

Life or Debt?



It's your choice,
use credit wisely!

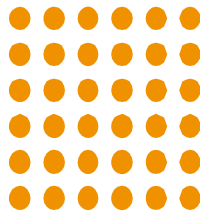
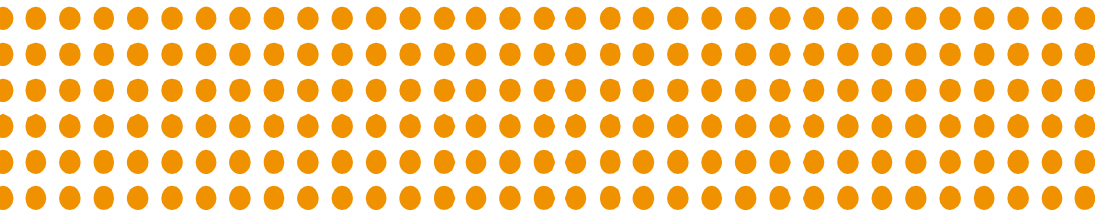
Using credit wisely means being smart and budgeting for the things you really need – not simply buying everything you want right now. You should be able to put a little money away every month to save for any unexpected expenses. Repay more than just the minimum amount on your accounts on time. Credit may seem convenient, but it is truly a matter of life and debt.

National Credit Act

- ❖ To promote a fair and non-discriminatory marketplace for access to consumer credit
- ❖ To promote responsible credit granting and use and for that purpose to prohibit reckless credit granting;
- ❖ To provide for debt re-organisation in cases of over-indebtedness

Impact of Financial Crisis & NCR initiatives

October 2009



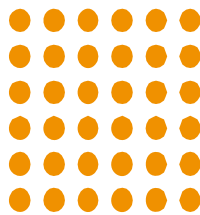
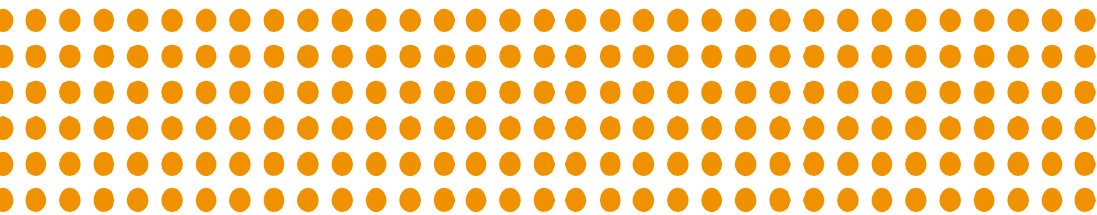
National Credit Regulator

Summary

– *impact of downturn*

1. The NCR statistics indicate a significant contraction in the supply of consumer credit, with a decline of close to 50% in the quarterly credit granted between the last quarter of 2007 and the first quarter 2009. The preliminary statistics for the June quarter indicate that the rate of decline may be slowing;
2. Our assessment of the impact of the financial crisis indicates that the highest risk lies with the middle and higher income groups. This relates fundamentally to categories of consumers who are both at high risk of job loss or income reduction, and subject to high debt levels. The highest risk lies with the group earning between R6,000 and R17,000 per month, but the categories immediately below and immediately above are also at risk;
3. We identified three priority areas for potential support to consumers, being (a) a national campaign to provide consumers with relevant information and advice, (b) specific assistance to consumers who experience job loss or a reduction in income, provided through debt counsellors, and (c) special measures to protect primary residential properties;
4. It is of the utmost importance that the necessary legal amendments be affected, to ensure that debt counselling provides the protection intended by the Act. Increasing backlogs are posing a serious threat to the successful implementation of debt counselling.

Statistical overview of the consumer credit market in South Africa



National Credit Regulator

Statistical overview of the consumer credit market in South Africa

Observations based on statistics received from Credit Bureaus & Credit Providers (including banks)



Consumer Credit Market in South Africa

Credit Providers



17,8 million
Credit Active Consumers



**R1.1 trillion
consumer credit**

*3,971 credit providers
32,311 branches*



1,252
Debt Counsellors

Impact of financial crisis

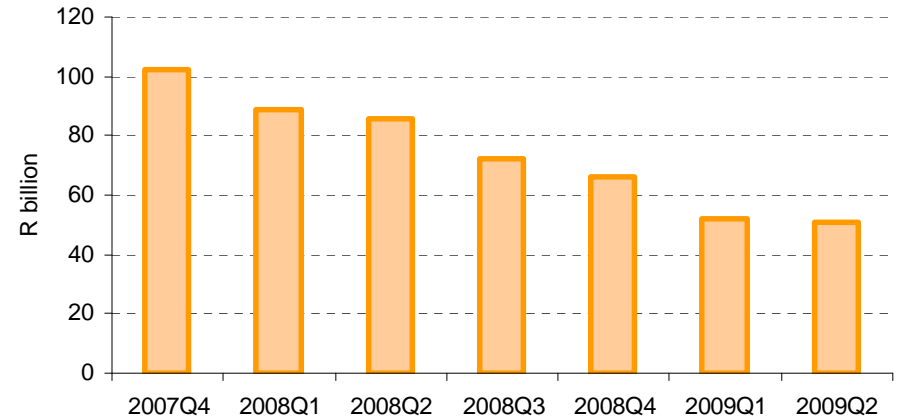
Dramatic decline in credit granted

R50.9bn credit granted in 2009Q2,
down from R102bn in 2007Q4

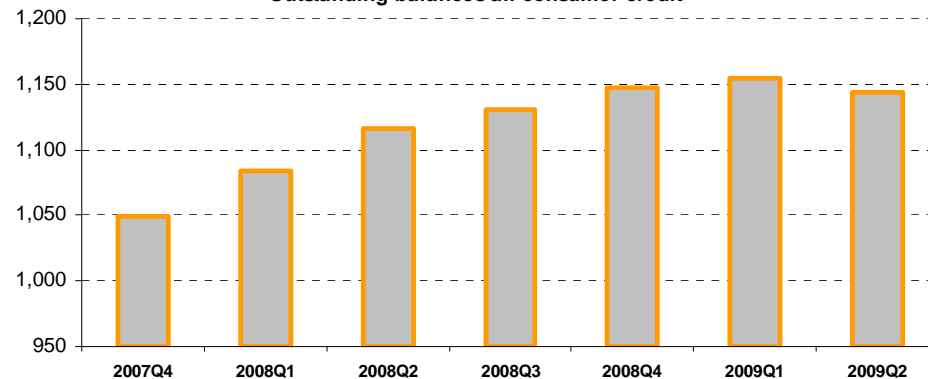
Strong decline in quarterly credit
granted, stabilising in last quarter.
Slowdown in loan book growth,
now declining.

Most significant declines are in
mortgages & motor vehicles

Gross credit granted per quarter



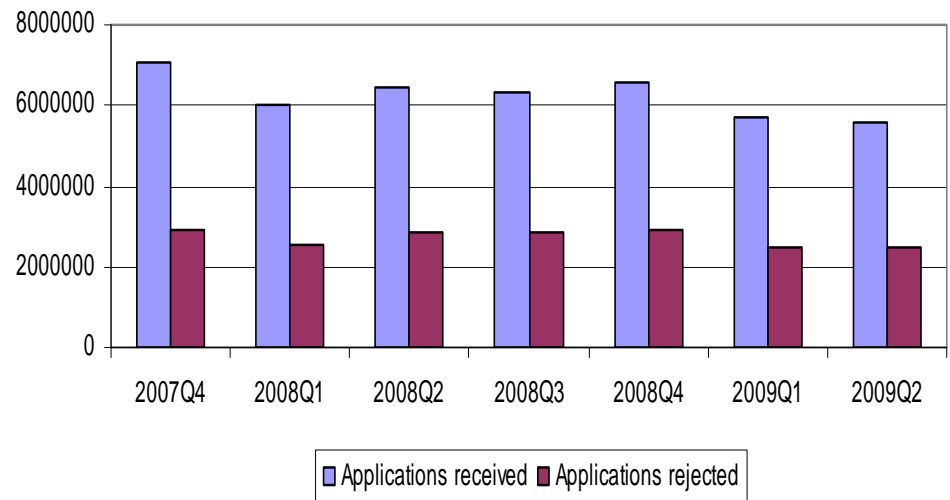
Outstanding balances all consumer credit



Application & rejection rates

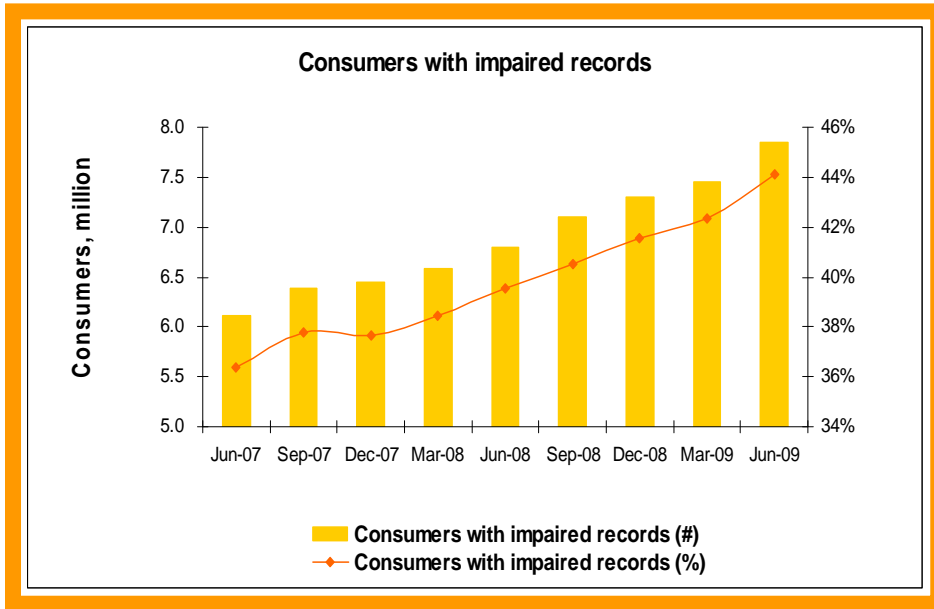
- ❖ Decline in applications for consumer credit, caused both by consumer caution & reduced marketing activity
- ❖ Aggravated by increase in banks' rejection rates, but signs of improvement in latest quarter
- ❖ **Reduced applications + increase in rejections = significantly reduced credit approvals & disbursements**

Applications received vs applications rejected



Credit Bureau Statistics

Debt stress & defaults



Credit performance of 17.8 million consumers, as reported by credit providers to bureaus. Covers both credit agreements and all other forms of debt or financial obligations

Ongoing increase in consumers with impaired records, from 36% in Jun'07 to 44% in Jun'09

More than 50,000 people / month being added to the "impaired" category

1.7 million have fallen into arrears since June 2007

Impact of financial crisis on consumers



The impact of the global economic crisis on the
South African consumer credit market

A report for the National Credit Regulator

May 2009

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F E A S i b i l i t y

Financial Economic Analysis Strategy

*Research project by
Feasibility Consulting,
engaged with credit providers, selected
DFIs & independent economists*



NCR
National Credit Regulator

Looked at job losses & levels of debt for different income categories

Group 1 = informal sector, domestic workers, social grant recipients & agricultural sector. Earning less than R1,800 per month.

Group 2 = entry level workers in public & private sector, earning R1,800 to R6,000 per month

Group 3 = middle income, R6,000 to R17,000 per month

Group 4 = high income, earning more than R17,000 per month

Assessed impact of:-

- Potential job losses,
- Debt burden

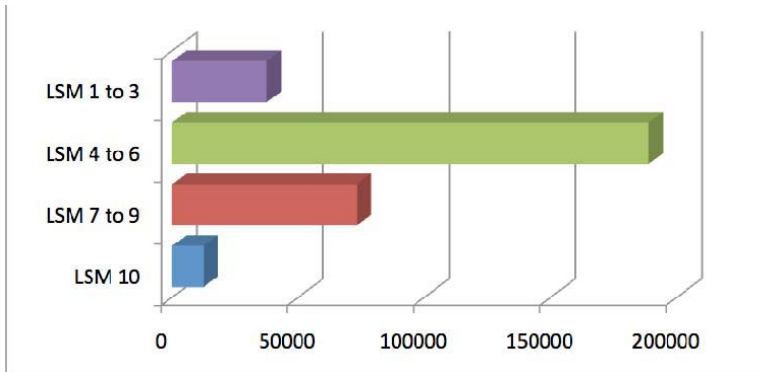
Assessed 2 scenarios, 'moderate impact' and 'severe impact'.

Doing further research on

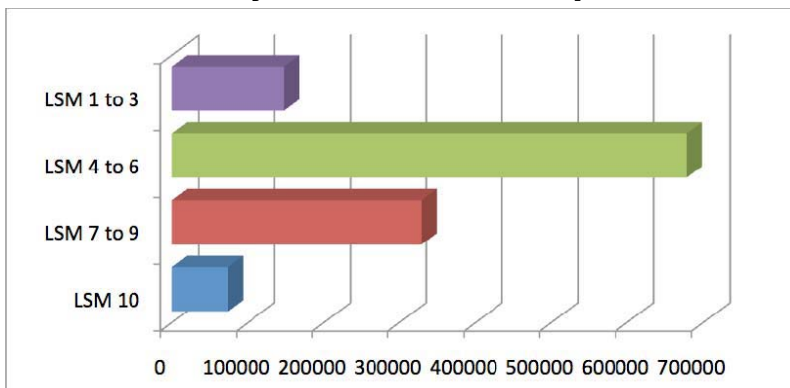
- Loss of income
- Impact on SMEs

Job losses under limited & severe impact assumptions

Job losses by LSM – limited impact



Job losses by LSM – severe impact



- ❖ Researchers estimated job losses under limited & severe impact scenarios
- ❖ R1,800 to R6,000 monthly income most affected, with R6,000 to R7,000 next
- ❖ Reduction in income a further factor, NCR doing further work to estimate impact

Summary: impact on different income categories

Income	Risk of job losses	Debt stress	Potential debt fall-out
Gr 1 - low 0 to R1,800	Moderate	Low to moderate	Low, getting better
Gr 2 - R1,800 – R6,100	High	Moderate to high	Moderate/ high, debt improving
Gr 3 – R6,100 – R17,000	Moderate to high	High	High
Gr 4 – R17,000 +	Low, but risk of income loss	High, but have options	Moderate

Low income groups least aware of protective measure, whether counselling, UIF or others. Awareness programme important – also on ‘self-protection strategies’

Debt counselling huge role in resolving cases of reduced income – legal problems major obstacle
Debt counselling little value in case of job loss, no income to service debt ... some form of personal bankruptcy required

- ❖ Over time, short & medium term debt levels reduce automatically
- ❖ Mortgage & vehicles greater threats. Takes long to adjust. Also the impact of loss in asset value if repossessed.
- ❖ Protection of housing a priority, as is insurance

Summary:

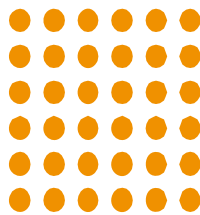
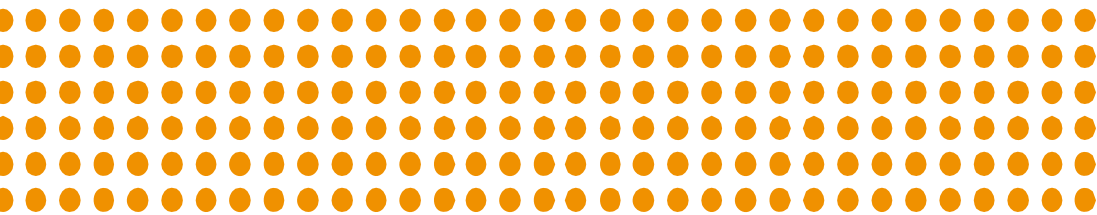
Response to consumer debt stress

- ❖ Important to define worst case scenario & take this into account in planning. More attention required to support to households.
- ❖ Proposed components for a response to consumer debt stress.
 - National awareness campaign, focus on consumer behaviour – joint national programme (UIF, insurance, counselling etc)
 - Debt counselling support to ensure it is an effective intervention (including required legal amendments)
 - Develop special measures to protect primary residences (consider also protection of priority insurance)
- ❖ Engaging with NEDLAC on implementation of response

Debt Counselling

Role of debt counselling in assisting consumers to deal with the impact of an economic down-turn and debt-stress

Problems which are preventing effective implementation



National Credit Regulator

Importance & role of debt counselling

- ❖ Role of debt counselling, in the context of the lack of appropriate personal insolvency mechanisms in SA.
 - SA does not have appropriate “personal insolvency mechanisms”. Countries like US, UK and most of EU have range of different mechanisms to deal with personal insolvency. The mechanisms in SA are outdated and ineffective.
 - As result, when debt stress occurs there is no effective mechanisms to achieve a “settlement”.

- ❖ The implications for households
 - Negative social consequences. No mechanism to resolve a personal financial crisis and enable an individual to get rehabilitated.
 - Without relief, the household income is permanently reduced through debt payments. Basic household needs are not met and social welfare payments are diverted to debt servicing. It impacts on school fees not being paid, arrears on municipal service payments and a multitude of related areas.
 - Households turning to debt counsellors for assistance, but in many cases this is not the appropriate remedy.

Causes of debt stress & implications in the current environment

❖ Borrowers

- Reckless & aspirational borrowing,
- External factors – loss of income / relationships breaking up / death and sickness

❖ Credit providers & consequences of hard selling

- Besides the “recklessness of consumers”, too little attention being given to the extent to which hard selling by credit providers contribute to over-indebtedness. Solicitation by call centre agents & misleading disclosure contributes to consumers taking on debt which they cannot afford.
- Resisting the implementation of debt counselling

❖ Challenges in current environment & financial crisis

- Debt counsellors are confronted with the pent-up demand for assistance, which had built up over many years.
- We also have the additional impact of the financial crisis. The impact of job loss and reduction in income. Eg reduced overtime; sales commissions; year-end bonuses etc. Thus, even people who were not over-indebted are affected.
- Yet, staff of credit providers also under pressure, both from sales targets and from collection targets. The challenge is to recognise these realities, and to find mechanisms to reconcile the conflicting claims.

A greater level of engagement between debt counsellors and credit providers is critical for successful implementation of debt counselling.

Debt Counselling

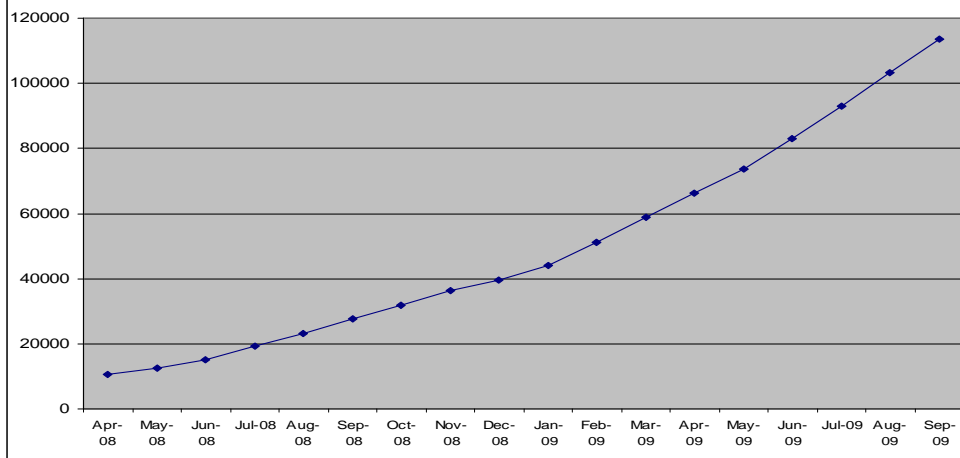
Case studies to illustrate profile of consumers

Consumer	Net. Income	Distributable Amount	Monthly Instalments	Credit agreements	Total exposure	Reason for over-indebtedness
A Auditor	R13 539	R7 000	R21 153	16	R300 407	Excessive family spending
B Medical doctor	R18 503	R11 357	R63 423	10	R1 408 404	Business collapsed
C Ex-employee of bank	R59 000	R43 000	R87 568	19	R6 177 329	Irresponsible lending
D Property Trader	R36 315	R19 225	R200 000	15	R22 350 000	Business collapsed
E Nurse	R5 155	Nil	R5 845	10	R80 000	Irresponsible lending
F Clerk, spouse unemployed	R5 512	R500	R4 500	10	R46 000	Irresponsible lending
G (Taxi owner,	R25 000	R17 000	R42 000	15	R1 614 226.05	Living beyond his means

Debt Counselling

current position

Debt Counselling Apps



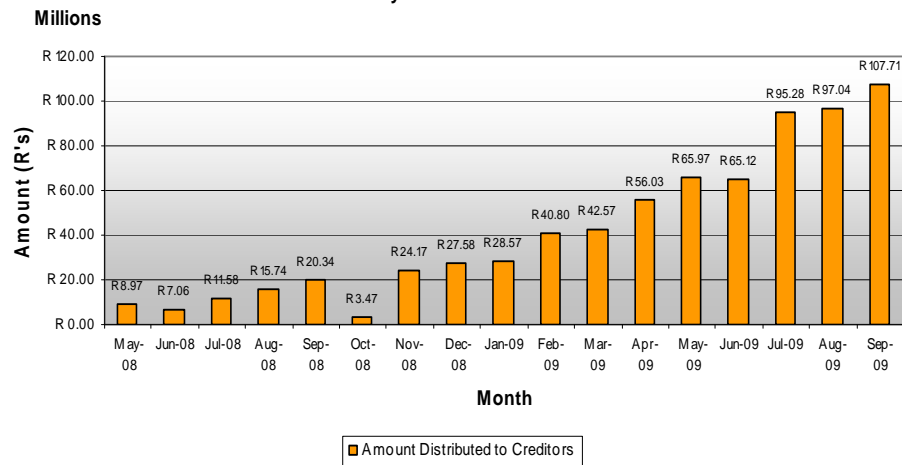
❖ 1,252 debt counsellors registered, and 5 independent payment distributors

❖ 116,727 applications cumulatively, growing at 9,000 pm; Mag Court process completed for approx 6,000. After terminations, cases in court system, etc, 'real backlog' approx 70,000.

❖ Monthly distributions to creditors now R107m for 27,000 consumers (Sept '09)

❖ Only a small percentage of debt stressed consumers have applied for debt counselling, the numbers could increase rapidly

Payments to Creditors



NCR implemented a range of interventions to support debt counselling ...

- ❖ **Training & support:** Accredited specialised training institutions & provided initial material. Arranged follow up courses, workshops & on-site visits, to support debt counsellors & improve expertise.
- ❖ **NCR capacity:** NCR appointed call centre agents & complaints officers specialising in debt counselling – to deal with problems, intervene when things go wrong. Prioritize protection of homes.
- ❖ **Payment distribution:** NCR appointed specialised payment distribution agencies. To separate debt counselling from payment distribution. To limit risk of fraud & theft of consumer payments.
- ❖ **Audits & inspections:** Regular audits & inspections on debt counsellors, PDAs and credit providers
 - University of Pretoria Law Clinic did assessment to identify potential problems & weaknesses, to be able to address problems
 - NCR meet regularly with PDAs & banks, to discuss problems & find solutions
 - Engaging with leading international debt counselling firm to identify areas for improvement

Reasons for backlogs, a risk to successful implementation of debt counselling

- ❖ **Credit providers exploited uncertainty on interpretation of NCA and on Magistrates Court procedures to prevent magistrates court hearings from taking place**
 - Credit providers exploited every area of uncertainty to oppose hearings. Providers made various commitments through NDMA, but not implemented. Delays in providing documents, cause overruns on time limits. Opposing application of certain section of Act, eg 90(2)(n) and 103(5). Not cancelling debit orders. Irregular terminations & repossessions.
 - But, major improvement recently, with banks taking a more constructive approach
 - And, 1000's of consumers have already benefited both from debt counselling and from internal restructuring by banks
- ❖ **Also problems with debt counsellor conduct**
 - Adherence to time-lines (and sometimes doing nothing at all); exceeding powers contained in Act; unrealistic & inconsistent proposals; Lack of professionalism, objectivity & fairness to credit providers; weak administration; marketing to consumers based on a promise of a 'payment holiday'
 - But, majority of debt counsellors is making a huge effort and valuable contribution, with ongoing improvement
- ❖ **It is a new process, needs time to settle down. Huge demands & challenges in context of debt stress & financial crisis**

Implications of Declaratory Order

- ❖ The judgment on the NCR's Application for Declaratory Order was handed down on 21 August.
 - It clarified a number of issues, but (a) certain significant issues were not addressed, (b) it created complications, e.g. the status of debt counsellor & consumer at the hearings, (c) resulting in a process which is cumbersome & costly
 - Certain of the orders are being appealed by a number of banks and by a debt counsellor.
- ❖ A number of critical problems remain, can only be addressed through amendments to Act & Regulations. These problems will continue to prevent or delay the finalisation of debt restructuring applications.

A number of significant problems have not been resolved by the Declaratory Order. Can only be resolved through amendments to Act & Regulations

❖ Magistrate court process issues that complicate finalisation of cases:

(a) document delivery; (b) process of hearing and status of consumer & debt counsellor; (c) Magistrate's power to reduce interest rate or debt obligations; (d) Some courts interpret S129 to prohibit debt counselling, once enforcement notice issued. This will cripple debt counselling.

❖ Tribunal's enforcement provisions & penalties:

(a) currently difficult to take actions against parties who are not complying; (b) consent order process cumbersome; (c) limitations on Tribunal role in debt counsellor applications

❖ Debt counselling process:

(a) consumer payment obligations in period of debt restructuring; (b) implications if time lines breached by credit provider delays (c) treatment of secured vs unsecured assets & right to repossession; (d) dealing with debts which are not credit agreements, (e) temporary reductions in income; (g) regulation of payment distribution; (h) regulation of debt counsellor & PDA fees; (i) provisions for rehabilitation of consumers

Concluding comments

- ❖ **Impact of NCA:** curbed excessive credit extension, creating basis for lower but more sustainable credit growth, curbing social cost of reckless lending
- ❖ **Debt counselling** – reconcile claims of different credit providers, to create a sustainable repayment stream on non-performing consumer
 - While minimising social cost,
 - BUT, significant implementation challenges
- ❖ **Fall-out from financial crisis** still increasing, driven by reductions in income as much as loss of employment
- ❖ **Dramatic reduction in domestic credit** had a major negative impact, aggravating domestic economic decline
- ❖ In policy response, important to focus not just on protection of industry, **but also on protection of households**,
 - noting that crisis impacts differently on different consumer groups
 - the longer the downturn lasts, the more households with high debt burdens run out of options



Thank You !
www.ncr.org.za