Debt Index | Q2 2021

Executive Summary - Benay Sager, Head of DebtBusters

- In Q2 2021, **there was increased demand from consumers for debt counselling, with inquiries up 18% compared to the same period last year**. Many consumers are seeking help proactively as the after-effects of the nationwide lockdowns are felt and consumers' ability to borrow has narrowed.

- It is clear that the debt situation of SA consumers has further deteriorated recently. In absence of meaningful increase in real income growth, SA consumers continue to supplement their income with more unsecured credit. Average loan size has increased, and the number of debt obligations (open accounts) has decreased – both indicating that consumers are seeking help sooner. Compared to 2016, **those clients who applied for debt counselling in Q2 2021 had**:

  - **Negative real income growth**: Nominal incomes were 3% higher compared to 2016 levels, however when cumulative inflation growth of 24% is factored in for the same period, real incomes shrank by 21% over the five-year period.
  - **Higher debt to net income ratio**: Consumers consistently need to spend around 60% of their take home pay to service their debt before coming to debt counselling. More alarmingly, the debt-to-income ratio for all income bands has increased this quarter and is now at its highest levels ever: 122% across all income bands and 152% for those taking home R20k or more.
  - **Higher unsecured debt:** Unsecured debt levels were on average 32% higher than that in 2016 levels; for those taking home R20k or more, the unsecured debt levels were 49% higher. This is a direct result of erosion of net income (take home pay) – consumers need to supplement this erosion with unsecured credit.

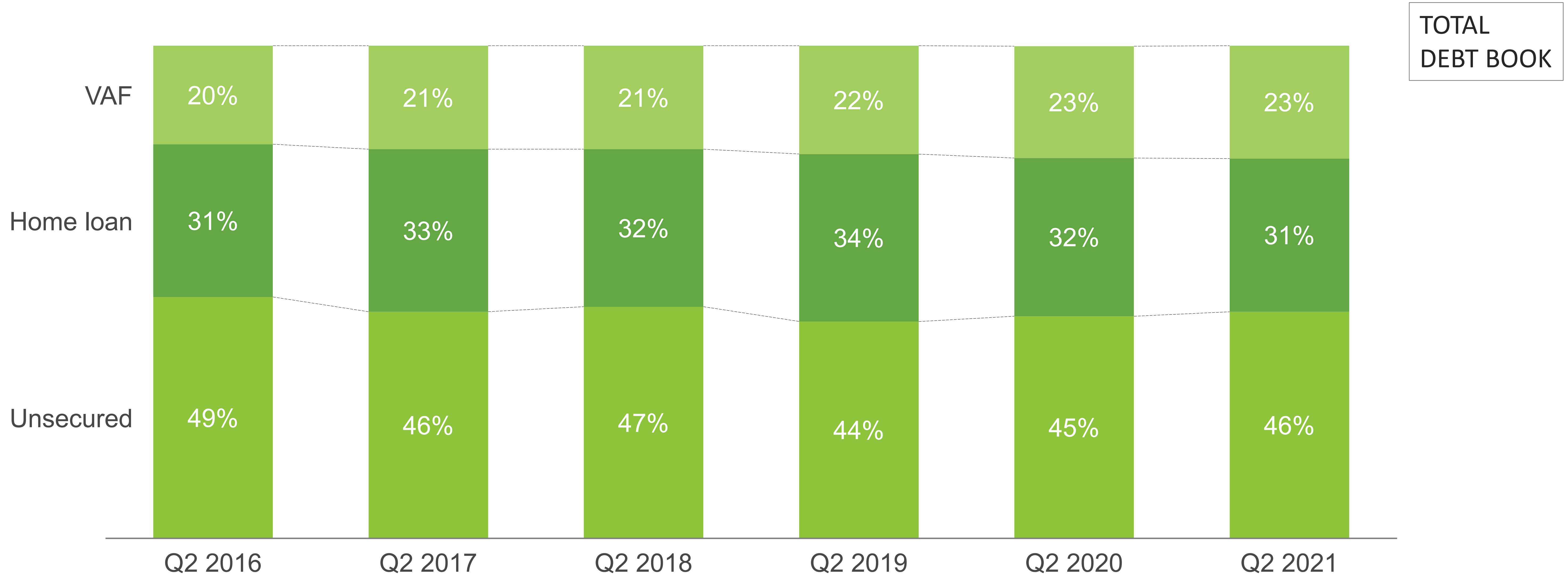
- With all this said, there are some positive news for consumers:

  - The number of clients completing debt counselling successfully has increased by sevenfold over the last five years. **Consumers who successfully completed debt counselling in Q2 2021 paid back R320m worth of debt to their creditors as part of the debt counselling process**.
  - In **Q2 2021, 56% 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.

- To help more consumers, DebtBusters now offers free-for-life tools on www.debtbusters.co.za – these include budgeting, debt self-assessment, and other tools. We encourage consumers to explore these tools and get the true picture of their debt situation.

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

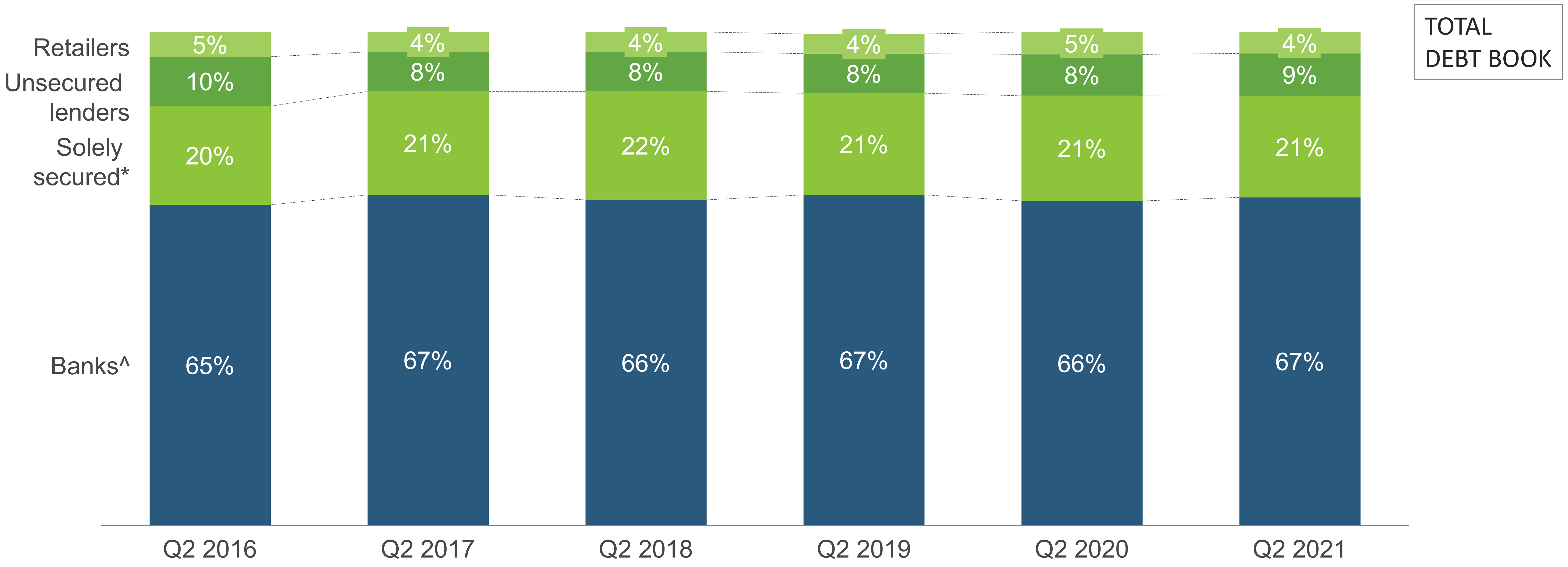


Breakdown of DebtBusters debt under management
Percent by type, by value at end of Quarter

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

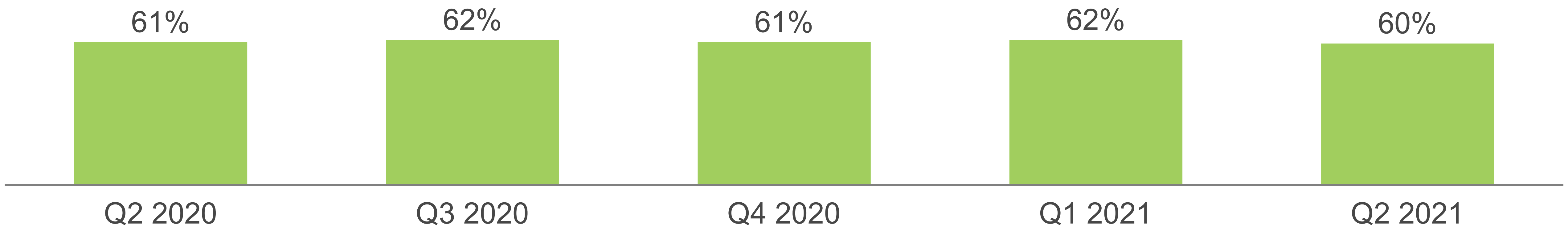


Breakdown of DebtBusters debt under management
Percent by type of lender, by value at end of Quarter

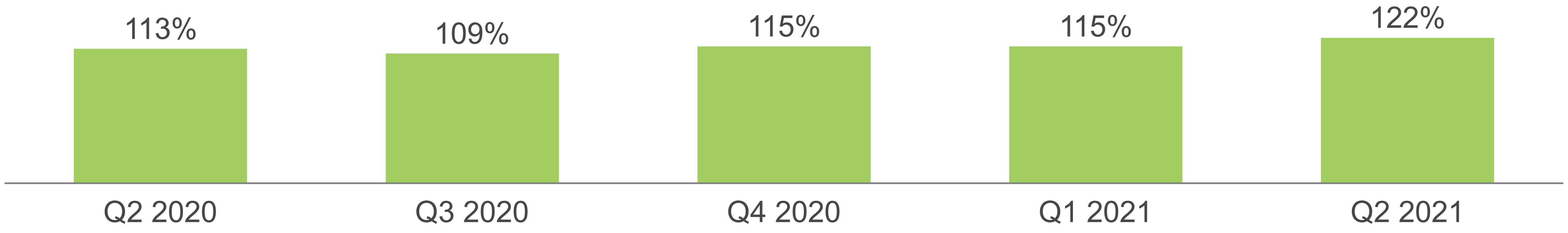
* Includes MFC, SA Homeloans, Wesbank, Mercedes and BMW, who grant secured credit only
^ Includes ABSA, African Bank, Capitec, FNB, Investec, Nedbank, Standard Bank
Source: DebtBusters

Compared to previous quarters, overall debt levels have increased substantially, where total debt to annual net income ratio is now 122%…

Original (median) monthly debt repayment to net income ratio has stayed steady...
Percent of net income that was required to pay debt before signing up with DebtBusters



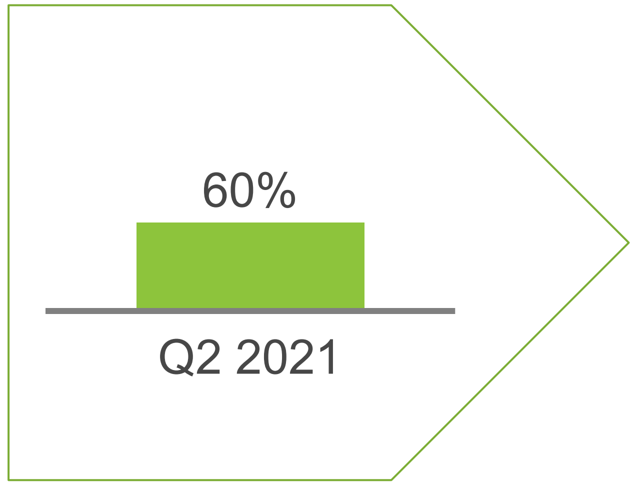
…however, quarter-on-quarter overall debt levels increased substantially
Total debt exposure to annual net income ratio, when clients sign up with DebtBusters

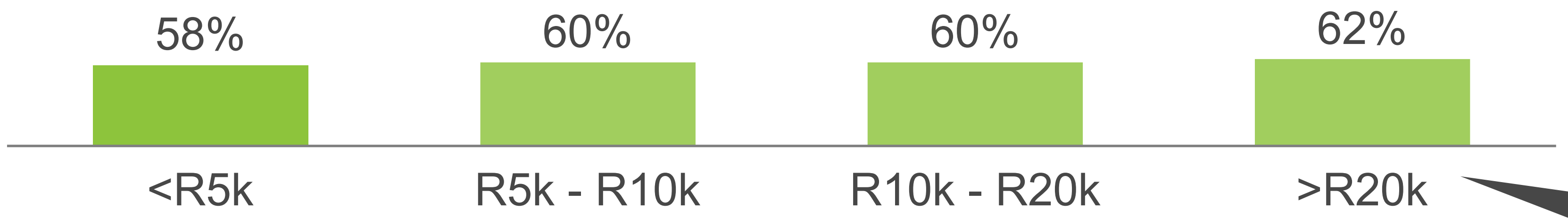


1 Median debt to net income ratio for all new clients signed up in that quarter
Source: DebtBusters

…for those taking home more than R20k per month the total debt to annual net income ratio is 152%…

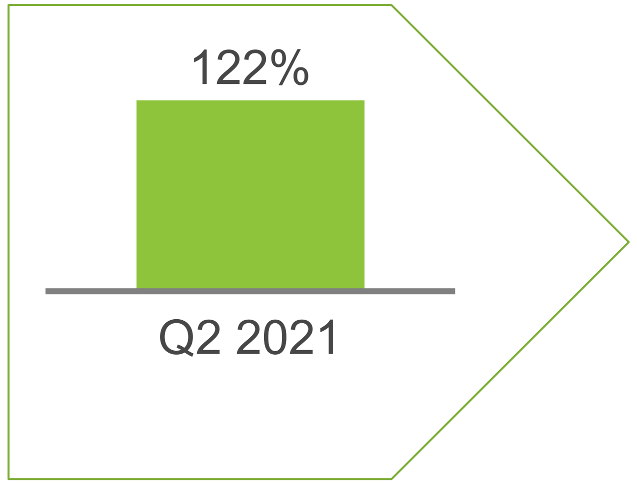
Original monthly debt repayment to net income ratio[1]
Percent of net income that was required to pay debt before signing up with DebtBusters

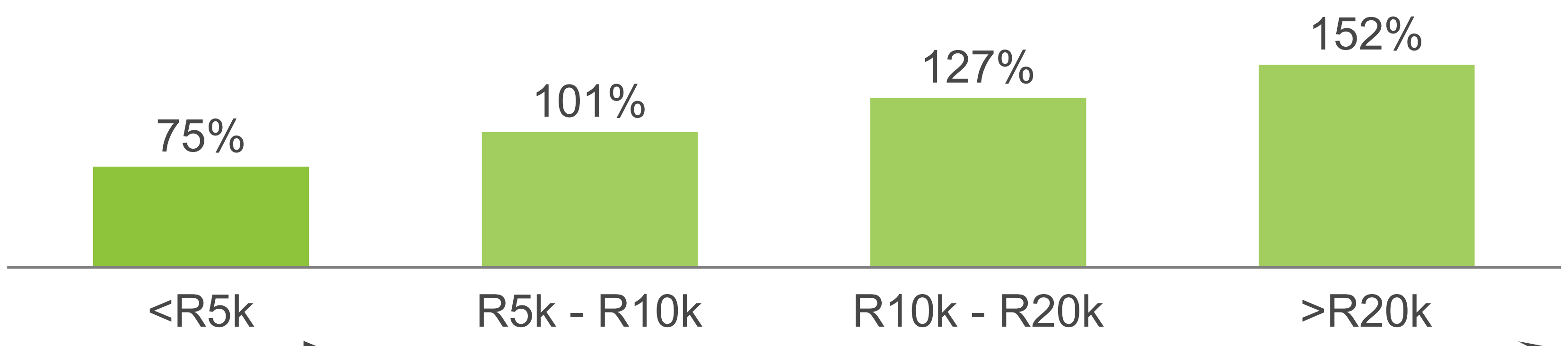




Highest monthly debt repayment ratio

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





Lowest overall debt ratio, but still require 75% of net income to pay debt per month, which means interest rates charged are highest.

Highest debt to income ratio

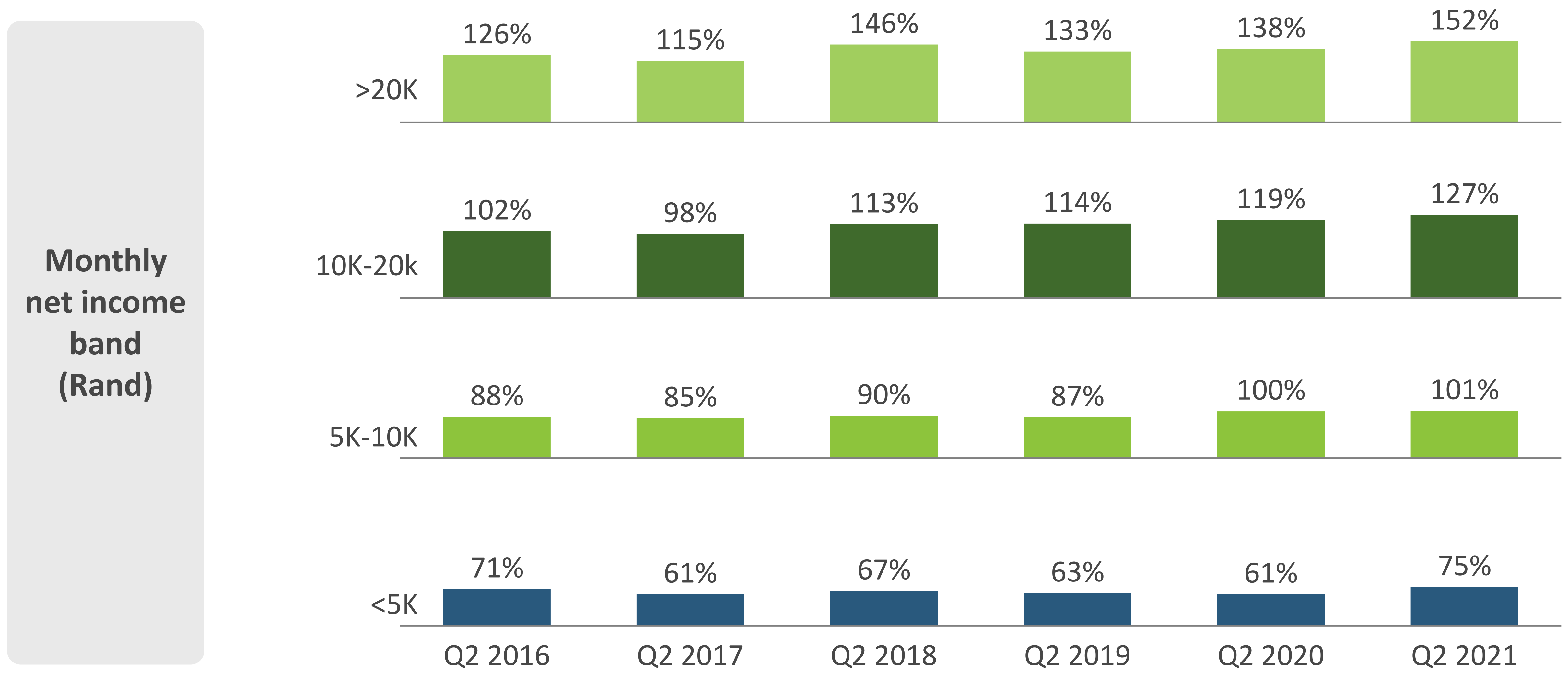
1 Debt to Income ratio is calculated by looking at the median in each quarter

Source: DebtBusters

…the debt to annual net income ratio for all income bands is at its highest level ever; those taking home R20k or more have a debt to income ratio of 152%

Original overall debt to annual net income ratio[1]

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



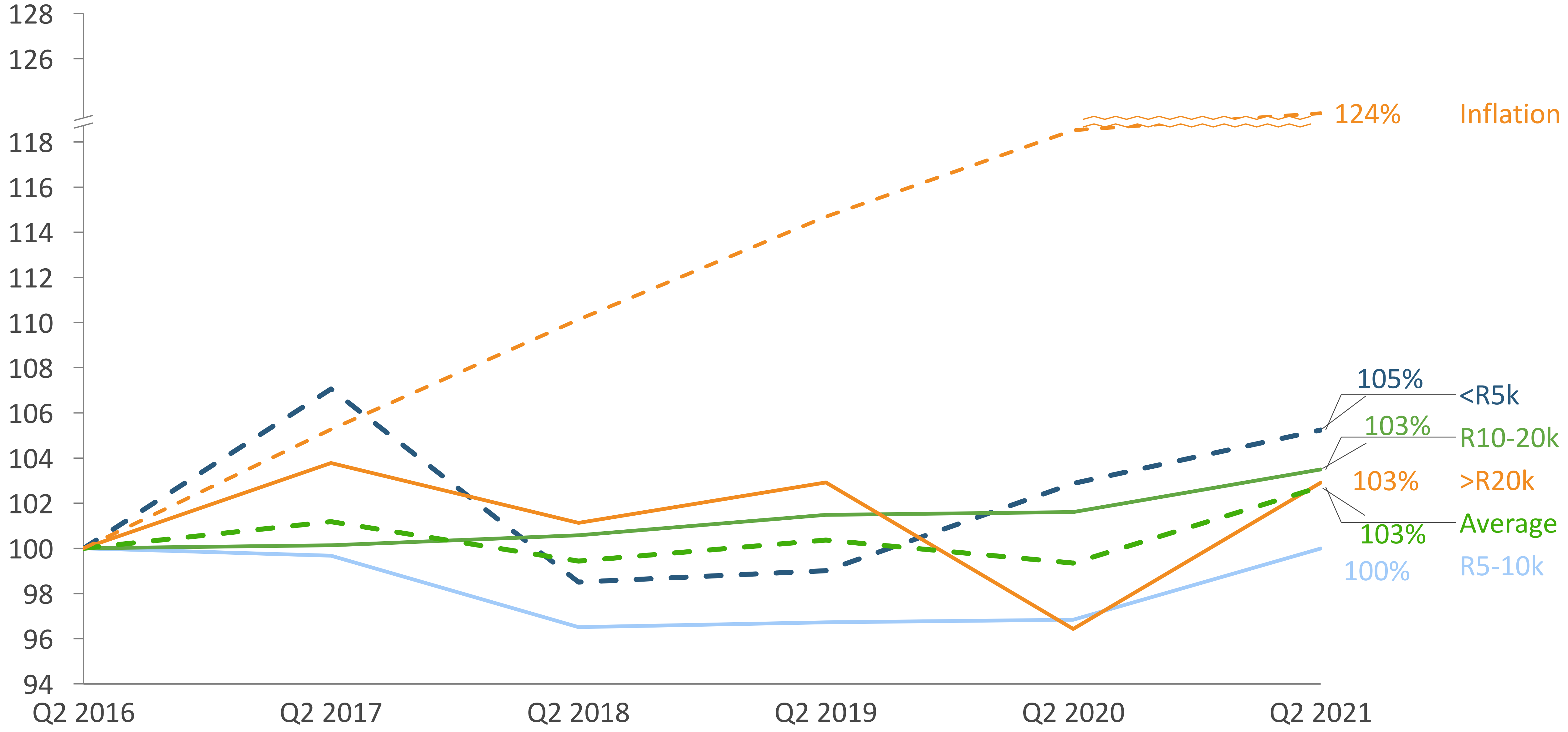
- Debt exposure worsened for all income groups
- Worst increases are for those taking home R10k or more – their debt to income ratio is 127% or more, which is the highest we have ever recorded

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

Source: DebtBusters

In the last five years, average net income growth was 21% behind inflation, meaning in real terms most South Africans had significantly less disposable income…

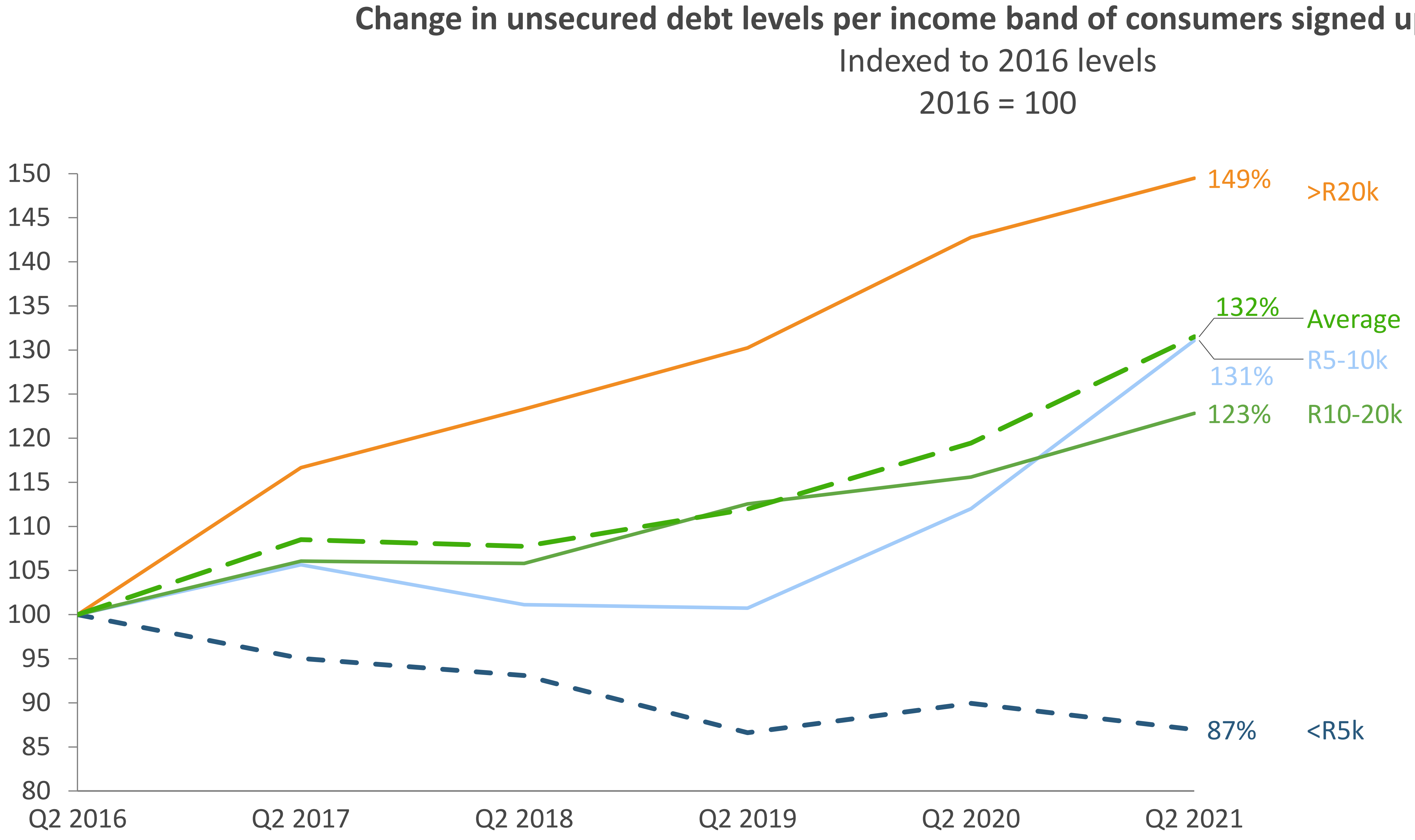
Change in net income levels per income band of consumers signed up in the quarter
Indexed to 2016 levels
2016 = 100



- Net incomes grew by 3% in the last five years; during the same period inflation was 24%
- This means real incomes shrank by 21% during the past five years

Source: DebtBusters: Stats SA

…resulting in the need to supplement this income with unsecured borrowing; those taking home R20k or more have unsecured debt levels that are 49% higher than 2016…



- Unsecured debt for the average client is 32% higher than 2016 levels; for top earners the figure is 49%
- This indicates consumers continue to use unsecured credit to supplement their incomes

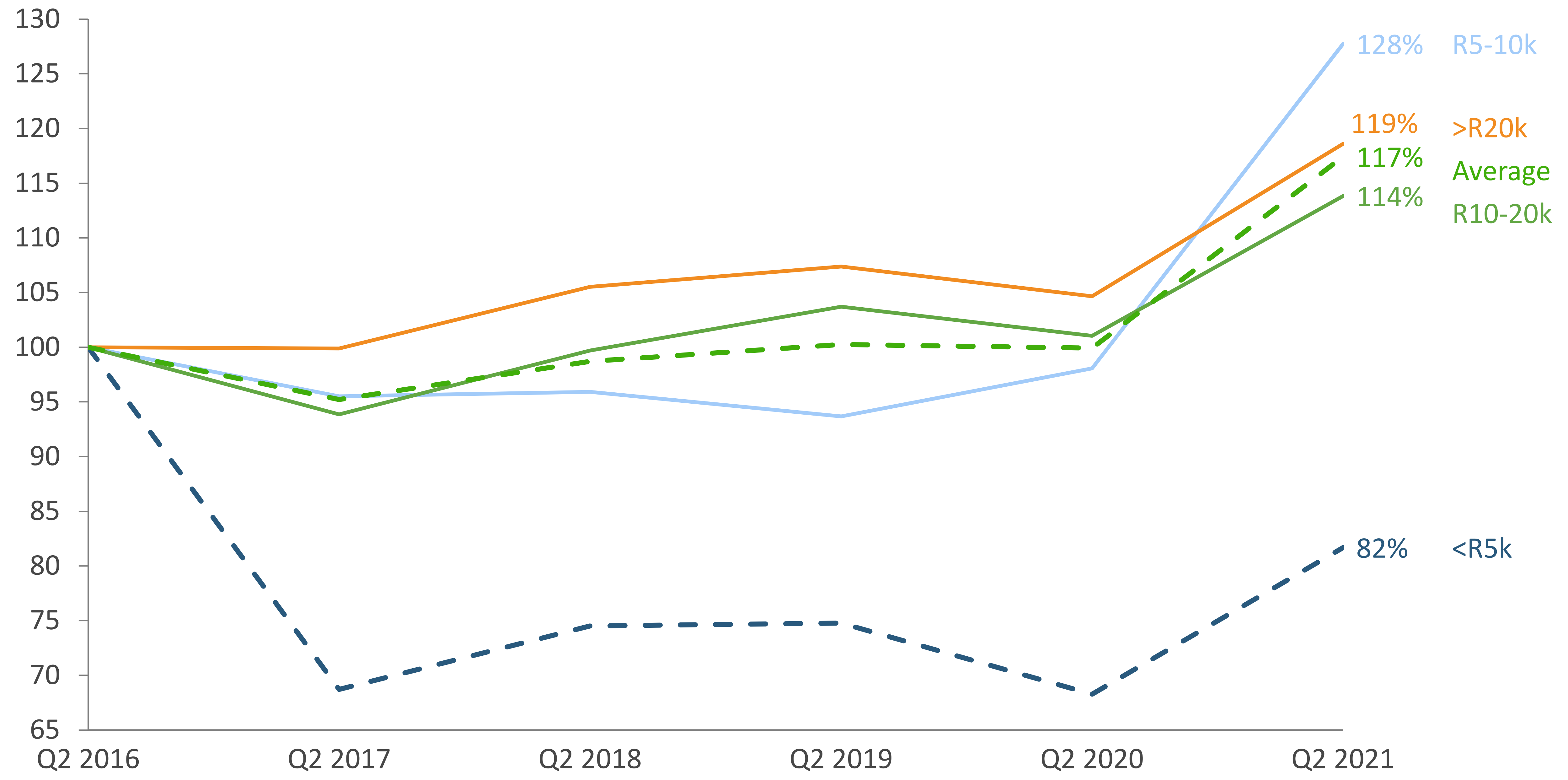
Source: DebtBusters

Total debt levels (which include both secured and unsecured debt) have increased by 17% compared to Q2 2016; this increase is lower than inflation and much lower than unsecured debt growth

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

Indexed to 2016 levels

2016 = 100

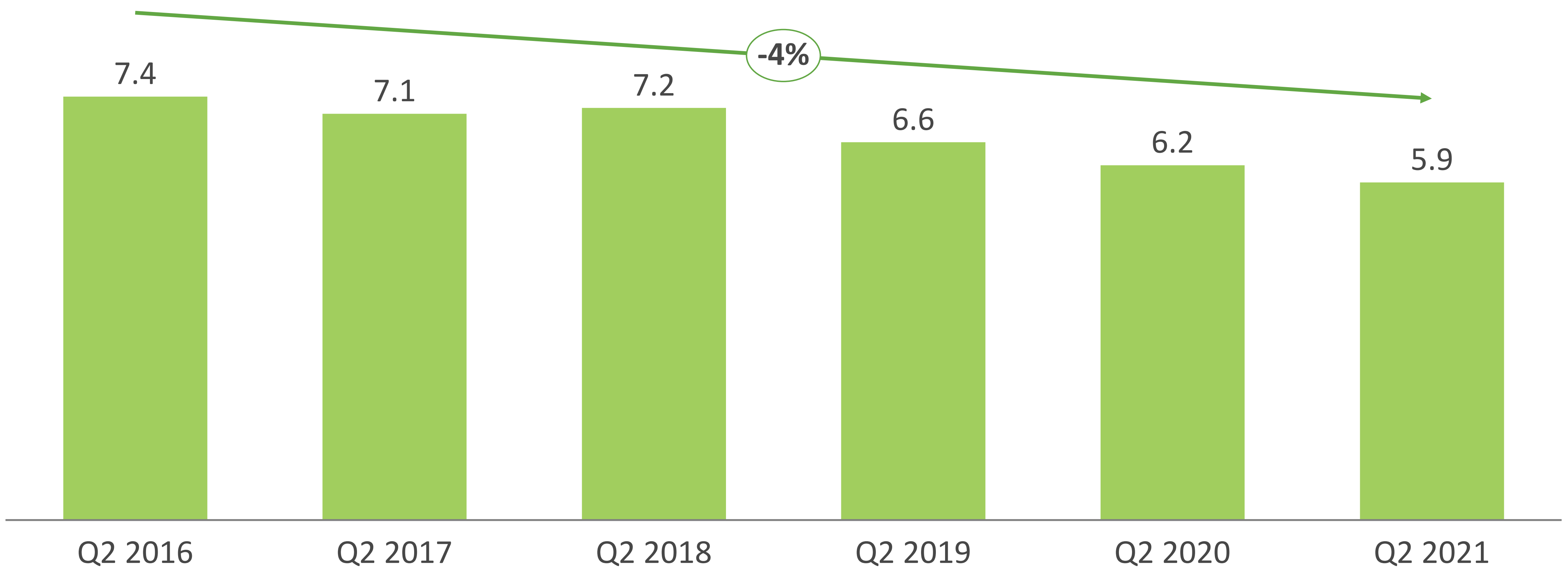


- Compared to 2016, the total debt level increased by 17% on average
- Those taking home less than R5k have lower levels of debt, indicating that lending to this group has been significantly reduced

Source: DebtBusters

The average number of credit agreements a consumer has continues to decline, indicating that consumers are taking out fewer loans and seeking help faster than before….

Credit agreements per new client
Number, when clients sign up with DebtBusters



Source: DebtBusters

…this decrease in number of loans per consumer and growth in average debt is also supported by NCR data; average unsecured loan size grew by 46% whereas number of new unsecured loans shrank by 31% in the last four years

Unsecured loans granted, Q1 2021^

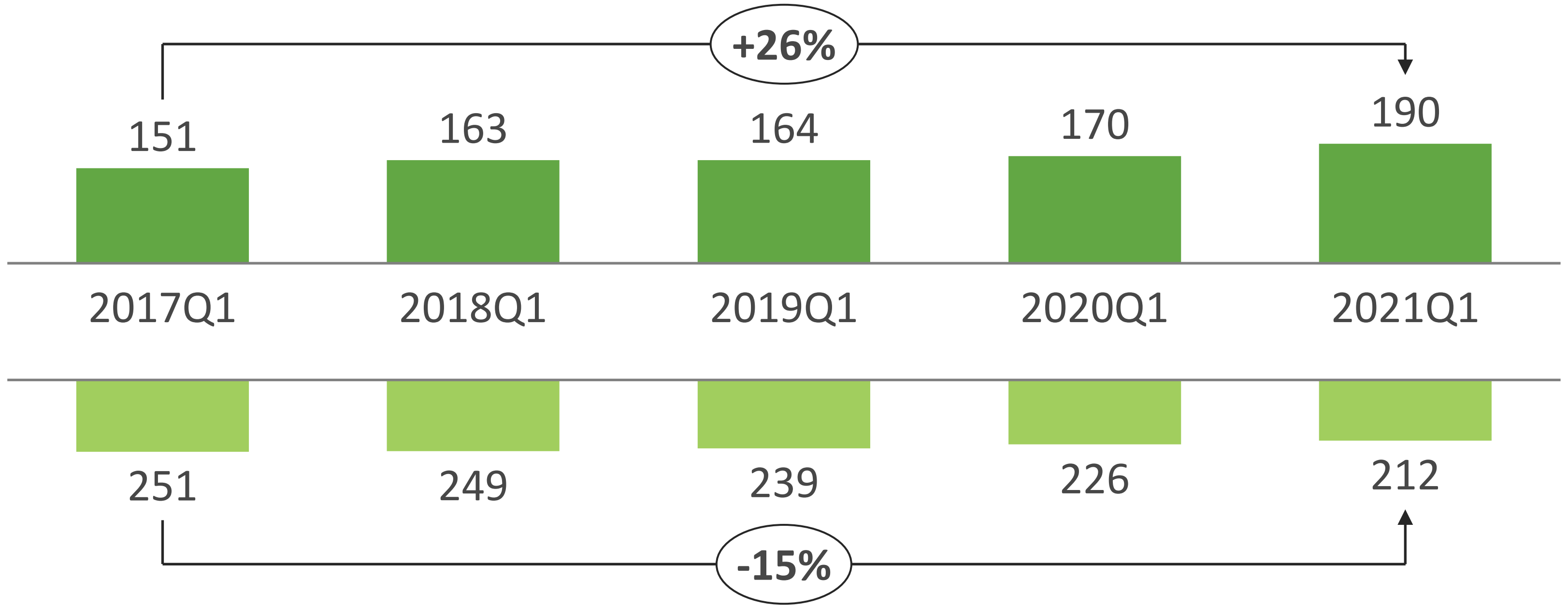
Average loan size
Rk

# of loans
thousands

Secured loans granted, Q1 2021^

Average loan size
Rk

# of loans
Thousands



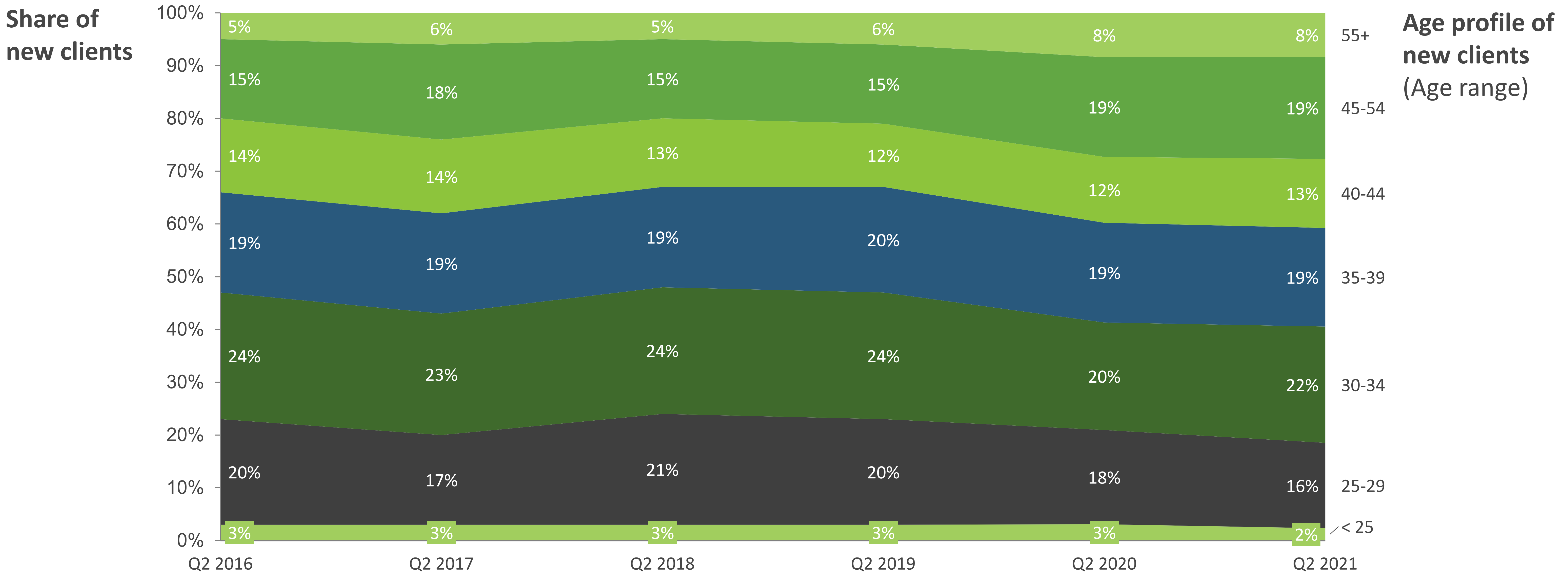
- Average unsecured loan size grew by 46% to R42k in the last four years. During the same period number of new unsecured loans granted decreased by 31%. This means fewer consumers are granted larger unsecured loans.
- This change was not as pronounced for secured loans: average loan size grew by 26% where as number of new secured loans grated decreased by 15%.

^: Most recent quarter available at time of publication

Source: NCR Consumer Credit Market Report Data Q2 2007 – Q1 2021

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

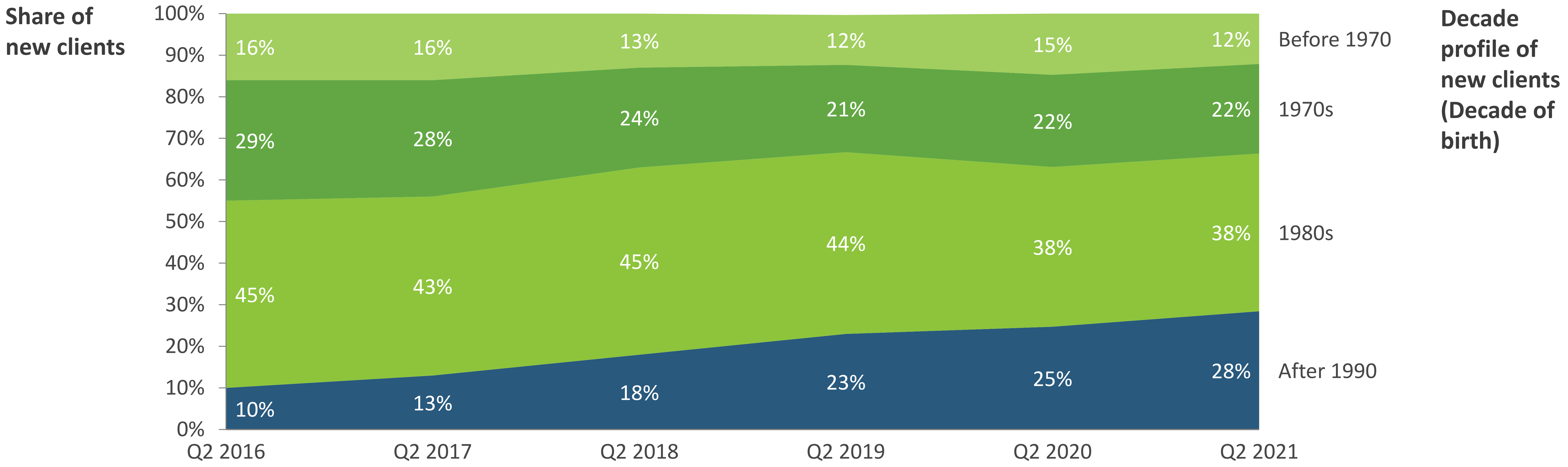
While the average new applicant age has been consistent, the share of applicants who are 45 or older has increased from 20% to 27% over the past five years, indicating financial stress is becoming more prevalent in this age category

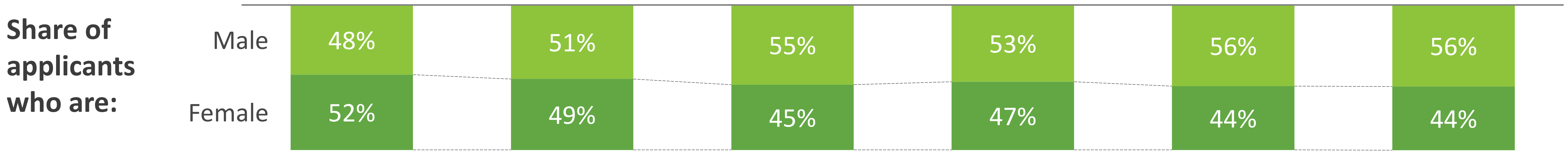


Average age of new applicants ->	37	38	37	37	38	39

Source: DebtBusters

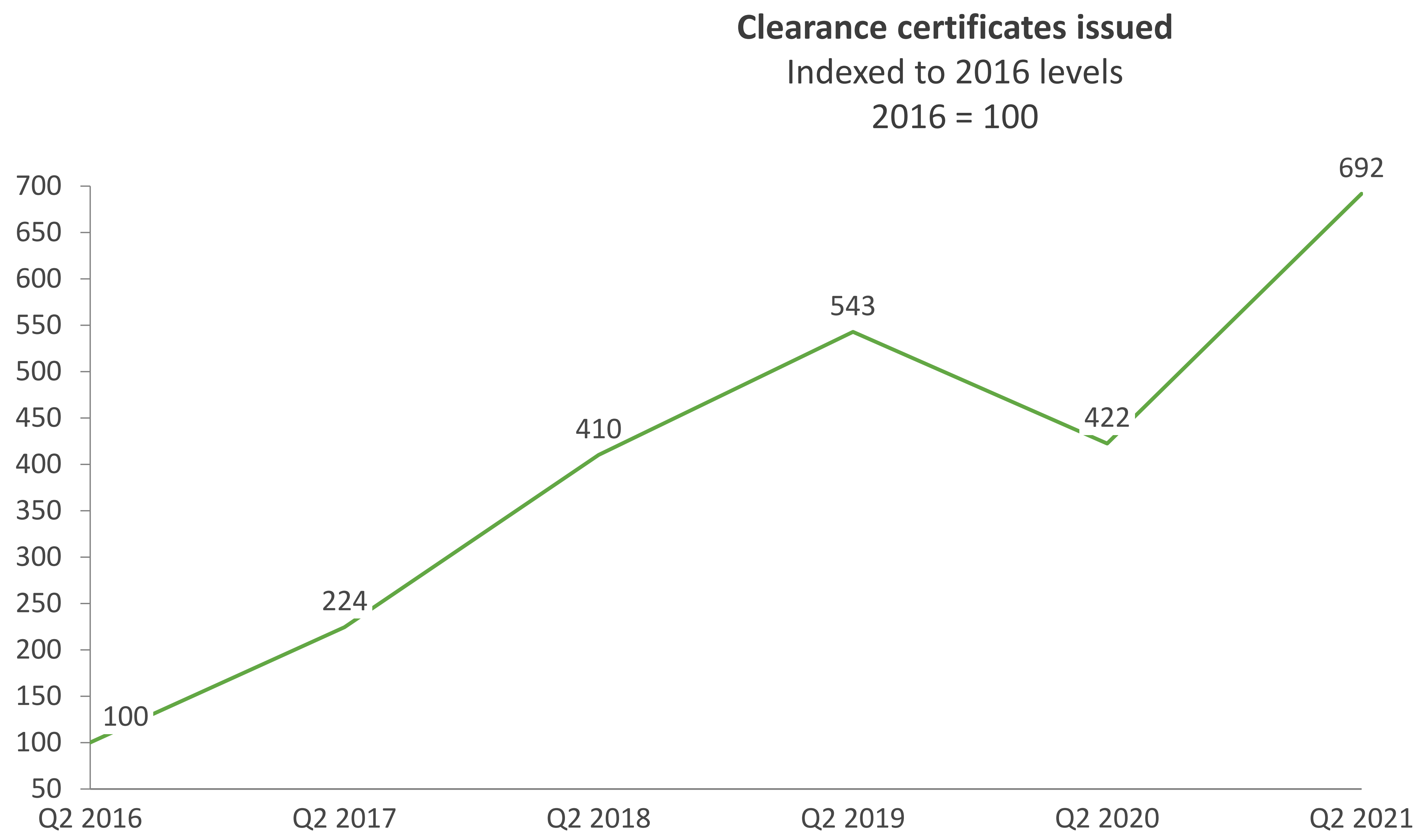
There is increasing interest from male applicants, indicating men are becoming more proactive about addressing financial distress





Source: DebtBusters

The number of consumers graduating from debt counselling (successfully receiving their clearance certificates) has increased by seven-fold since 2016; consumers who graduated in Q2 2021 paid over R320m to their creditors while under debt counselling



- 7x more consumers "graduating" or getting clearance certificates compared to 2016 levels
- Consumers who received clearance certificates in most recent quarter paid over R320m to their creditors while under debt counselling

Source: DebtBusters

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