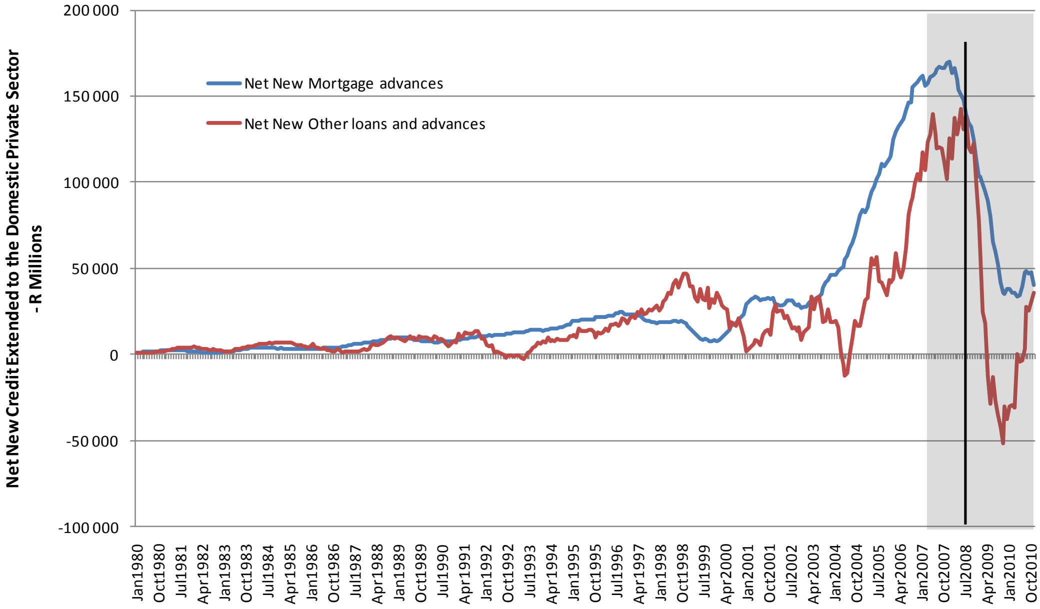
In order to explore the rise and fall of mortgage extension over a longer period of time. Figure 4 is produced here. It shows new mortgage and other loans and advances extension since 1980.

The data allow us to see that the growth in mortgage extension rose dramatically from an annual average of R28 billion in 2001 to R160 billion in around 2007. Hence the fall in the growth of mortgages to R37 billion in 2010 is from dizzy heights and the data seem to suggest that the presumption of a perpetual property boom in the banks' models (which ultimately led to the sub-prime crisis elsewhere) - was also present in the models of our mortgage banks. Of course, our banks did not create a sub-prime market in the same way in other countries, but the data suggest unprecedented eagerness from local providers to offer mortgage loans between 2002 and 2007. As a reference point, the extension of other loans and advances mimics the growth in mortgages.

In both series, a slump in extension begins towards the end of 2007 and by September 2009, the values for new mortgage extension are barely those of December 2001.

Such a longer term view puts the current slump in mortgage growth in perspective. Firstly the fall comes from a boom that was unsustainable. Second, it is not unprecedented that the growth in other loans and advances is as high (or even higher) than that of mortgages – the slump of mortgages as a consequence of the Asian crisis (see the data from 1997 – 1999) on the graph is a case in point. Nonetheless, given that mortgages remain the cheapest form of credit available to consumers, and that it is readily identified with the ability of a household to create an asset and wealth, the current supply-side constraint needs to be explored further.

Figure 4: "Net" New mortgage extension since 1980[3]



Source: SARB Quarterly Bulletin (via Quantec)

In interviews, providers told us that in recent years, their margins on mortgages had been eroded by a number of related phenomena:

- The slump in the property market, from the heady days of double digit growth
- Bond originators
- The high value of arrears
- The cost of realising the security of the housing asset.

Mortgage providers expressed concerns about their ability to realise the security offered through the property. There are two related factors here - the property price slump and the sense that debt review makes the process of realising the security of the asset complicated and protracted.

4.2 The growth of the unsecured personal loan book

The growth of the unsecured loan book – accounting for around 7.8% of new lending in the fourth quarter of 2007, to 17.8% in the third quarter of 2010 illustrates how important this category of credit has become.

Providers engaged in this market, notably African Bank and Capitec argue that there is clearly a need for large unsecured loans (up to R150 000), given that the major banks' appetite for mortgages is flagging.

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[3] The net value of new mortgages advanced (the blue line) according to SARB data (annual changes in series 1364M on S-22) reflects the changes in the stock value of mortgage loans advanced – which is the stock value in the previous period, less the capital value of any mortgages repaid plus the value of any new mortgages advanced. In our view this reflects the net additional amount of credit going into the mortgage market to support both price and volume changes across the whole market.

Those who are offering large unsecured loans say they are offered over a five to seven year term, to their best clients. While the providers do not claim to know the uses to which such loans are put, they suggest they are used for the following purposes:

- Consolidation of other loans
- Incremental housing or renovations
- Deposits for mortgages

In many cases, it appears these loans are offered to state employees – given that there is a high degree of predictability of their pay date. Moreover, the jobs of those in the state sector are deemed to be relatively secure. The growth in unsecured credit at the same time that provision of mortgages is slumping suggests that the credit the consumer is being offered is more expensive than in the past – in spite of the historically low interest rate caps.

The extension of these high value unsecured loans is not without risk. The providers who themselves offer such loans have said that given that many of those taking these loans are unaccustomed to long term loans of this sort, they may suffer repayment fatigue and default. But the relatively higher caps on unsecured credit – offered together with credit life insurance - has made the margins on offering this kind of product highly attractive.

4.3 The role of credit life insurance

Credit life insurance has long been a feature of the South African credit market and is typically offered to cover the obligation on the client should he or she suffer death, disability or retrenchment. The terms of such credit life insurance is variable and it is clear that this has been a profitable service for credit providers (or in some cases insurers within the same group). Whether or not consumers benefit fully from credit life insurance remains a moot point.

Credit life insurance can be seen to provide security to the provider so that there will be reduced risk on the capital extended. There are three models in the credit life insurance offerings of providers:

- Cell-captive approach to credit life insurance where insurance is offered by the credit provider or its subsidiary
- Insurance of the whole credit provider's book by a third party
- Self-insurance by the provider.

In our view, it is only the last model which is truly unsecured.

If we are correct in seeing credit life insurance as highly liquid security on the loan extended, then perhaps it is more accurate to see the provision of credit life insurance as converting an unsecured loan into one that has highly liquid security under certain conditions. We suggest that applicability of the interest rate cap for unsecured credit loans (where credit life insurance is a condition of the loan) warrants further investigation by the NCR.

4.4 The low value of the interest caps

The repo rate, upon which the maxima interest rate caps are set, is currently at a historical low and it appears that the cost of funds has not fallen commensurately. A rethink on the formula by which the caps are calculated has been called for by some.

The possibility of the formula creating a constraint on credit extension in our research featured in only two categories of credit unsecured personal loans – which have been growing rapidly in spite of such perceived constraints - and credit cards.

Our view is that the formula has proven to be generally sound as offering a guide to the maximum permissible rates. However, it may be that when the repo rate falls below a certain level – or above another, there should be an absolute minimum or maximum set in place. Hence when the repo rate is within a certain corridor, the formula should work as it has always done[4]. Beyond some level however, it would no longer fall or rise.

5. Market practices in the credit market

Market practices in the consumer credit market were explored through interviews with experts, ombudsmen and consumer journalists, focus groups with debt-stressed and indebted consumers, a mystery shopping process, an evaluation of credit agreements submitted to the NCR and interviews with credit providers.

Table 21: Research methods employed

Research method	***Involving***	***Number***
Market practice interviews	Experts, ombudsmen and consumer journalists	9 interviews
Focus Groups	Indebted consumers, men and women older than 18	4 focus groups of 8-10 respondents
Detailed Survey	Credit providers (top and niche)	62 sent, 40 returns
Credit market interviews	Credit providers and industry experts	19 interviews
Mystery shopping	Briefed consumers applying for credit and attempting to obtain pre-agreement quotations	47 shops

Most respondents indicated that there has been a noticeable improvement in market practices since the pre-NCA days, with improved clarity in contracts and greater awareness of consumer rights. However, when practices in the credit life-cycle phases were explored, a number of concerns arose.

[4] This theoretical approach is based on the work of Leijonhufvud, who pointed out that typical economic cycles took place within a corridor. Outside this corridor, there would be a need for special interventions.

5.1 Concerns about marketing and advertising practices

While the research revealed the general impression that the majority of providers were compliant, concerns were raised regarding misleading advertising (including low "teaser" rates); offering incentives to sign-up for credit; and making offers to consumers with the promise that a credit check would not be conducted. Market practice interviewees who pointed to these practices felt that deceptive adverts contravened section 76(4)*c*(iii) of the NCA, as well as section 75(1).

Prohibited marketing and sales practices (Section 74 and 75), such as negative option marketing and marketing at home or work were also listed as concerns by interviewees and focus group participants.

Box 1: Indebted consumers: Focus group highlights

Resource and time constraints precluded a full assessment of consumers' experiences of credit through a comprehensive survey of a statistically representative sample of South African adults. Instead, consumer focus groups were used to examine the credit experiences of indebted consumers. Particular emphasis was placed on debt-stressed consumers - with three of the four focus groups under debt review. Participants in the fourth group were not debt stressed at the time of the focus groups, but it is clear from the responses, that they had faced difficulties with debt management in the past. They constituted a control group. The profile of the participants in the four focus groups was as follows:

Table 22: Focus Group composition

Focus Group#	Population Group	Gender	Age	LSm Group	Type of debtor
1	Black	Male	30-49	4-9	Stressed
2	Black	Female	30-29	4-9	Stressed
3	Mixed	Mixed	30-29	7-9	Stressed
4	Mixed	Mixed	30-29	6-8	Managing (control group)

The motivation for having obtained credit appears similar for all the participants with social aspirations a key motivator to obtain credit and credit being seen as a quick way to achieve these aspirations. In many cases, the participants had got into debt through spontaneous credit purchases.

Most of the participants got their first taste of credit by taking up offerings of store cards at retail (usually clothing) outlets. Initially, such credit tends to be of low value and provides some basis for the education of consumers into the use of credit, and a stepping stone on to other types (and higher values) of credit.

A well-serviced store card history provides an entrée to other types of credit. However, there is a general sense from the focus groups that participants do not feel competent in their ability to understand financial transactions, nor in their ability to manage their budget constraints. Moreover, there is a common perception that their education has failed them.

Although many of the focus group participants acknowledged their own complicity in, and responsibility for, their debt stressed status, they also identified personal crises (often associated with loss of employment) as a significant factor behind their defaulting on required repayments. At the time that the credit was first accessed, the repayment terms seemed affordable and attractive, but they often only realised the total debt they had accumulated at a later stage. If unforeseen circumstances – such as even a temporary job loss or the poor health of a family member led to them skipping a repayment, the addition of penalties and additional interest often snowballed and made it hard to catch up. Invariably, their inability to service some debts spilled over into other areas.

Participants acknowledged that they had researched neither the different types of credit available, nor the different providers of such credit. They were especially regretful of what they now view as "unnecessary credit accounts" which hampered their subsequent financial mobility and independence.

The experience of being over-indebted had at least taught most participants that they needed to be more wary of the terms of any contract that they entered into, that they should be in less of a rush to enter into new agreements and that they should take time to consider the implications of any credit they access. In spite of their improved financial and credit literacy (often acquired during the debt counselling process), most focus group participants still had very limited knowledge and understanding of current credit regulation and legislation.

While it was anticipated that there would be marked differences between the responses of those who were currently debt stressed and those who were managing their debt, attitudes to debt were similar across all the groups. The responses from control group members suggest that the ability to emerge from unmanageable debt had much to do with social support mechanisms (*my brother settled the debt; I moved back to live with my mother*), rather than better financial management.

5.2 Concerns arising from the credit application and quotation stages

From both the demand and supply side, there is little that encourages comparative shopping in the consumer credit market. As was made clear in the focus groups, obtaining the best price for the credit offering is often not foremost on the mind of the consumer at the time of credit application. In many cases, the supplier of credit is determined by the nature of the goods purchased. Also, many consumers make decisions based on unsolicited offers of credit, often received by phone. And where consumers do shop around – such as for the best credit card or personal loan deal, where the application takes a day or two to process, consumers are likely to take up the offer that is made first.

Shopping around for a comparative price is undermined by the supplyside as well. The lack of support for shopping around ranges from quite aggressive non-compliance, to more passive behaviour by providers. At one extreme, a provider told the mystery shopper *It is not company policy to provide quotations*. In other cases, the provider tells the consumer they will know the cost when they obtain the card in the post, or when they get their first statement and so on.

Regarding reckless lending, the provisions in the NCA appear to have brought about widespread adoption of affordability evaluations of consumers. Of course these evaluations differ in terms of detail and quality, and many rely on accurate self-disclosure by the client. The provider typically makes it clear that if the consumer does not accurately disclose income and expenditure, the provider cannot be held liable for reckless lending. Herein lies the rub. The market practice interviewees were concerned that providers merely went through the motions of evaluation of affordability. There are incentives for consumers to underestimate their expenses, and there are incentives for providers to accept or encourage such unrealistic statements of expenditure.

However, in one case, a provider indicated that the self-disclosed expenditure of the client relative to his or her income was used as a predictor of default. Where stated expenditure is presented as a relatively small share of income, the probability of default rises.

5.3 Concerns arising from agreements and disclosure at point of sale

Our analysis of agreements was based on information forwarded by the NCR and was based on an evaluation of NCR pricing requirements, disclosure during the process and common sense readability of the contract

By far the majority of the agreements we reviewed in this way appear to meet the minimum standards of compliance. However, the devil is in the detail. For example, it became apparent that the approach taken by different credit providers with respect to Regulation 31(2) shows enormous variation. Some providers go to great lengths to explain what ensues in the event of default and explain concisely and clearly how this would be calculated. Others simply state that there are costs to default.

A few credit providers stand out head-and-shoulders above the others as particularly good examples of contracts of their type and are to be commended. A bouquet goes to Teba and African Bank for their clarity and layout.

Respondents suggested that the incentives for transparency (on the part of the provider) and understanding (on the part of the consumer) are weak at the point of sale. Focus group participants said they needed to scrutinise contracts before signing, but that the excitement of the deal meant they frequently did not. The matter of the sale of extras, such as extended warranty on furniture raised the ire of certain commentators.

5.4 Concerns about default and the complaints process

A number of the market practice interviewees pointed out that a fair proportion of the complaints received had to do with contracts drawn up prior to the implementation of the NCA. This seems to be evident from the defaulting focus group discussants, particularly as it relates to bubble payments on cars at the end of leases and so on.

For contracts that have been signed since the implementation of the NCA, a key feature remains that consumers are not necessarily aware of the penalties of being in arrears.

6. Recommendations to the NCR

The practices of providers in a market are in part influenced by the incentives created by economic forces and by regulation. The ability to regulate a market has much to do with the ability to influence incentives. We recommend the following:

6.1 Recommendations relating to market trends

(i) The formula for interest caps should remain intact, but it may be necessary to impose an absolute minimum or maximum for the repo rate within the formula.

(ii) While some of the factors undermining the provision of mortgages is clearly beyond the remit of the NCR, to the extent that the debt review process has unintentionally undermined repayment of mortgage obligations, it would be useful to examine what can done to address this.

(iii) The role of credit life insurance in incentivising personal loans (over and above the higher interest rate cap) needs to be examined. The degree of disclosure relating to loans where credit life insurance is a requirement of the loan also needs to be considered. It may be that providers should be required to disclose an inclusive APR for such loans.

(iv) As a general practice the regulator should review inflationary pressures on fee limits set by regulations. The current level of fees has remained unchanged since the advent of the Act. Nonetheless, the only credit category where it appears that the monthly and initiation fees are binding is in developmental housing.

6.2 Recommendations relating to market practices

(i) The regulator should consider providing guidance notes or issue declaratory statements which set clear boundaries for certain market practices, in particular, the*in duplum* rule, reckless lending and extended warranties.

(ii) Affordability assessments do not appear to be as widespread or intense as indicated by the NCA provisions. The mystery shopping exercise suggests that the expense side of the consumers' balance sheet should be more rigorously evaluated by providers. The NCR needs to evaluate this further through its own mystery shopping experiences.

(iii) Providers have pointed out that the self-disclosure of consumers (relating to their expenses) leaves something to be desired. The regulator should consider insisting that where consumers provide very low levels of expenditure relative to their income, the provider should substitute a benchmark figure related to the consumer's social circumstances. The use of the provider's own scoring system or other benchmark would help protect the consumer against reckless borrowing.

(iv) While the research provided no evidence of terms and conditions that were specially designed to harm any particular group, there was concern that some products were being inappropriately targeted and that some groups were particularly vulnerable. One recommendation was that there should be a requirement for audio recordings of the disclosure provided at the point of sale where the consumer is illiterate.

(v) Given that our research indicates the need for the total cost of credit to be clearly stated and set out, we would recommend that the standards for such front page disclosure be set for agreements of *all* sizes. This would also aid the ability to compare prices for intermediate and larger agreements.

(vi) Credit agreements vary greatly in their length, clarity and level of detail. It is recommended that the regulator consider requirements for the NCA stipulations to be grouped and that other contractual terms relating to the provider's own conditions be are kept separate. In particular the use of Form 20.1 needs to be enforced.

(vii) Where credit life or property insurance is a condition or an option for the credit transaction, the provider should furnish details regarding cost, commission, other fees and coverage in the pre-agreement quotation and the credit agreement.

(viii) The mystery shopping also reveals that consumers who are apparently aware of their rights are very easily duped as to what comprises a quotation. For this reason we would recommend the NCR requires providers to frame and prominently display an example of a compliant pre-agreement quotation in their branches.

(ix) The regulator needs to consider greater intensification of education drives targeted at specific rights that can empower the consumer. For example, it is recommended that the regulator consider an outright restriction on marketing in the work place, and that this be widely publicised.

(x) The provisions in the NCA relating to marketing and advertising practices are not always complied with. Focus groups show how vulnerable consumers are to false marketing. There are a number of possible ways to address this, for example by:

- Engaging in more visible shoe leather inspections – in other words by walking into providers' premises and examining advertising material
- Providing explicit guidelines on acceptable market practice
- Enhancing the resources of the NCR to include a team that is tasked with evaluating advertising and marketing material.

7. List of participants

The following institutions participated in the survey and/or interviews. We list them here, with thanks.

	Institution/Firm		***Institution/Firm***
1	ABSA	25	Mercedes-Benz Financial Services
2	African Bank	26	MMI Holdings Ltd (prev Momentum & Metropolitan)
3	Banking Ombudsman	27	Mr Price Group
4	Bayport	28	Mutual & Federal Insurance Company Ltd
5	Bayport Financial Services	29	NCR
6	Blue Financial Services	30	NDMA
7	BMW Financial Services	31	Nedbank
8	Capitec	32	NHFC
9	Credit Ombudsman	33	NWK Limited
10	DCASA	34	NYDA (National Youth Development Agency)
11	Edcon	35	Personal Finance
12	Eduloan	36	Ramahau Cash Loans
13	FNB	37	RCS
14	Ford Financial Services	38	Real People Housing
15	Foschini Retail Group	39	RFS Homeloans (Pty) Ltd
16	Gauteng Provincial Consumer Affairs Office	40	SA Home Loans
17	Gro capital Financial Services	41	Sanlam

	Institution/Firm		*Institution/Firm*
18	Hlano Financial Services (Pty) Ltd	42	Senior Financing
19	Homechoice	43	SENWES
20	IEMAS Co-operative Ltd	44	Small Enterprise Foundation (SEF)
21	JDG Trading (Pty) Ltd (Joshua Doore Group)	45	Standard Bank
22	Lendcor Finance	46	The Star – Consumer Watch
23	Lewis Stores	47	Thuthukani Financial Services
24	Liberty Life	48	Truworths Ltd
		49	Woolworths