Debt Index | Q1 2022

Executive Summary - Benay Sager, Head of DebtBusters

- In Q1 2022, **there was increased demand from consumers for debt counselling, with inquiries up 32% compared to the same period last year**. Many consumers are seeking help proactively as consumers are feeling the impact of the end of 2020 payment holidays, after-effects of several nationwide lockdowns and diminished ability to borrow.

- The financial situation of SA consumers continues to be challenging, even two years after the beginning of the coronavirus pandemic. In absence of meaningful increase in real income, SA consumers continue to supplement their income with unsecured credit. Average loan size has increased by 27% in a few years, and the number of debt obligations (open trades) has decreased by 18% 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 Q1 2022 had**:
  - **31% less disposable income**: Nominal incomes were slightly lower than 2016 levels, however when cumulative inflation growth of 31% is factored in for the same six-year period, disposable incomes shrank by 31% over this period. This means consumers are feeling like they are taking home 31% 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. More alarmingly, the debt-to-income ratio for top two income bands is at its highest level recorded in Q1 2022 compared to same periods in the past: 125% for those taking home more than R10k per month and 150% for those taking home R20k or more p.m.
  - **Unsustainably high levels of unsecured debt:** Unsecured debt levels were on average 20% higher than that in 2016 levels. While this is lower than some other years, for consumers taking home R20k or more, the unsecured debt levels were 54% higher. This is a direct result of erosion of net income (take home pay): consumers need to supplement this erosion with unsecured credit.

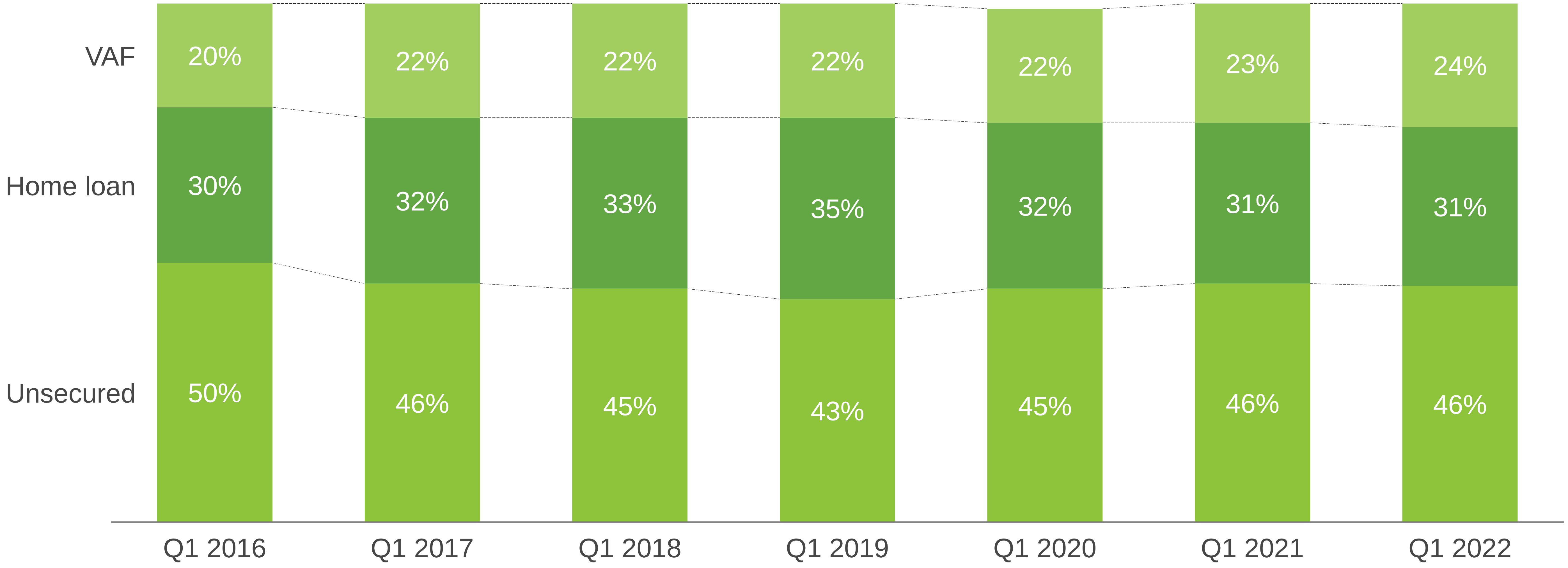
- As interest rates start to rise and inflation increases, consumers should do everything they can to reduce the cost of credit and protect their assets. **Debt counselling is the best tool to help consumers**:
  - Unsecured debt interest rates can be reduced significantly while under debt counselling**, 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 nine-fold over the last six years. **Consumers who successfully completed debt counselling in Q1 2022 paid back over R400m worth of debt to their creditors as part of the debt counselling process**.
  - In **Q1 2022, 57% 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. 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

TOTAL DEBT BOOK



Breakdown of DebtBusters debt under management
Percent by type, by value at end of Quarter

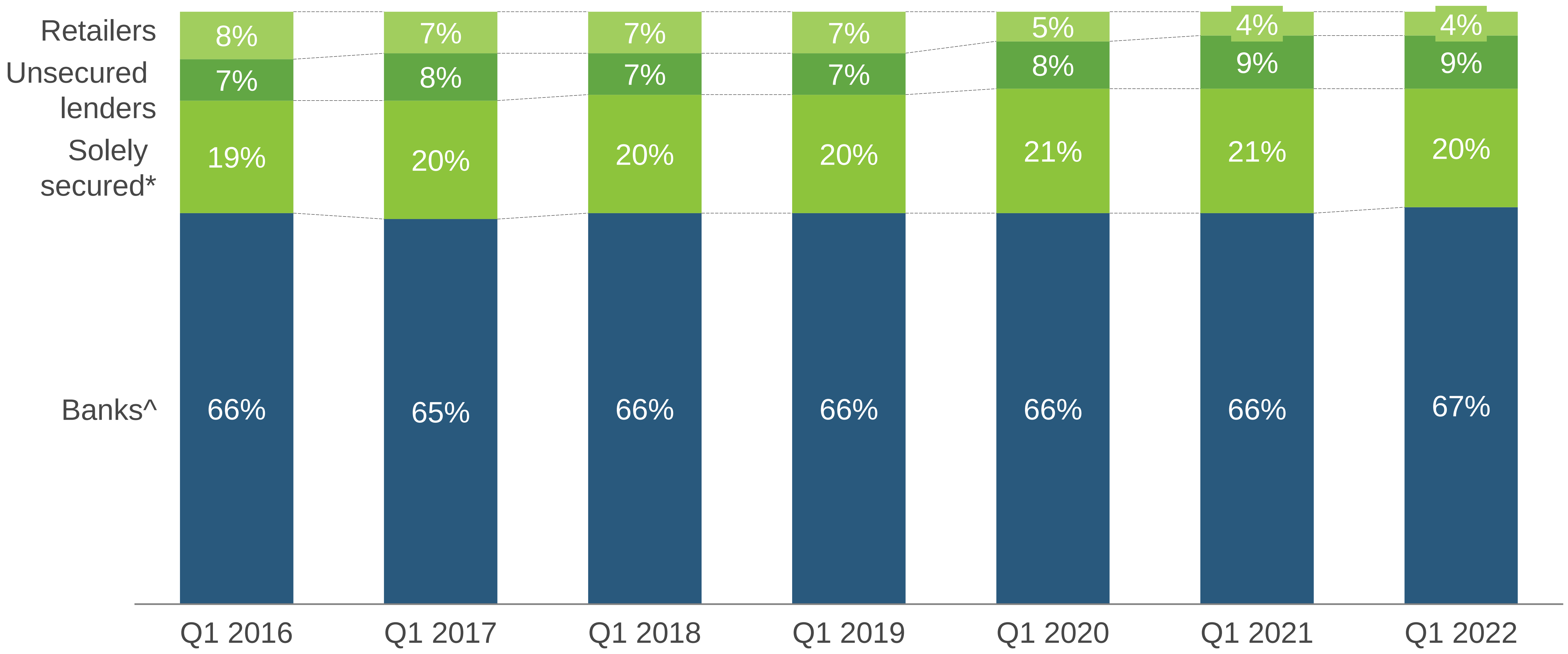
VAF refers to vehicle finance agreements.
Unsecured debt refers to all debt other than vehicle finance and bonds. Therefore it includes credit card debt, overdraft facilities, personal loans, retail cards, store cards and the like.

Source: DebtBusters

Share of lending institutions is largely stable

Banks make up two thirds of debt; there is an increase in share of purely unsecured lenders over the past few years

TOTAL DEBT BOOK



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

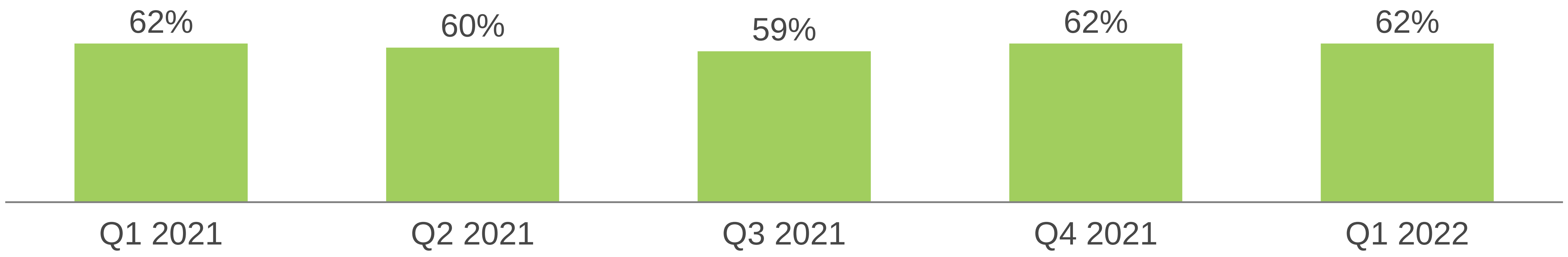
^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank

Source: DebtBusters

Compared to previous quarters, overall debt levels have remained high, where total debt to annual net income ratio is now 119% on average…

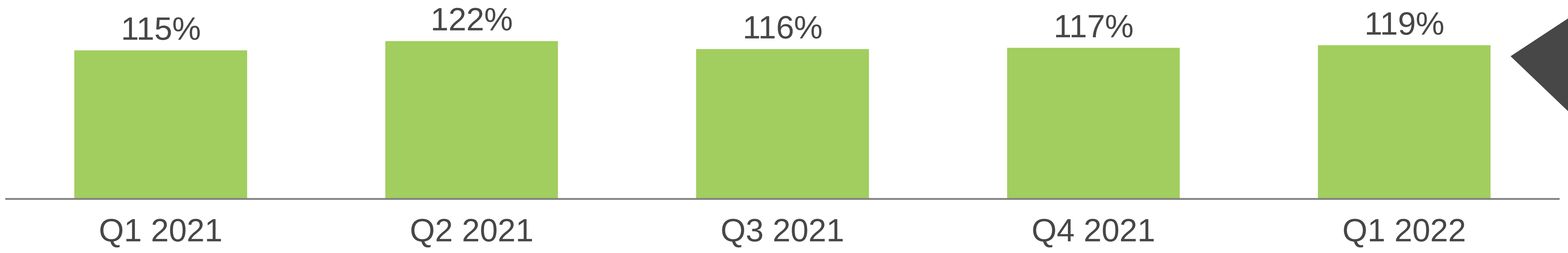
Original (median) monthly debt repayment to net income ratio[1] has stayed steady...

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



…however, quarter-on-quarter overall debt levels increased

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%

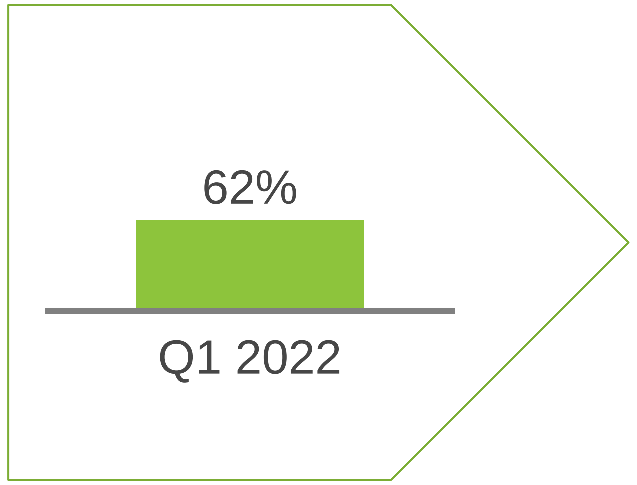
In many countries, debt is mostly mortgage debt

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

Source: DebtBusters

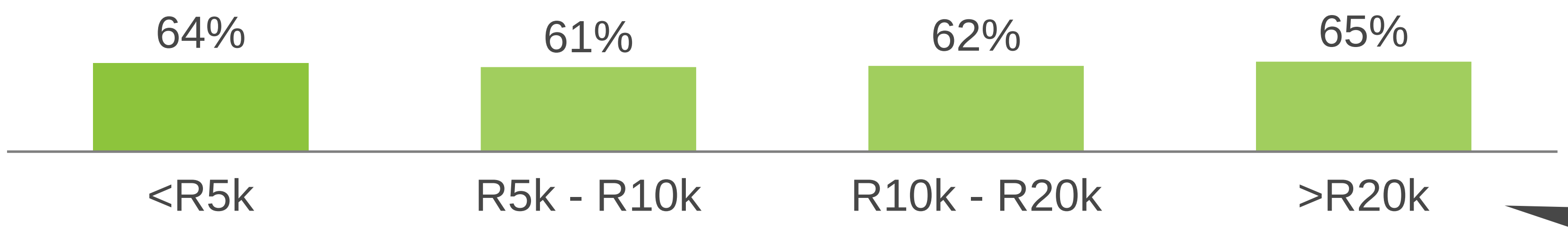
OECD (2022), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 26 January 2022)

…for those taking home more than R20k per month the total debt to annual net income ratio is 150%…

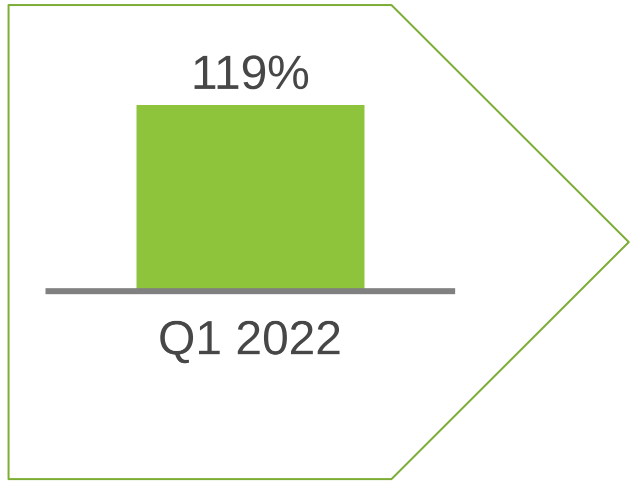


Original monthly debt repayment to net income ratio[1]

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

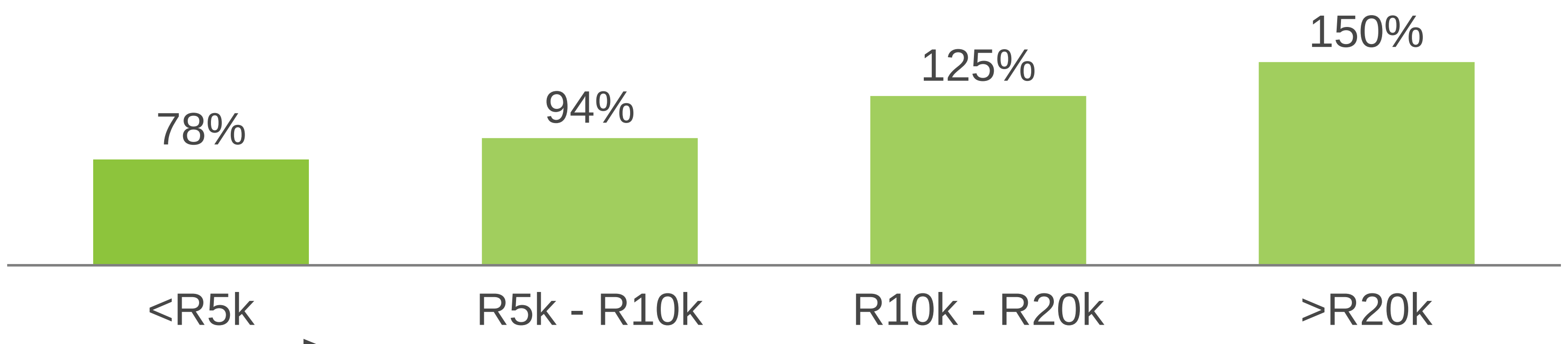


Highest monthly debt repayment ratio



Original overall debt to annual net income ratio[1]

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



Lowest overall debt ratio at 78%, but still require 64% of net income to pay debt per month, which means interest rates charged are highest.

Highest debt to income ratio

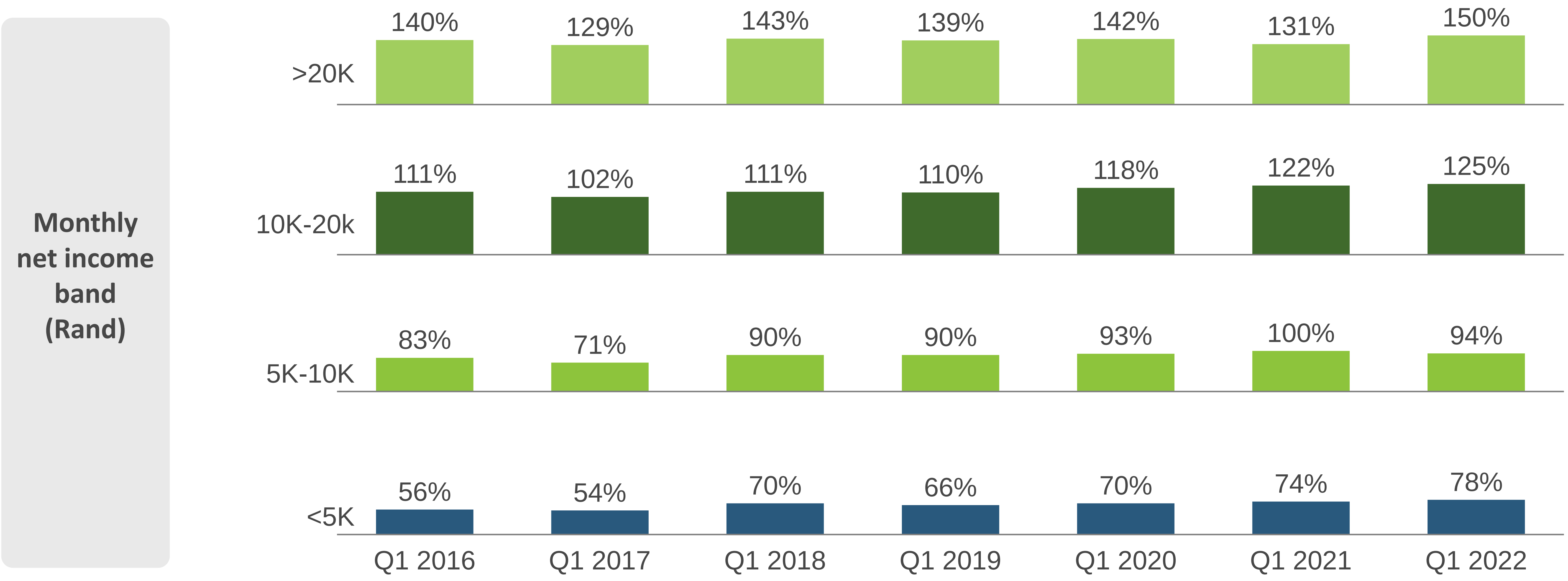
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for most income bands is at its highest level ever for Q1 consumers; those taking home R20k or more have a debt-to-income ratio of 150%

Original overall debt to annual net income ratio[1]

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



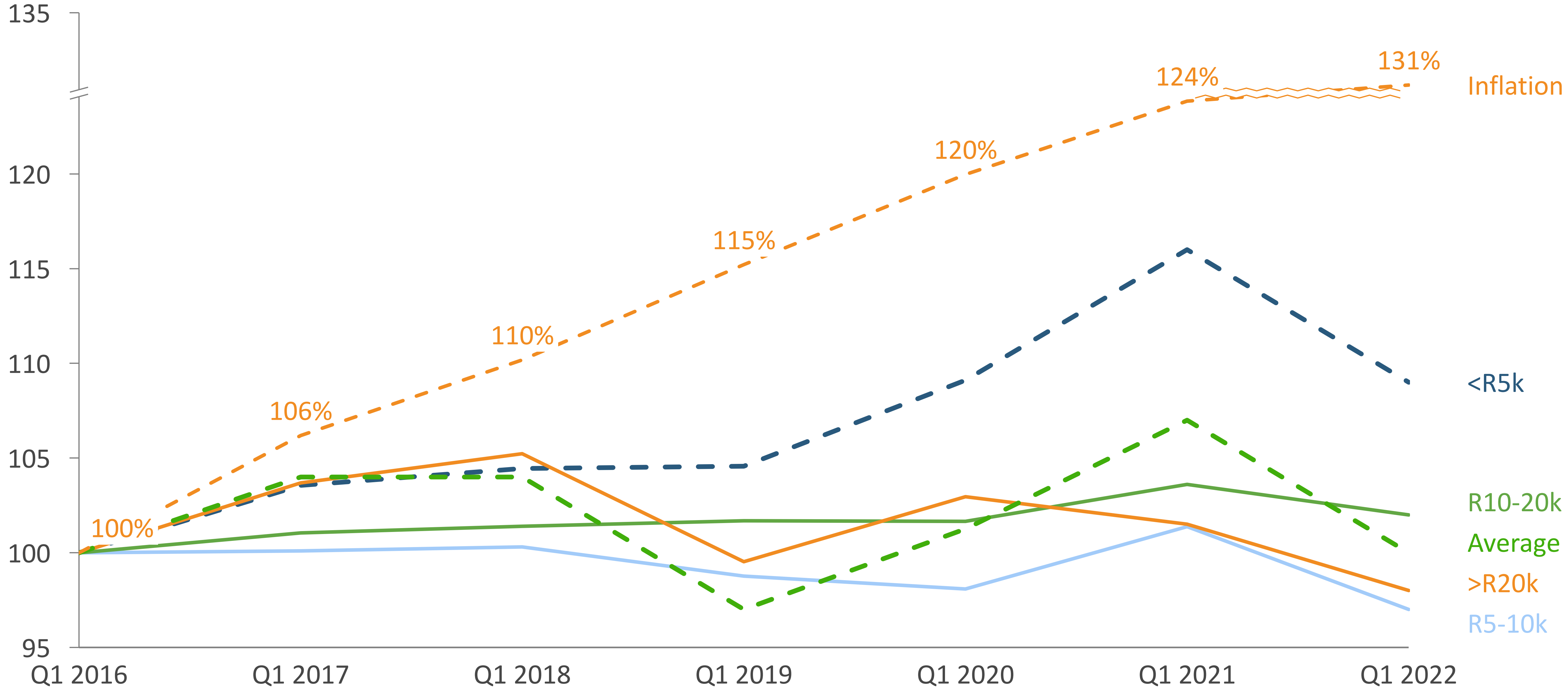
- **Debt exposure worsened for most income groups compared to previous years**
- **Worst increases are for those taking home R20k or more – their debt to income ratio is 150% or more, which is the highest we have ever recorded for Q1 consumers**

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

Source: DebtBusters

In the last six years, average net incomes were flat, meaning in real terms most South Africans had 31% less disposable income in 2022 compared to 2016…

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

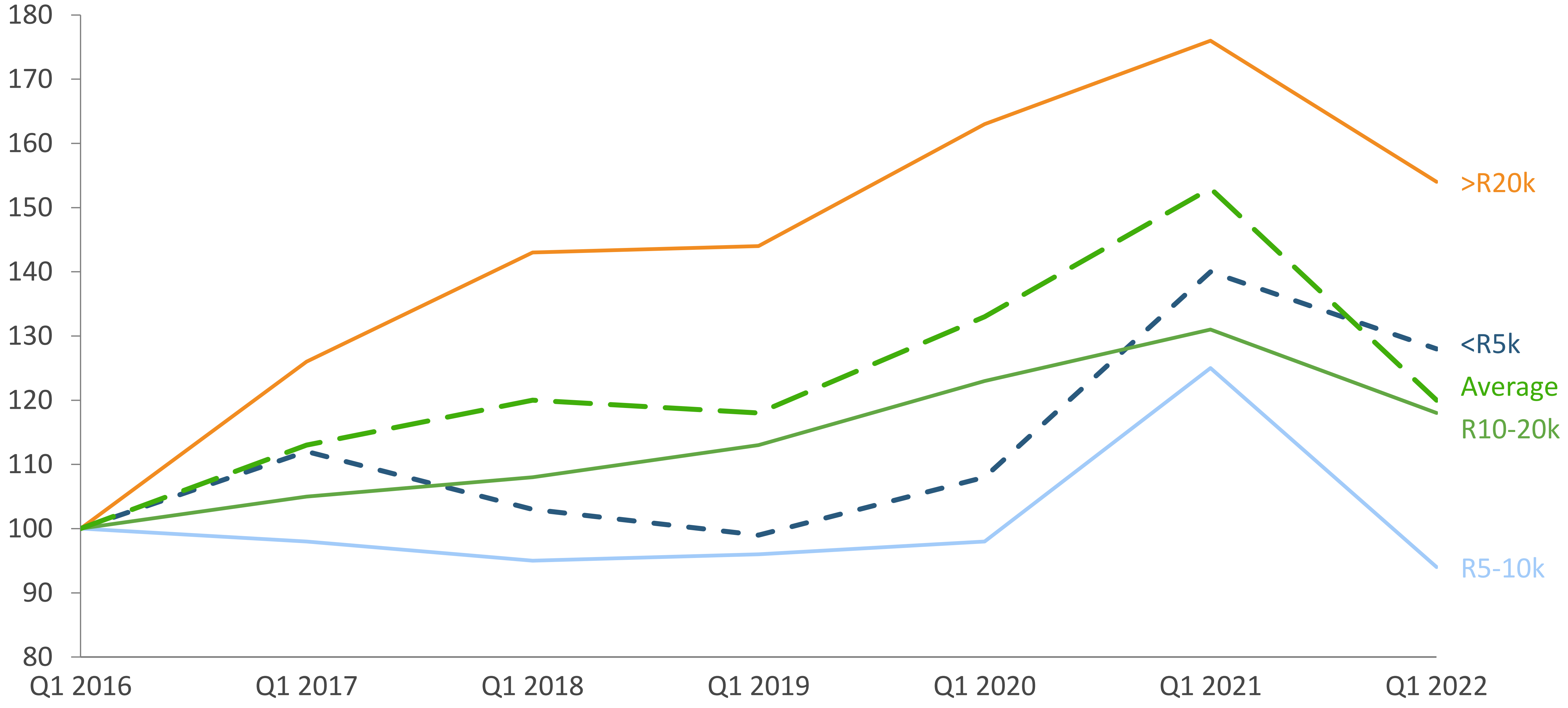


- **On average, net incomes were flat in the last five years; during the same period inflation was 31%**
- **This means consumers had 31% less disposable income in 2022 compared to 2016**

Source: DebtBusters for income information; Stats SA for inflation information

…resulting in the need to supplement this income with unsecured borrowing. On average, consumers have 20% more unsecured debt in 2022 compared to 2016, those taking home R20k or more have unsecured debt levels that are 54% 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 20% higher than 2016 levels; for top earners the figure is 54%
- This indicates consumers continue to use unsecured credit to supplement their incomes

Source: DebtBusters

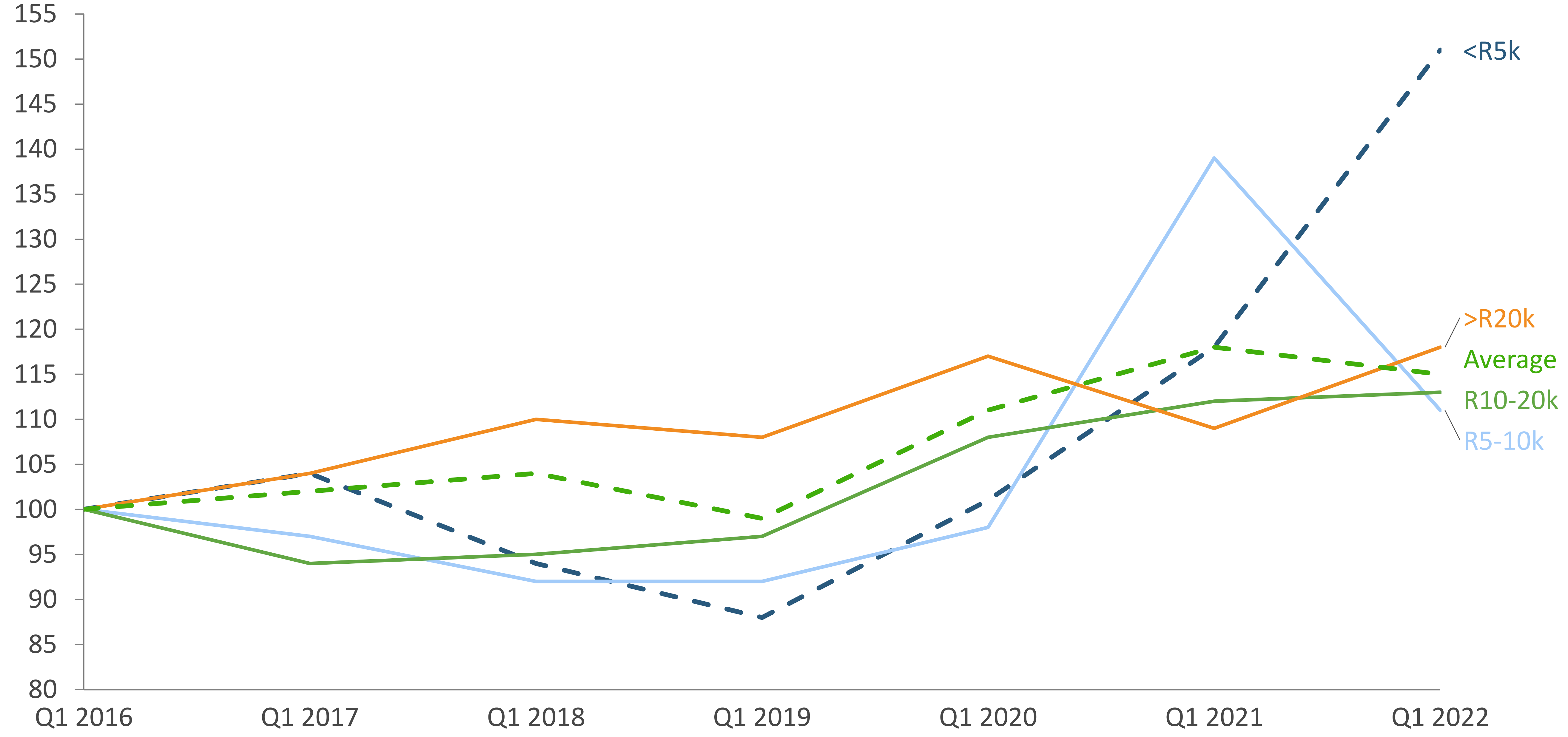
Total debt levels (which include both secured and unsecured debt) have increased by 15% compared to Q1 2016; this increase is lower than inflation and much lower than unsecured debt growth

DEBT BUSTERS

Change in total debt levels per income band of consumers signed up in the quarter

Indexed to 2016 levels

2016 = 100

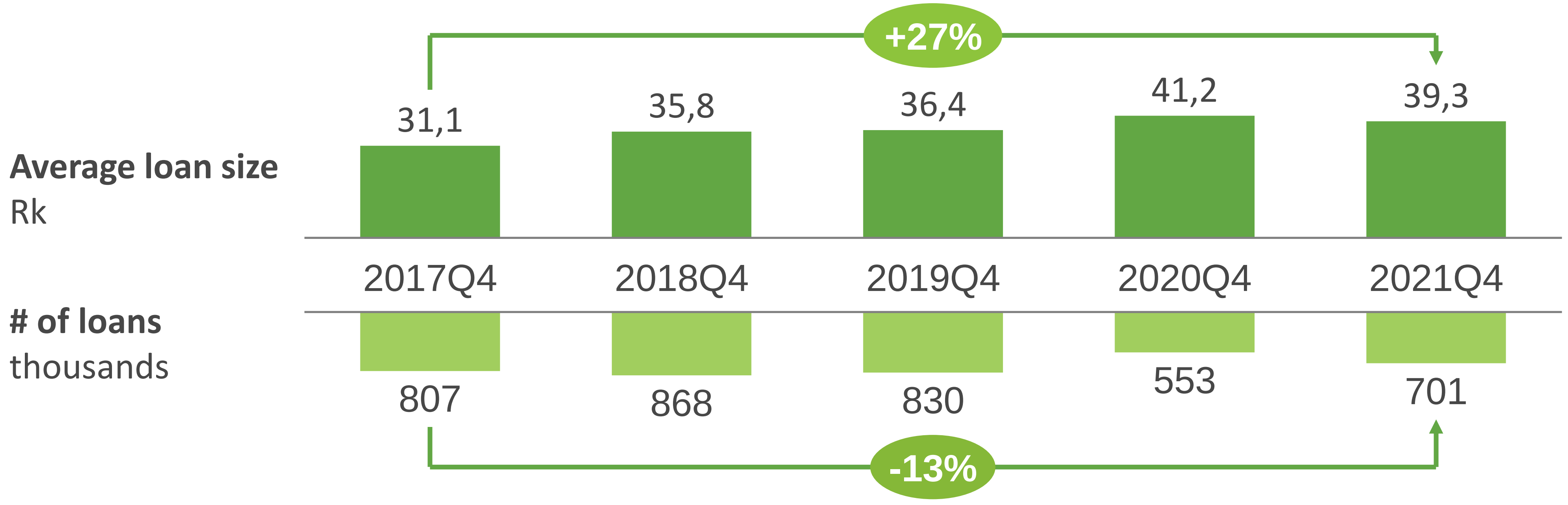


- **Compared to 2016, the total debt level increased by 15% on average**
- **Those taking home less than R5k had the largest increase in overall debt levels, which indicates the financial strain this income group is under**

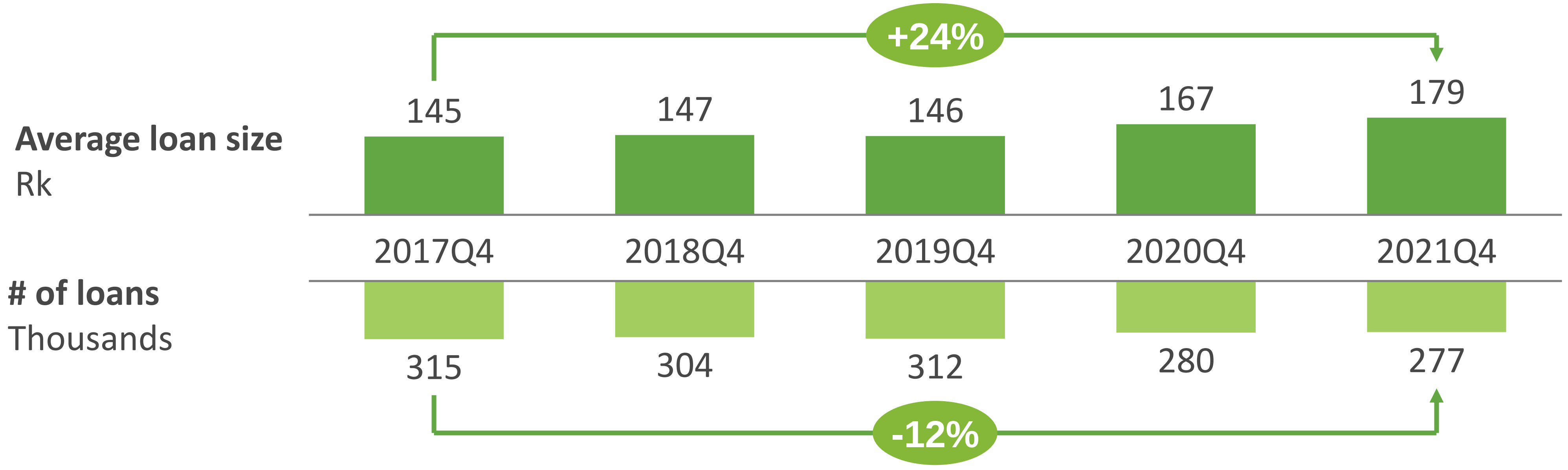
Source: DebtBusters

This growth in average debt is also supported by NCR data; average unsecured loan size grew by 27% whereas number of new unsecured loans shrank by 13% in the last four years

Unsecured loans granted, Q4 2021^



Secured loans granted, Q4 2021^



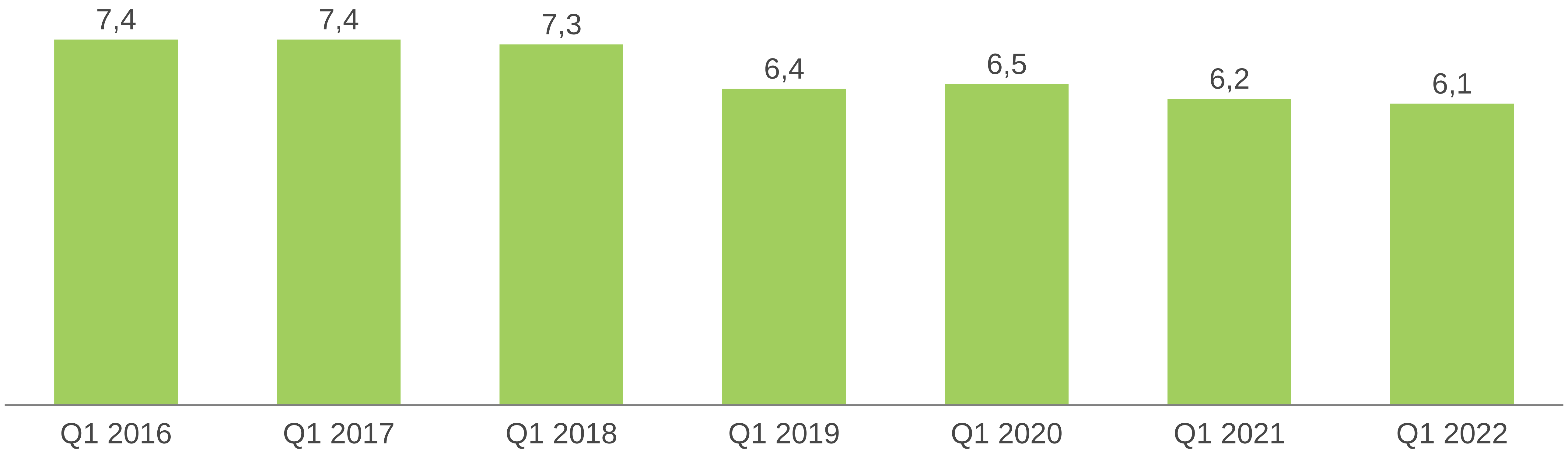
- There has been some recovery in the lending environment since lockdowns of 2020; however, volumes are not at the same levels as they were before 2020
- **Average unsecured loan size has grown by 27% in four years, whereas the number of loans has shrunk by 13%, indicating an ever-smaller pool of consumers are receiving unsecured loans**
- Average secured loan size has also grown, but by a smaller percentage (24%) compared to unsecured loans

^: Q4 2021 was the most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q1 2007 – Q4 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….

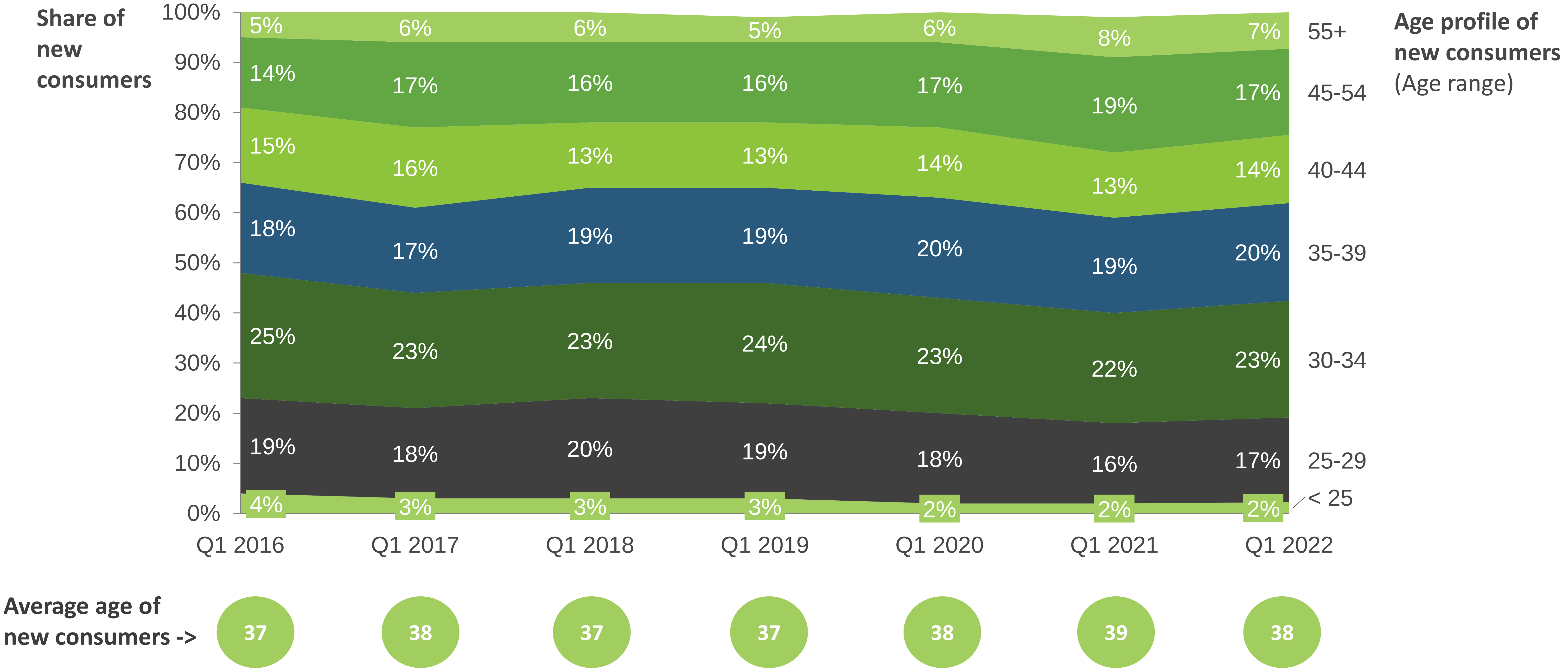
Credit agreements (open trades) per new consumer
Number, when consumers sign up with DebtBusters



Source: DebtBusters

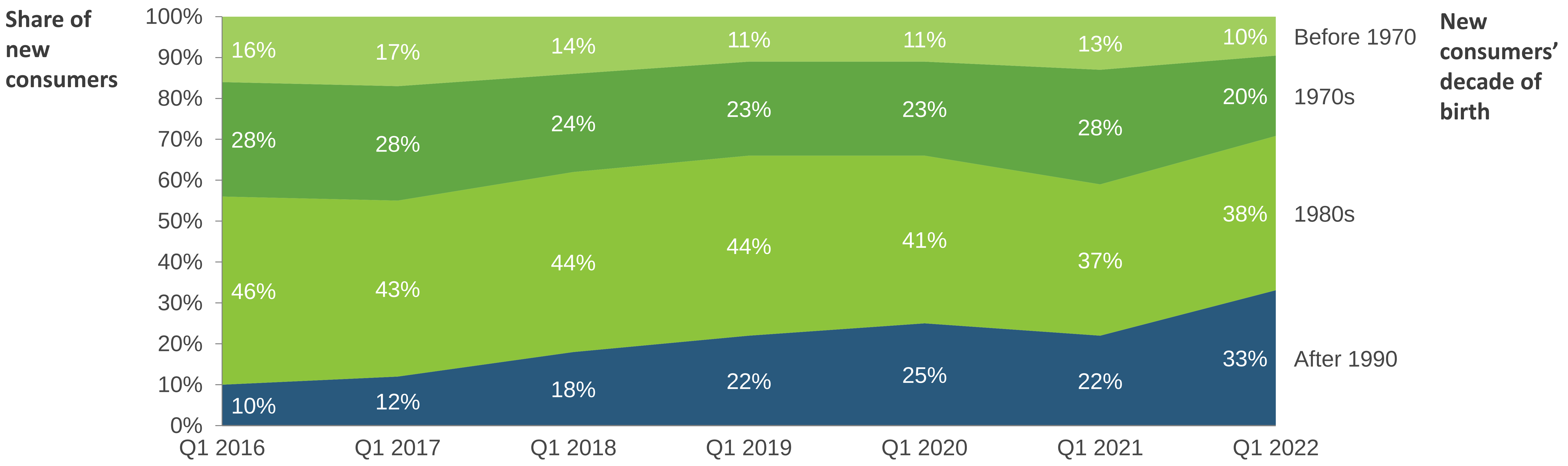
Consumer age profile indicates increasing financial stress in 45+ age group

While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 19% to 24% over the past six years, indicating financial stress is becoming more prevalent in this age category



Source: DebtBusters

There is increasing interest from male applicants, indicating men are becoming more proactive about addressing financial distress. For the most recent quarter, 57% of applicants were male



Share of consumers who are:

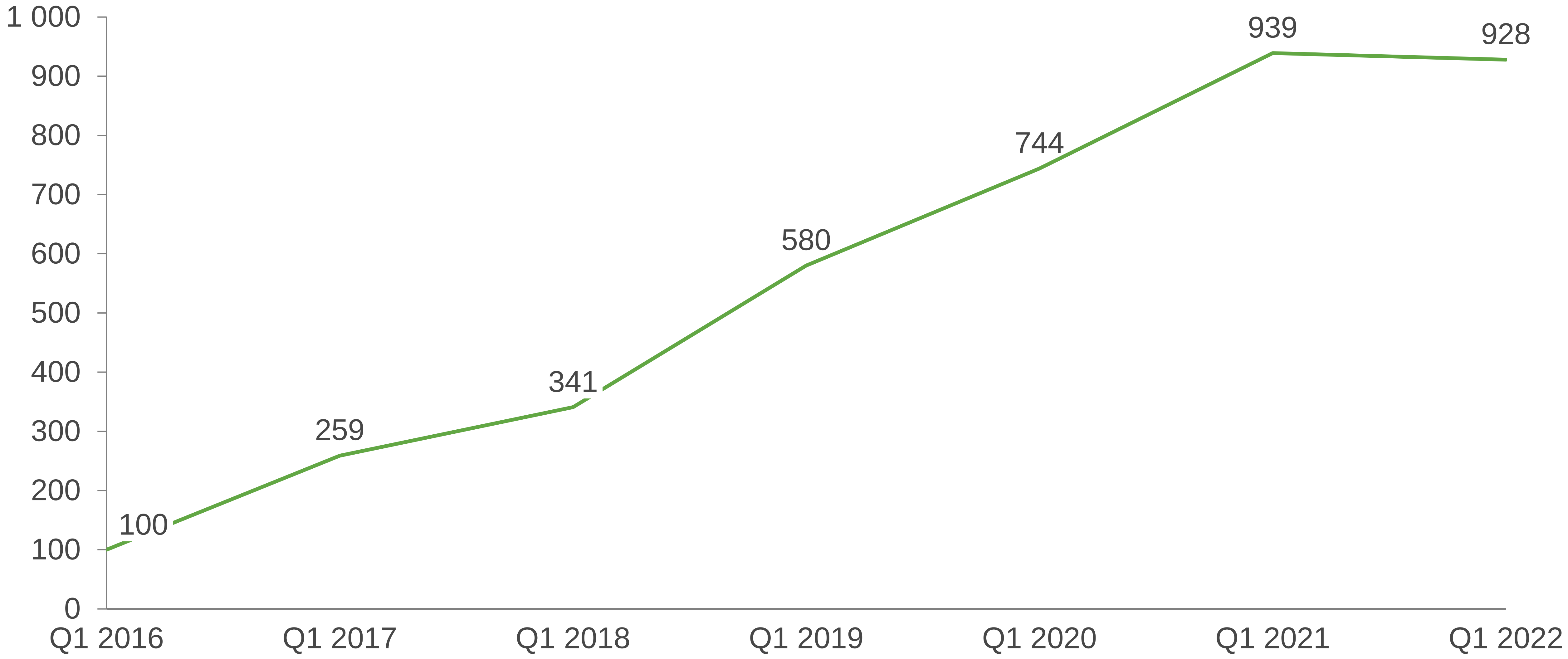
	Q1 2016	Q1 2017	Q1 2018	Q1 2019	Q1 2020	Q1 2021	Q1 2022
Male	48%	51%	55%	52%	56%	56%	57%
Female	52%	49%	45%	48%	44%	44%	43%

Source: DebtBusters

The number of consumers graduating from debt counselling (successfully receiving their clearance certificates) has increased by nine-fold since 2016; consumers who graduated in Q1 2022 paid over R400m to their creditors while under debt counselling

DEBT BUSTERS

Clearance certificates issued
Indexed to 2016 levels
2016 = 100



- **In Q1 2022, there were 9x more consumers "graduating" or getting clearance certificates compared to 2016 levels**
- **Consumers who received clearance certificates in most recent quarter paid over R400m to their creditors while under debt counselling**

Source: DebtBusters

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