DEBT BUSTERS

Debt Index |Q4 2021

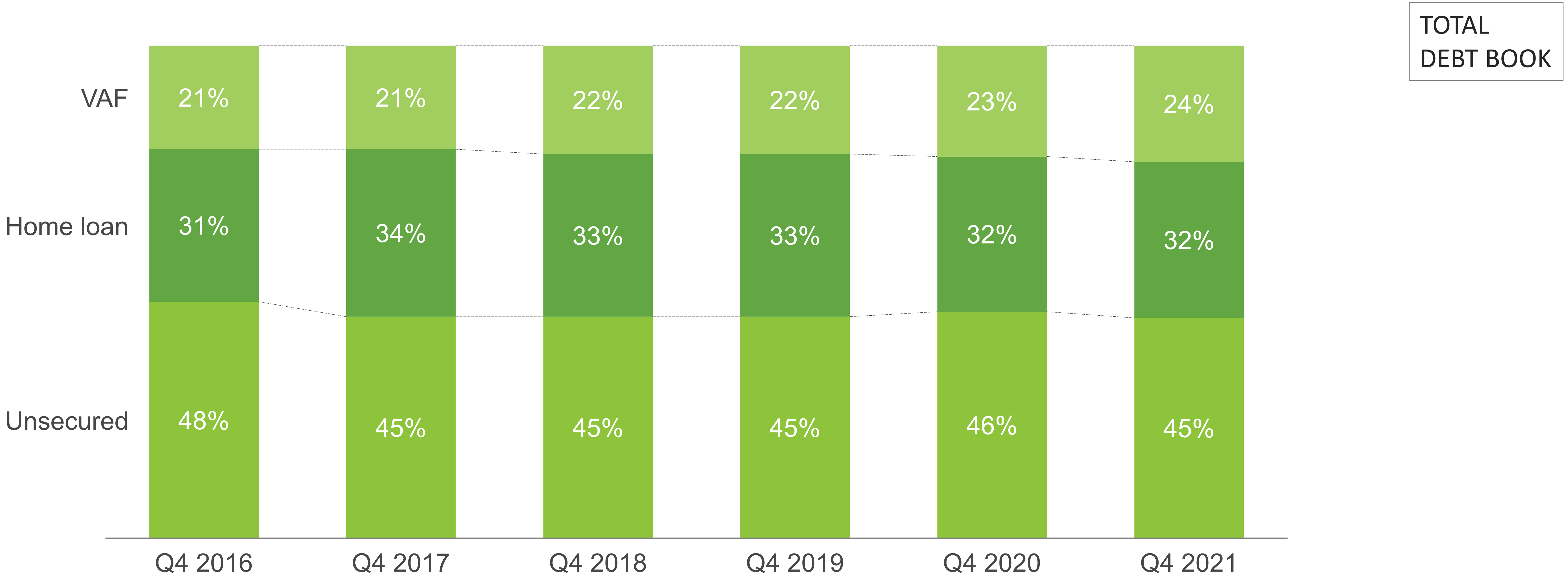
2022 National Debt Awareness Month

Executive Summary - Benay Sager, Head of DebtBusters

- **Publishing of the Q4 2021 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 **interest rates will take central stage** for the foreseeable future: **interest rate** increases by the SA Reserve Bank will impact our ability to borrow and pay back debt. However, that is not all. We want consumers to learn more about the impact of interest rates and take advantage of the best tool they have available to manage cost of credit and interest rates: debt counselling. So, our central theme this year is "**Know what is in your best interest**"
- In Q4 2021, **there was increased demand from consumers for debt counselling, with inquiries up 18% compared to the same period last year**. While it is early days, there is a similar trend in 2022 – **inquiries are up by more than 32% YOY compared to same period last year**.
- The financial situation of SA consumers continues to be challenging. In absence of meaningful increase in real income, SA consumers continue to supplement their income with unsecured credit. Average loan size has increased by 45% in a few years, and the number of debt obligations (open trades) has decreased by 19% over the same period – both indicating that consumers have more debt per credit agreement and are seeking help sooner. Compared to 2016, **those consumers who applied for debt counselling in Q4 2021 had**:
    - **25% less take-home pay**: Nominal incomes were slightly lower than 2016 levels, however when cumulative inflation growth of 24% is factored in for the same period, real incomes shrank by 25% over this period. This means consumers take home 25% less today in real terms than they did in 2016.
    - **Higher debt service burden**: Consumers need to spend around 62% of their take home pay to service their debt before coming to debt counselling – those taking home R20k or more p.m. need to use two thirds of their income towards debt repayments. More alarmingly, the debt-to-income ratio for top two income bands is higher in Q4 2021 compared to same periods in the past: 123% for those taking home more than R10k per month and 146% for those taking home R20k or more p.m.
    - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 22% higher than that in 2016 levels; for those taking home R20k or more, the unsecured debt levels were 43% higher. This is a direct result of erosion of net income (take home pay): consumers need to supplement this erosion with unsecured credit.
- Starting from Q2 2020, average interest rates for bonds and vehicle finance started to decrease, thanks to multiple interest rate reductions by the SA Reserve Bank. Since both asset classes are linked to repo rate changes, consumers with assets benefitted from reduced interest rates, as well as bank payment holidays. As interest rates start to rise, these benefits will disappear, so consumers should do everything they can to reduce the cost of credit and protect their assets. **Debt counselling is the best tool to help consumers**:
    - Unsecured debt interest rates can be reduced by over 90% while under debt counselling from an **average of 21.5% to ~1.2%, allowing consumers to pay back expensive debt quicker**.
    - In 2021, in partnership with creditors DebtBusters was able to reduce interest rates significantly for consumers, **and in return consumers paid R2bn to their creditors**.
    - The number of consumers successfully completing debt counselling successfully has increased by five-fold over the last five years. **Consumers who successfully completed debt counselling in Q4 2021 paid back over R250m worth of debt to their creditors as part of the debt counselling process**.
    - In **Q4 2021, 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.
- Many consumers are seeking help proactively as they feel the impact of the end of 2020 payment holidays, after-effects of several nationwide lockdowns, lack of income growth, and diminished ability to borrow. We salute these consumers for taking control of their finances. For more information and to find out how DebtBusters helps consumers with debt management, visit www.debtbusters.co.za.

Nature of debt is mostly stable, except a growing portion is from financed vehicles

Vehicle debt has increased in the last few years, indicating that more consumers with assets (vehicles in particular) are seeking financial assistance



Breakdown of DebtBusters debt under management

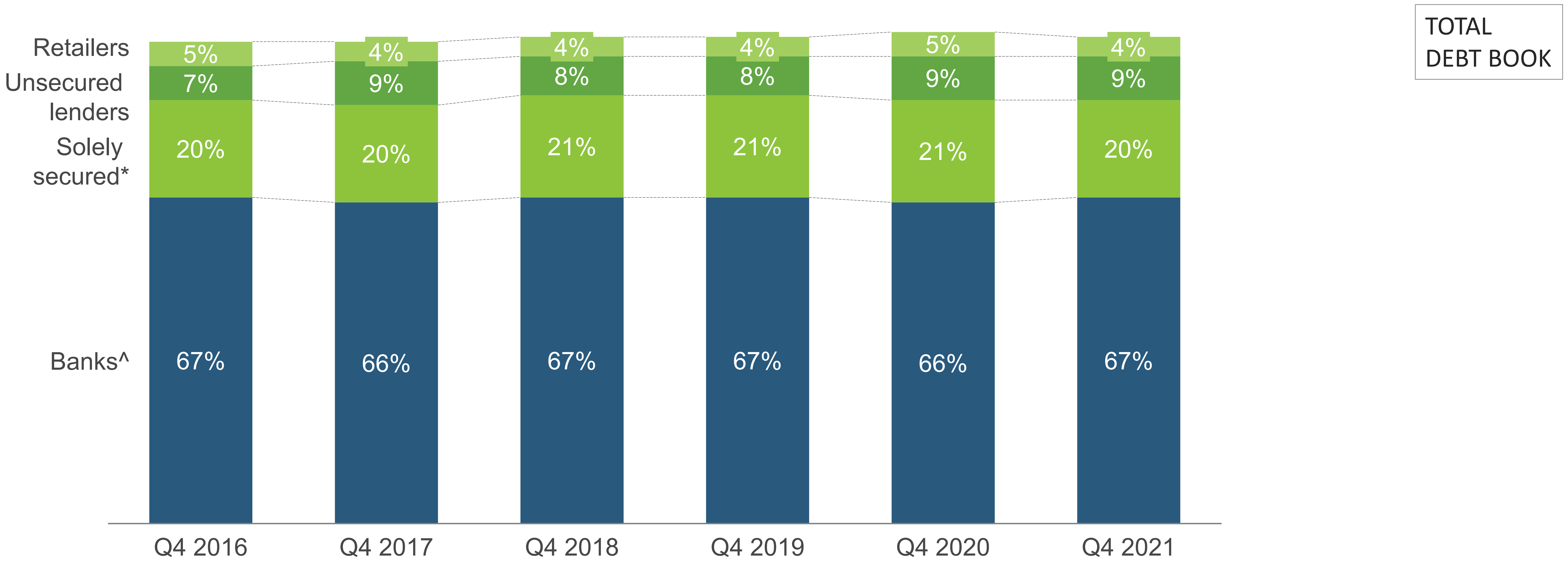
Percent by type, by value at end of Quarter

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

Share of lending institutions is largely stable

Banks make up two thirds of debt; there is slight increase in share of unsecured debt over the past year



Breakdown of DebtBusters debt under management

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

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

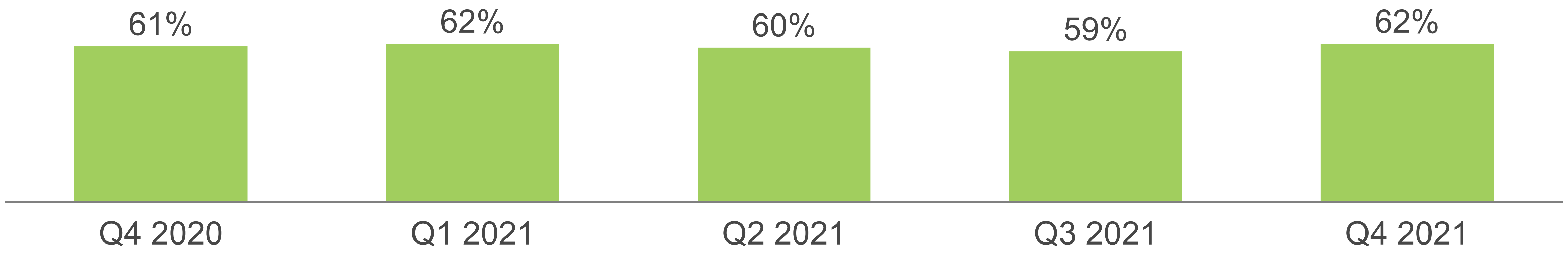
^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

Source: DebtBusters

Compared to previous quarters, overall debt levels have remained high, where total debt to annual net income ratio is now 117% on average…

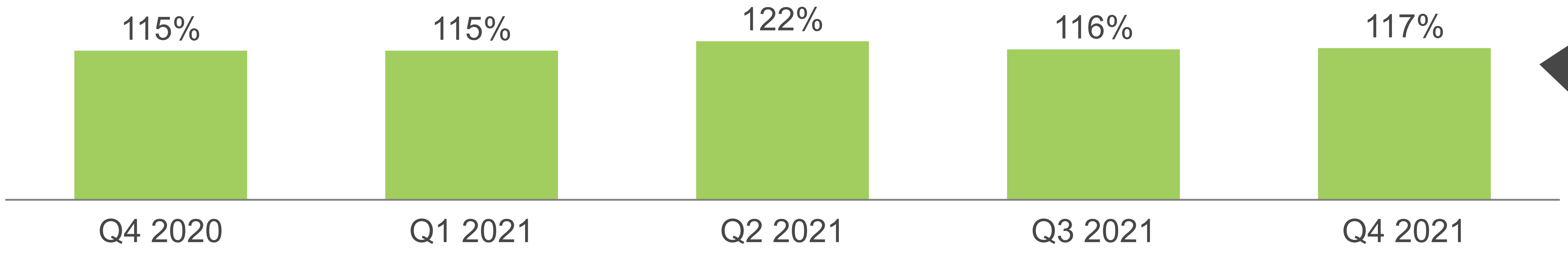
Original (median) monthly debt repayment to net income ratio[1] has stayed steady...

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



…quarter-on-quarter overall debt levels also stayed at elevated levels

Total debt exposure to annual net income ratio, when consumers sign up with DebtBusters



Comparable figure for other select countries (from OECD):

Russia 37%	Brazil 51%
Italy 91%	Germany 99%
USA 101%	UK 148%
Korea 201%	Australia 202%

In many countries, debt is mostly mortgage debt

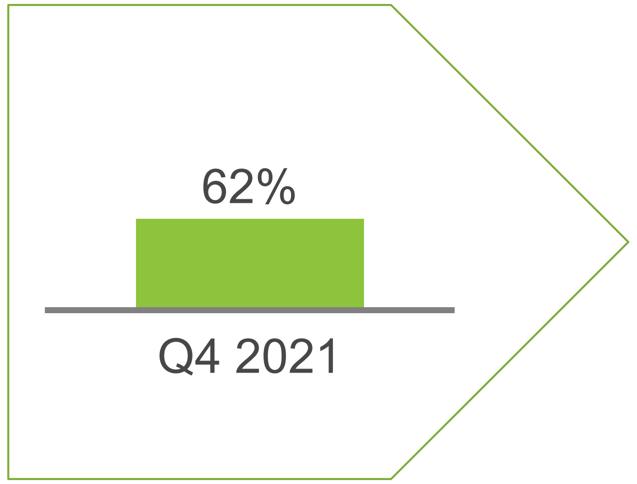
1 Median debt to net income ratio for all new consumers signed up in that quarter

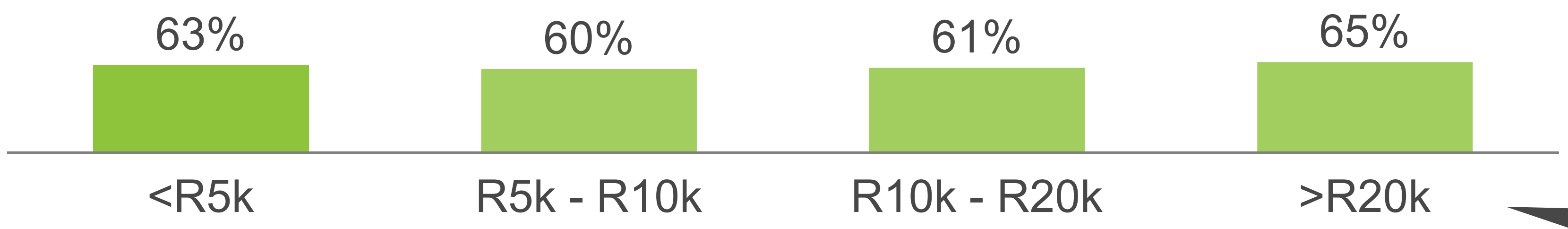
Source: DebtBusters

OECD (2022), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 26 January 2022)

…for those taking home more than R20k per month the total debt to annual net income ratio is 146% and they need 65% of their take home pay to service their debt repayments…

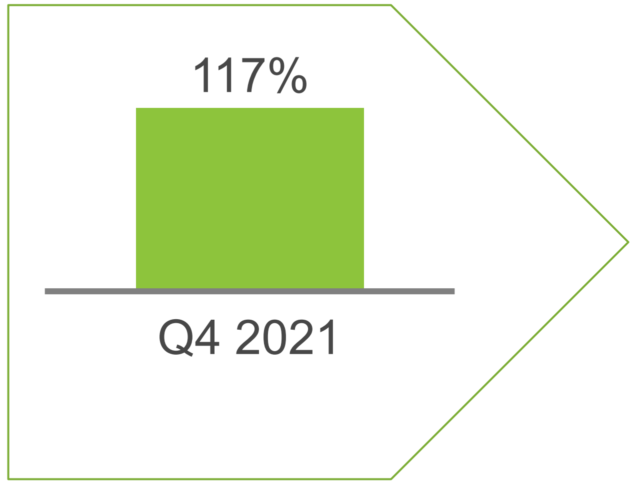
Original monthly debt repayment to net income ratio[1]
Percent of net income that was required to pay debt before signing up with DebtBusters

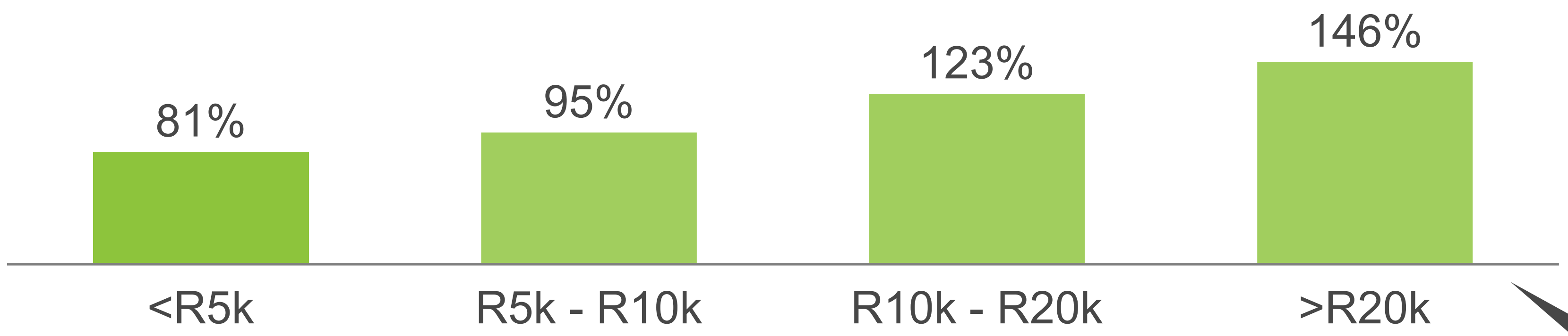




Highest monthly debt repayment ratio

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





Highest debt to income ratio

Lowest overall debt ratio at 81%, but still require 63% of net income to pay debt per month, which means interest rates charged are highest.

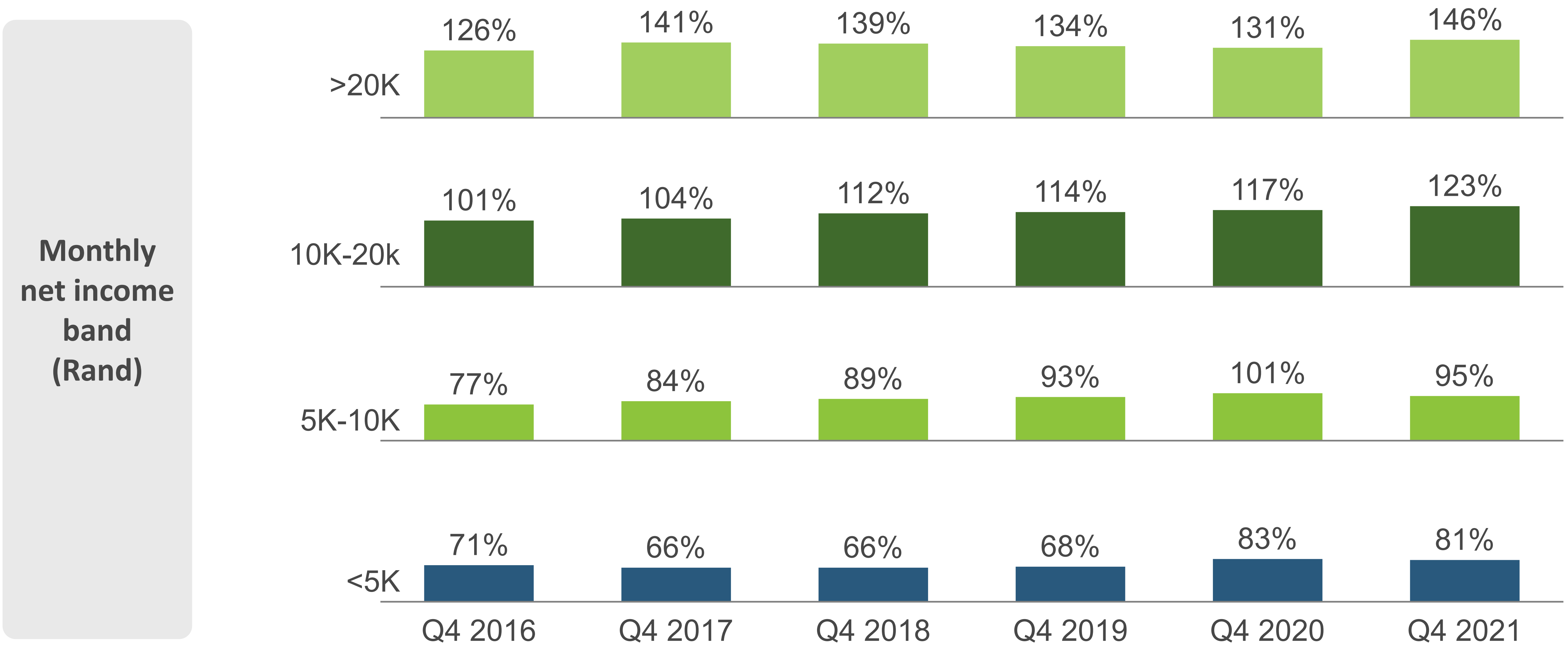
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for all income bands is at its highest level ever for most Q4 consumers; those taking home R20k or more have a debt-to-income ratio of 146%

Original overall debt to annual net income ratio[1]

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

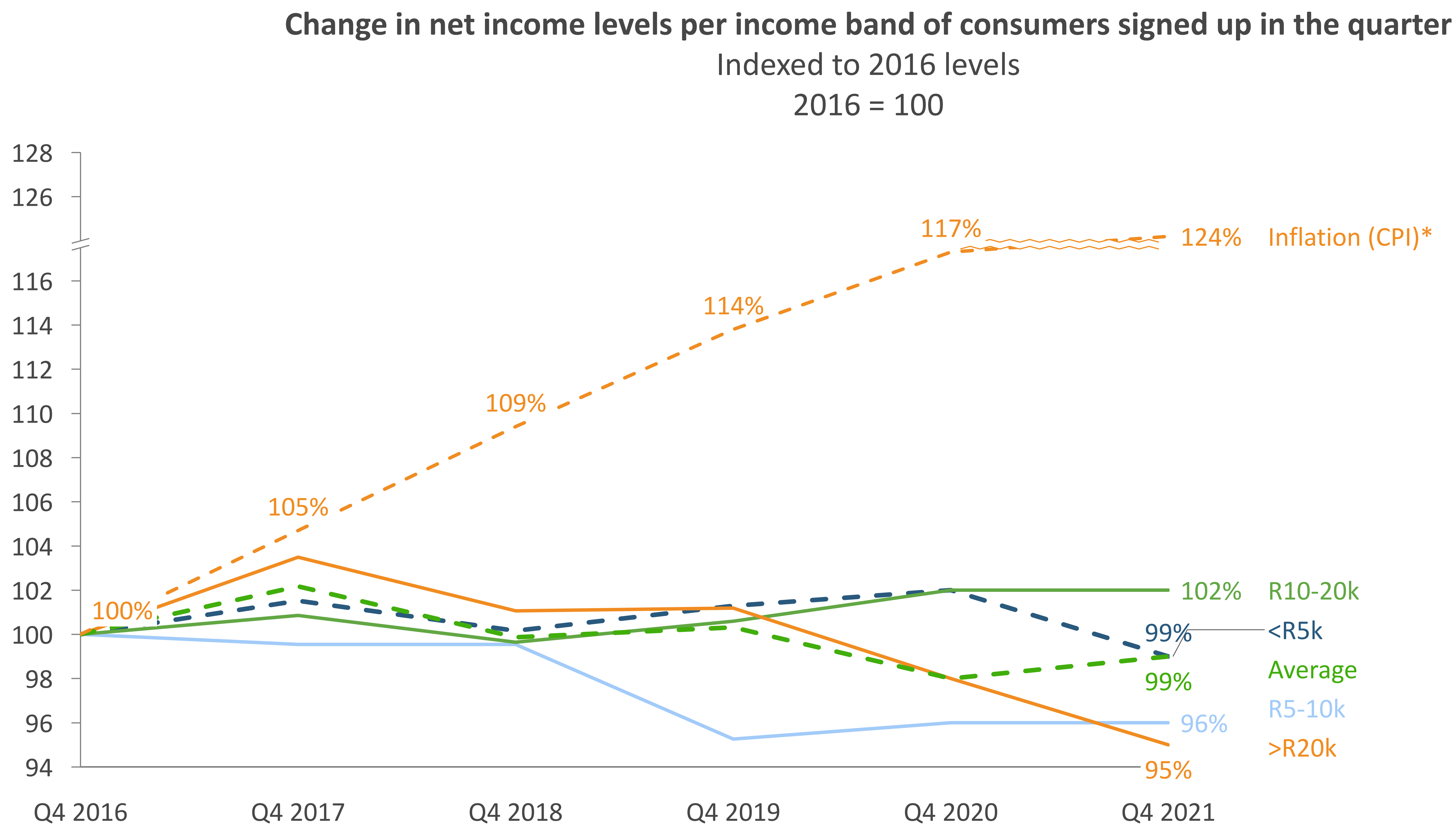


- **Debt exposure worsened significantly for top two income groups**
- **Worst increase in debt exposure is for those taking home R20k or more: their debt-to-income ratio now sits at 146%**

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

Source: DebtBusters

In the last five years, average net incomes (take home pay) were flat, meaning in real terms most South Africans had 25% less disposable income in 2021 compared to 2016…

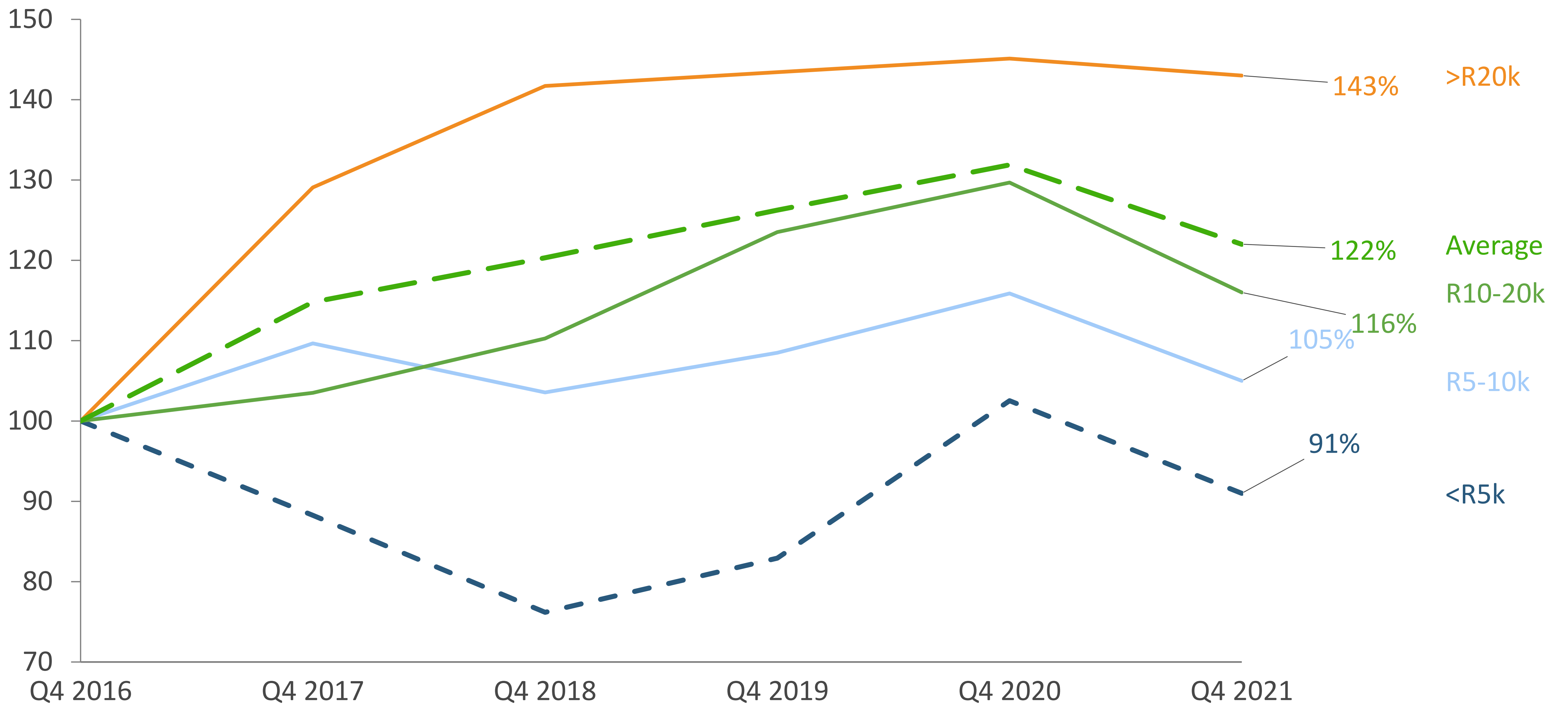


- On average, consistent with many global trends, net incomes were down 1% in the last five years; during the same period inflation was 24%
- This means real incomes shrank by 25% during the past five years

Source: DebtBusters
* Stats SA CPI history

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 22% more unsecured debt in 2021 compared to 2016, those taking home R20k or more have unsecured debt levels that are 43% higher than 2016

Change in unsecured debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100

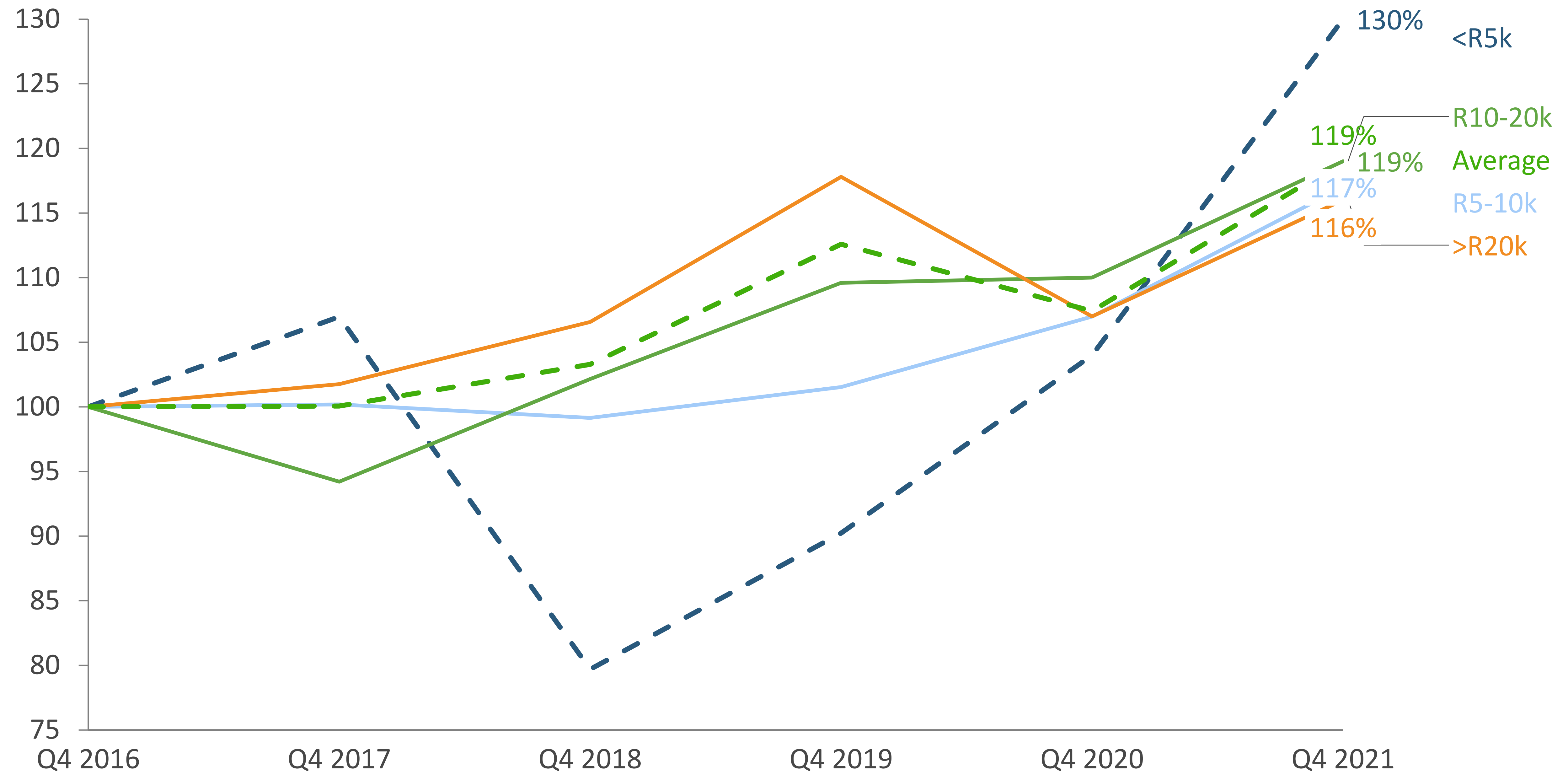


- **Unsecured debt for the average consumer is 22% higher than 2016 levels; for top earners the figure is 43%**
- **This indicates consumers continue to use unsecured credit to supplement their incomes; however debt levels have tapered off compared to 2020**

Source: DebtBusters

Total debt levels (which include both secured and unsecured debt) have increased by 19% compared to Q3 2016; this increase is lower than both inflation unsecured debt growth

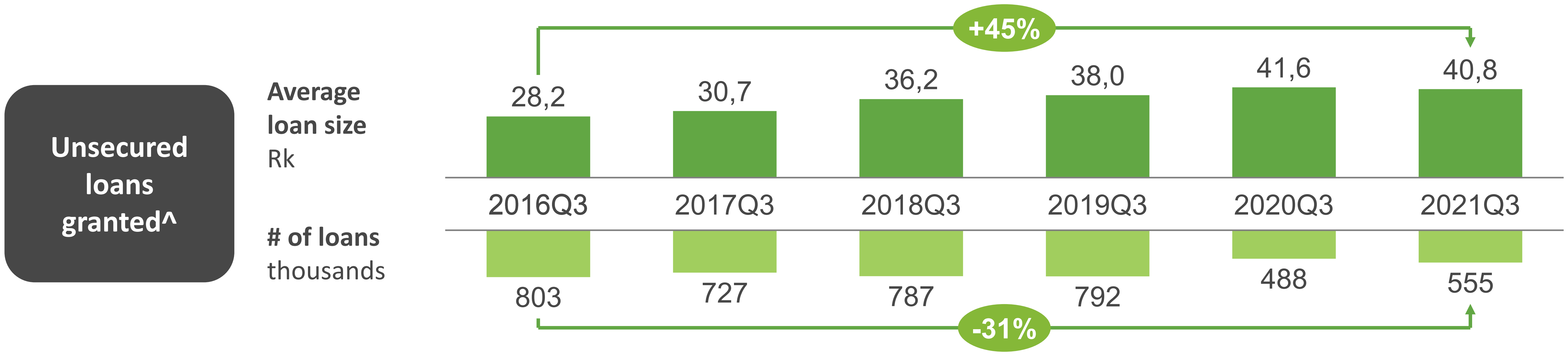
Change in total debt levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100

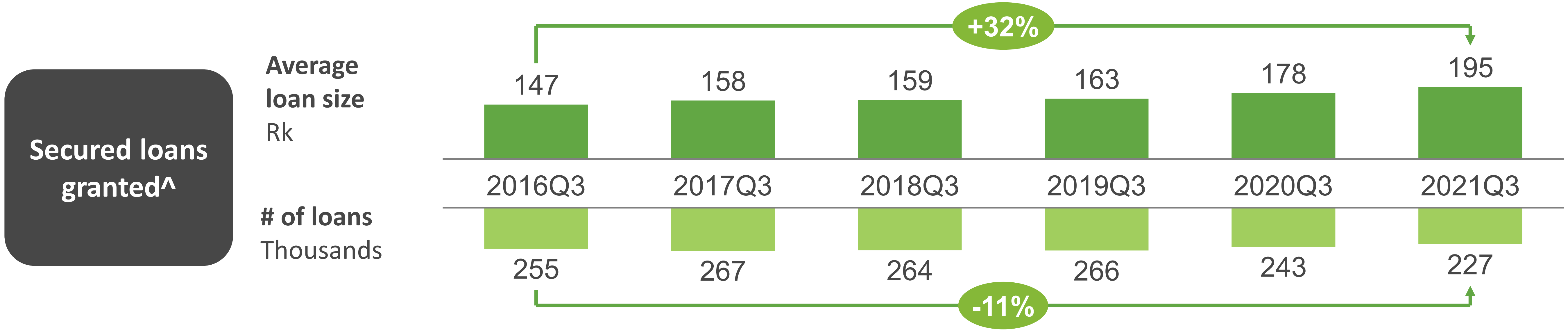


- Compared to 2016, the total debt level increased by 19% on average
- Those taking home less than R5k had the largest increase in overall debt levels

Source: DebtBusters

The decrease in number of loans per consumer and growth in average debt is also supported by NCR data; average unsecured loan size grew by 45% whereas number of new unsecured loans shrank by 31% in the last five years





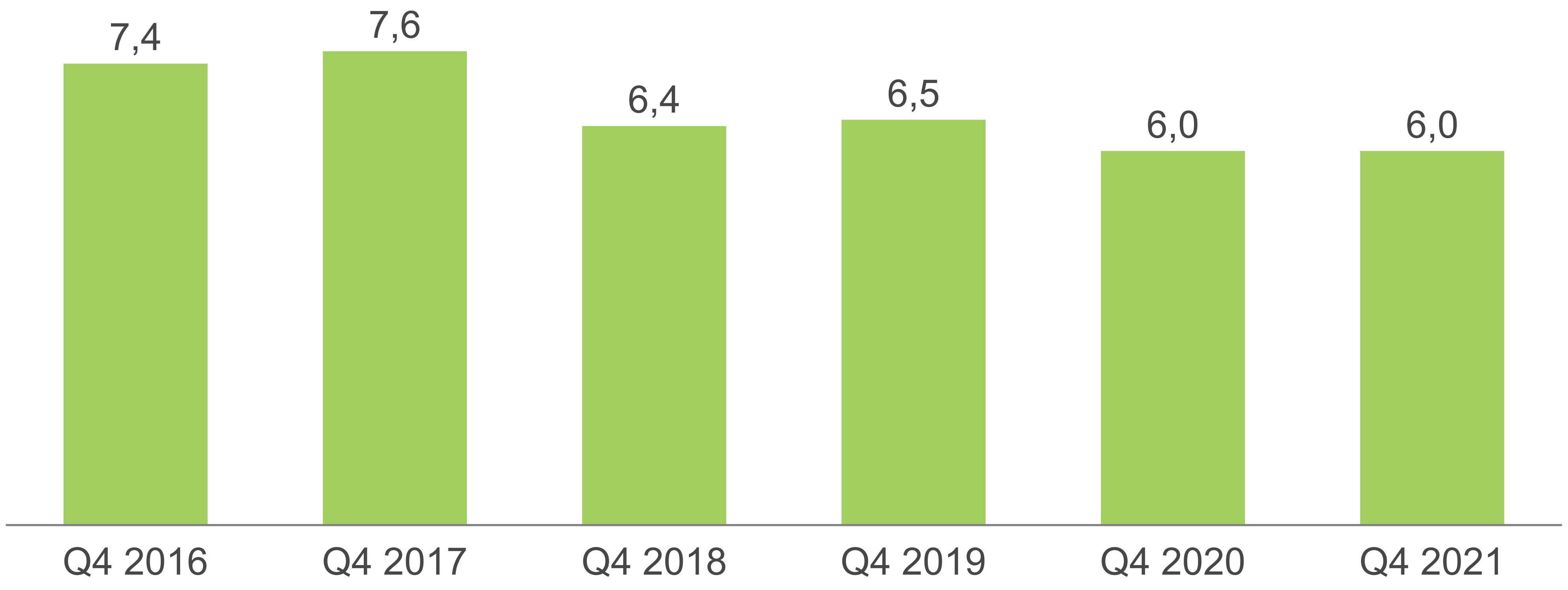
- There has been some recovery in the lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 45% in five years, whereas the number of loans has shrunk by 31%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Secured loans have also grown in size, but by a smaller percentage (32%) compared to unsecured loans

^: Q3 2021 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q2 2007 – Q3 2021

The average number of credit agreements (open trades) a consumer has continues to be at historical low levels. When factoring in debt levels, this indicates consumers have more debt per credit agreement and are seeking help faster than before….

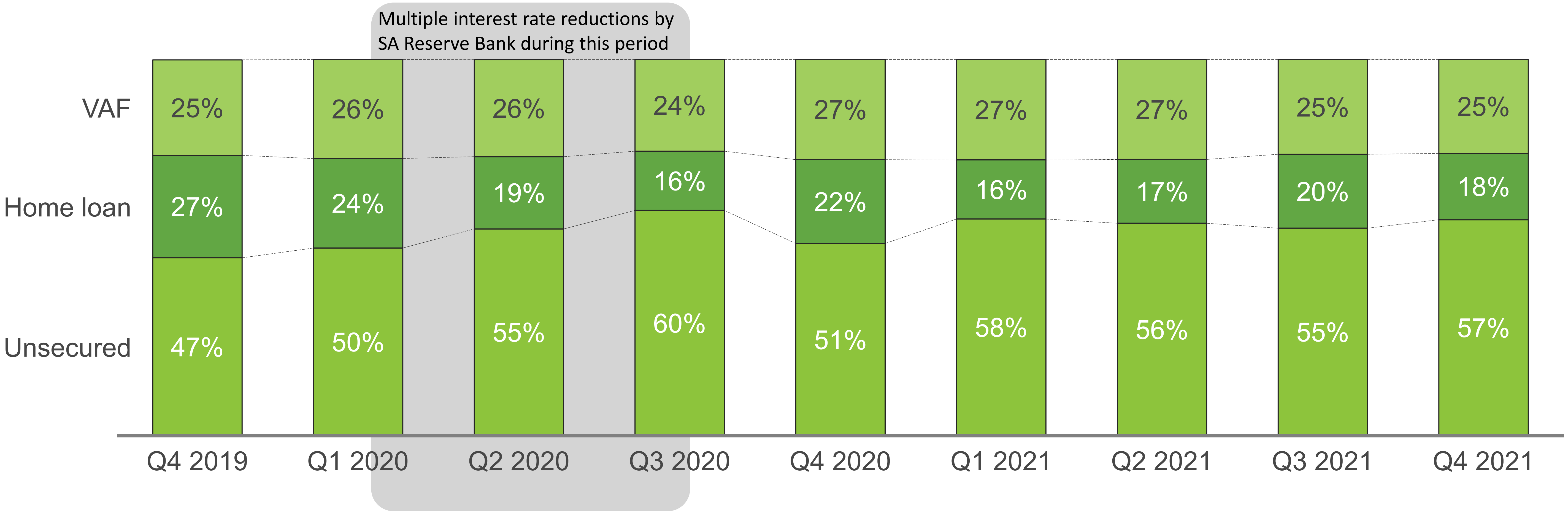
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

The debt mix for new applicants has shifted dramatically over the last few years, through a combination of payment holidays (which now expired) offered by banks and reduction in interest rates. We expect this to change as we enter an interest rate hike cycle…

Breakdown of new applicants debt
Percent by type



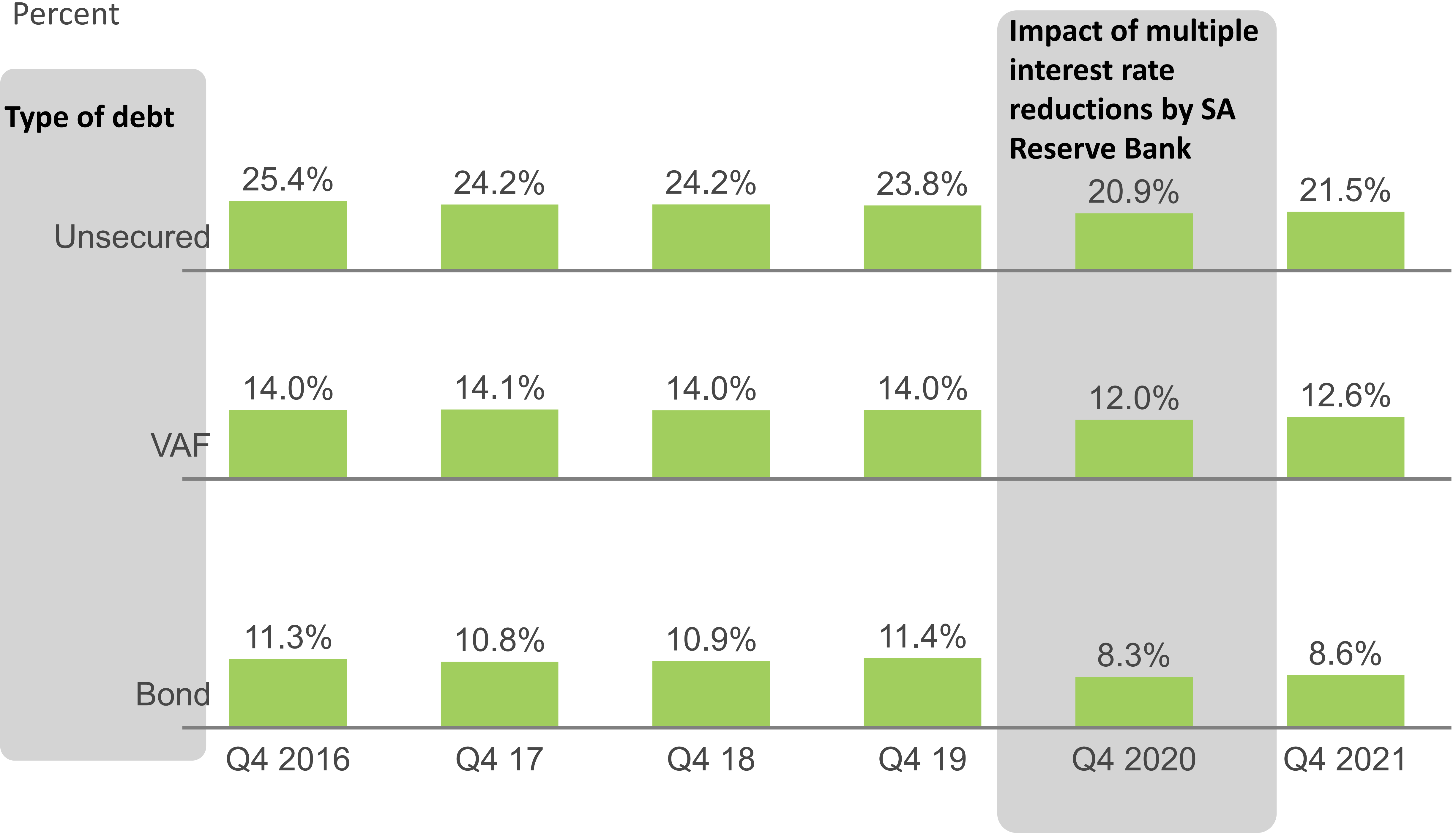
- Interest rate reduction combined with bank payment holidays most pronounced in Q3 2020 as share of assets dipped
- Starting from Q4 2020 (with expiry of payment holidays) more consumers with assets are seeking help; however many consumers with assets still benefitting from low interest rates
- We expect asset debt share to increase as interest rates also rise

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 in 2020. Interest rate reduction had limited impact on unsecured debt, which is still ~21.5% on average and makes up a significant portion of debt in SA…

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



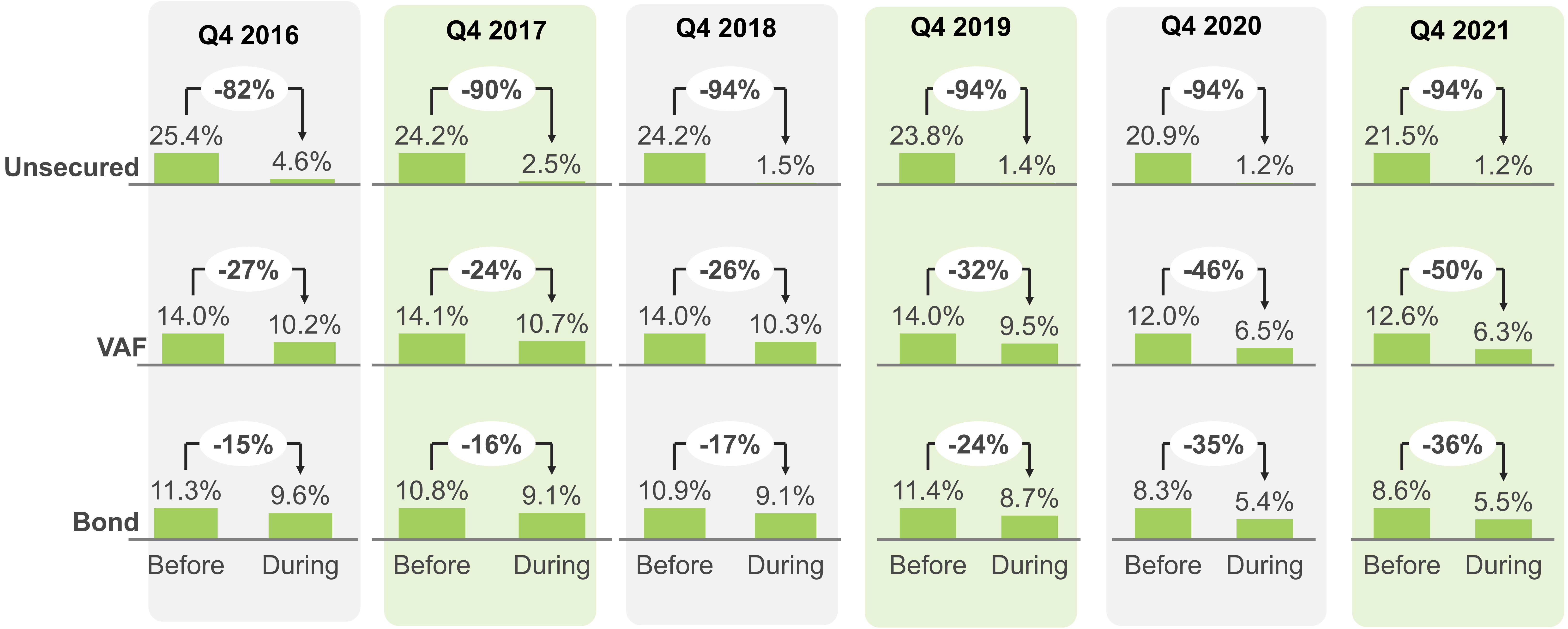
- Significant reduction in bond interest rates, less so for VAF in 2020
- **Very little impact on unsecured debt interest rates – unsecured interest rates still around 21.5%**

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

In debt counselling, interest rates can be reduced by over 90%+, allowing consumers to pay off their debt quicker. In 2021, in partnership with creditors DebtBusters was able to reduce interest rates significantly for consumers, and in return consumers paid R2bn to their creditors

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

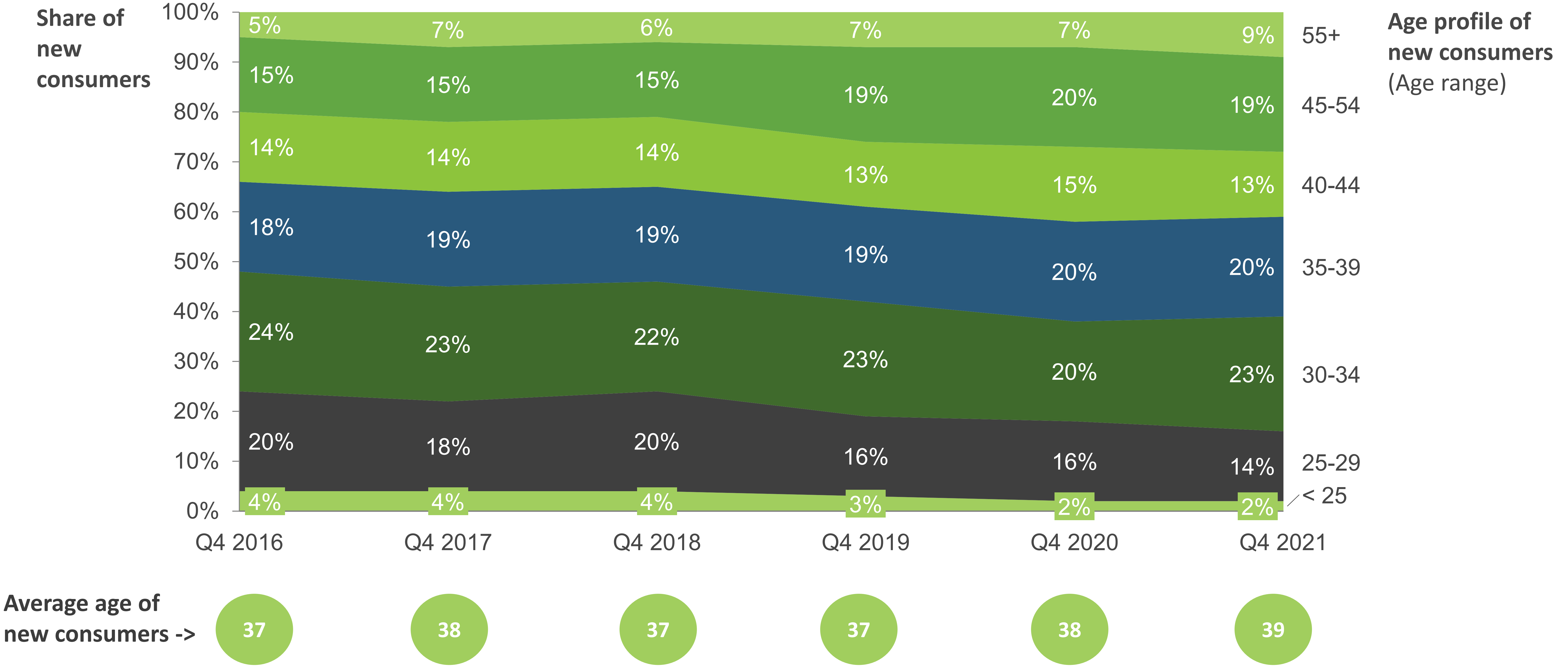


VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: Debtbusters

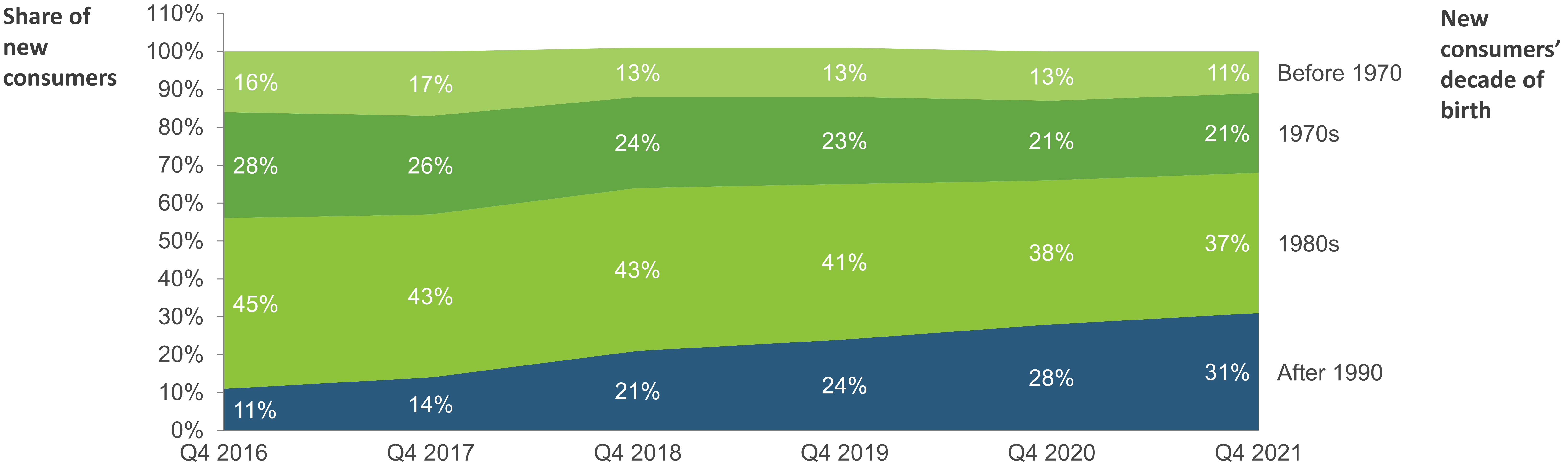
Consumer age profile indicates increasing financial stress in 45+ age group

While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 20% to 28% over the past five years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

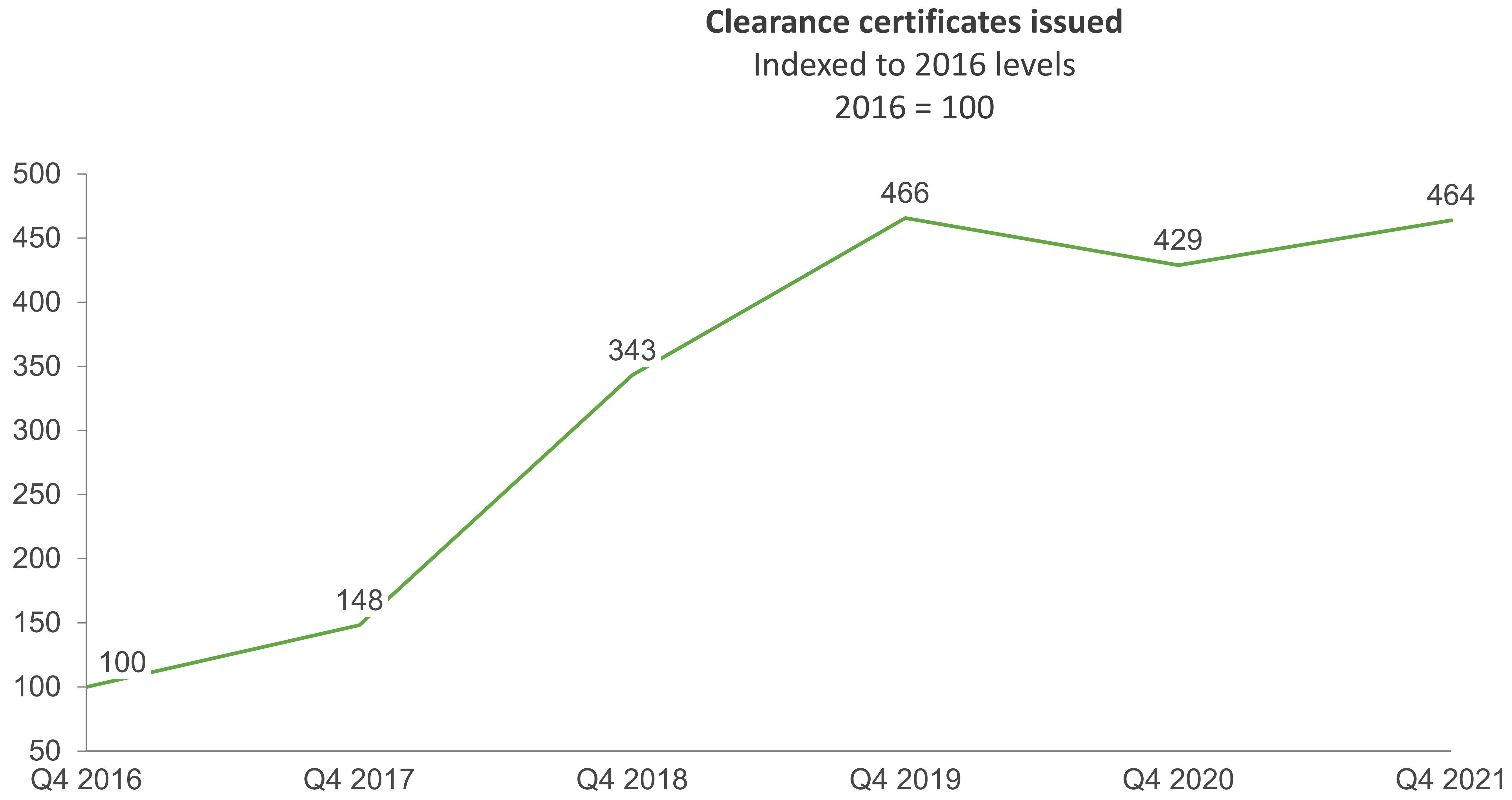
Consistent with recent quarters, there is steady interest from male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 54% of applicants were male



Share of consumers who are:	Q4 2016	Q4 2017	Q4 2018	Q4 2019	Q4 2020	Q4 2021
Male	52%	51%	51%	53%	55%	54%
Female	48%	49%	49%	47%	45%	46%

Source: DebtBusters

In the most recent quarter, the number of consumers graduating from debt counselling (successfully receiving their clearance certificates) was almost five times higher than the same period in 2016; consumers who graduated in Q4 2021 paid over R250m to their creditors while under debt counselling



- In Q4 2021, there were 5x more consumers “graduating” or getting clearance certificates compared to 2016 levels
- Consumers who received clearance certificates in most recent quarter paid over R250m to their creditors while under debt counselling

Source: DebtBusters

For further information, contact our Marketing Manager Amelia de Milander at:
amelia.demilander@idmgroup.co.za.