Feasibility (Pty) Ltd

Clarity & Strategy Through Economic Research

Report to the

National Credit Regulator

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

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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 providers and experts 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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Acronyms

APR	:	AnnualPercentage Rate
CPD	:	Corporation for Public Deposits
GDP	:	Gross Domestic Product
NCA	:	National Credit Act, 2007
NCR	:	National Credit Regulator
PDAs	:	Payment Distribution Agents
SARB	:	South African Reserve Bank

1. Introduction

Feasibility has been appointed to assist the National Credit Regulator (NCR) in meeting its annual market research reporting requirements in terms of the National Credit Act (NCA) and further to assist the NCR to gain an in-depth understanding of consumer credit products available to consumers.

The NCR has specified the need to examine market practices with a view to probing the consumer experience in obtaining and repaying credit. In particular, the different life-cycle stages of the credit relationship – beginning with advertising and ending with the termination of the contract – are of interest.

Six research tools are employed for the research into cost, distribution and practices related to credit. These are:

- market practices interviews with consumer experts, journalists and ombudsmen
- focus groups discussions with indebted consumers (particularly over-indebted or debt-stressed consumers)
- mystery shopping for a range of consumer credit types
- analysis of a range of different types of credit agreements – from different providers
- a quantitative survey of credit providers – focusing on pricing and operational details
- in-depth interviews with credit providers on trends in the market.

The report is divided into five main parts namely overview of the credit market, trends in the credit market, consumer credit market practices, a sectoral overview and recommendations for the NCR.

Details about research methods are provided at the end of the report.

2. Overview of the credit market

Credit markets have been buffeted by a number of developments over the past five years. In the period leading up to the introduction of the NCA on 1 June 2007, there was a splurge of consumer credit extension. This increase coincided with a period of relatively low and fairly stable interest rates, rising asset prices – particularly of houses - and comparatively strong economic and employment growth. Collectively, these factors provided fertile ground for consumer credit extension, with aggregate credit extended to households rising by 24% per annum between June 2005 and May 2007.

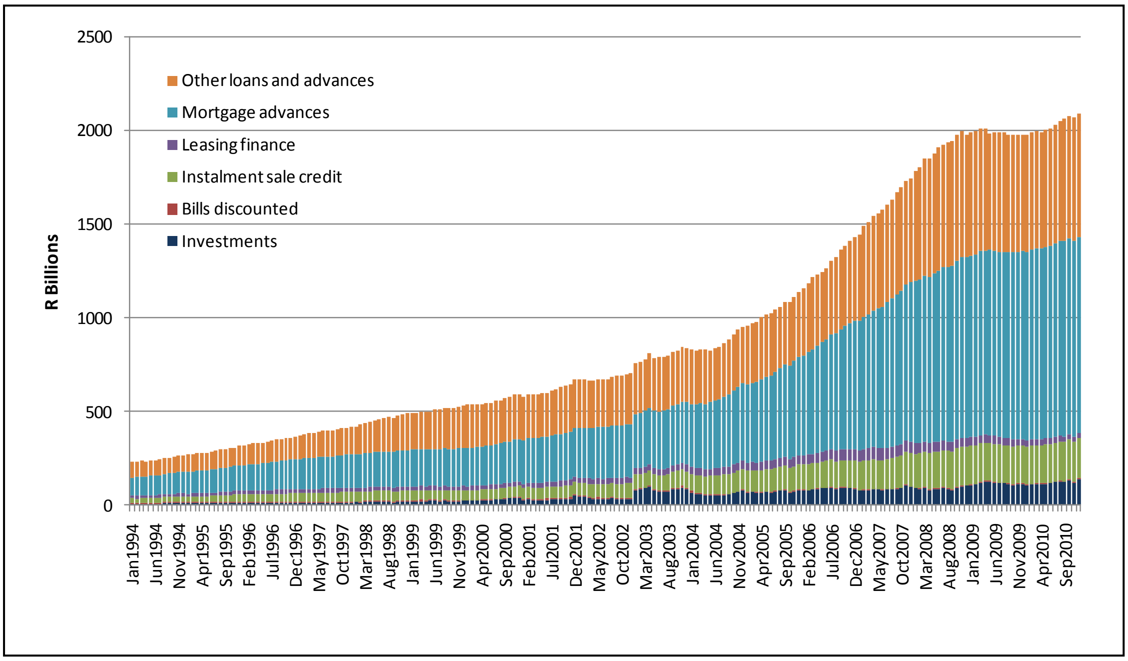
After the introduction of the NCA in mid-2007, household credit markets had just over a year to come to grips with the new legislation before the advent of the Global Economic Crisis, which is generally accepted to have come to a head in September 2008 following the collapse of Lehman Brothers in the United States. Although exchange controls and financial regulation served to insulate South Africa from the direct effects of the ensuing financial turmoil, the economy (and the credit markets) could not escape the indirect impact of a dramatic fall in export sales and subsequent loss of more than one million jobs. South Africa entered a downward phase in its business cycle in December 2007 for the first time in eight years (SARB Quarterly Bulletin).

Prior to the NCA, credit extension data was obtained almost exclusively from the banking sector - through their DI900/BA900 returns to the South African Reserve Bank (SARB/Reserve Bank). The regulation and registration of all formal providers of credit to households under the NCA has created an additional source of data, as all registered providers are required to submit returns regularly. There should be, and is, a large overlap between the responses of credit providers captured by the Reserve bank and those recorded by the NCR. The Reserve Bank data incorporates responses by 'all monetary institutions' which are defined as 'the South African Reserve Bank, the former National Finance Corporation, Corporation for Public Deposits (CPD) and the so-called "pooled" funds of the former Public Debt Commissioners, the Land Bank, Postbank, private banking institutions (including the former banks, discount houses and equity building societies) and mutual building societies'. The NCR data, on the other hand, include returns from all institutions extending credit to the household sector and juristic persons as defined in the NCA. We refer to this as consumer credit.

In practice, the bulk of the credit provided is through the banks that report to the Reserve Bank. Even in cases where credit is provided by a non-bank entity – such as a furniture store – there may be a link back to the banking sector because the capital needed to fund the household credit extension activity may be borrowed by the corporate (in this case the furniture store) in the money or capital markets. It would therefore be captured as credit extension to the corporate sector by the banks. For this reason, and for the fact that longer data time series exist, the first part of our analysis uses Reserve Bank data.

Figure 1 indicates the value of credit extension to South Africa's domestic private sector from the beginning of 1994 to the end of 2010, by all monetary institutions. It indicates that during this period the total exposure to credit increased from R230 billion to almost R2.1 trillion – a more than 9-fold increase. It also indicates the levelling off (and even slight reduction) in the total value of credit extended between November 2008 and the beginning of 2010 as the impact of the global liquidity squeeze was felt. There was some resumption of growth in credit extension during the last three quarters of 2010.

Figure 1: Credit extension to the domestic private sector



Source: SARB Quarterly Bulletin (via Quantec)

Mortgage advances are the dominant form of credit extension to the domestic private sector (accounting for over 50% of all credit extended), followed by other loans and advances (representing various forms of unsecured credit) and instalment sales credit, investments and leasing finance. Changes in the composition of loans and advances to the domestic private sector (which excludes investments and bills discounted) are shown in Table 1. The most important compositional shifts have been the increase in the share of mortgage advances, the sharp decline in leasing finance, and the smaller reductions in the contributions of instalment sale credit and other loans and advances.

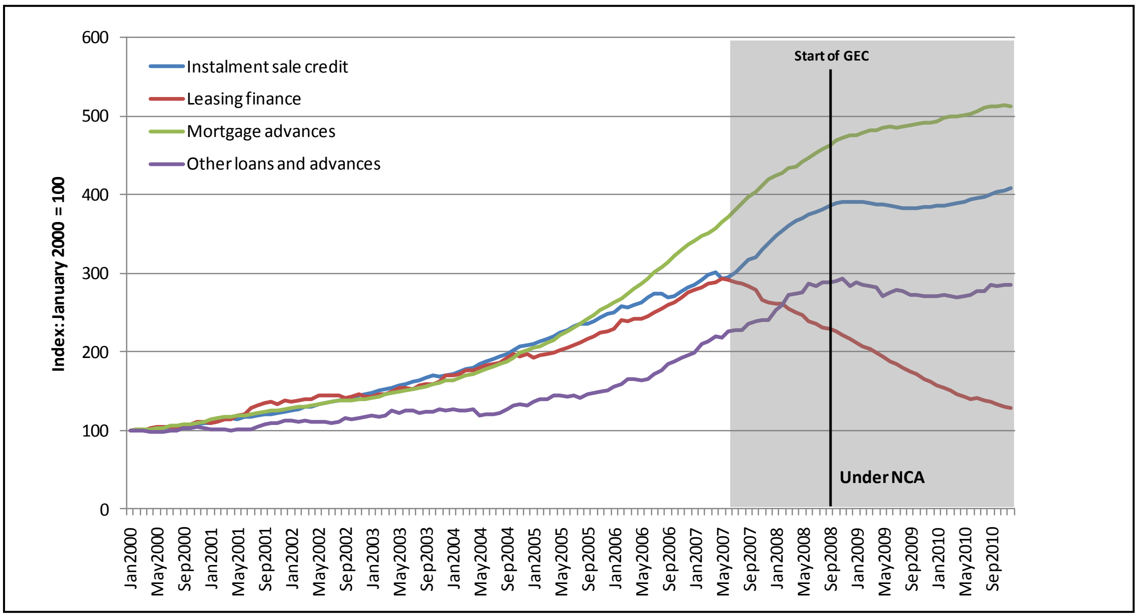
Table 1: Composition of loans & advances

Year	*Instalment sale credit*	*Leasing finance*	*Mortgage advances*	*Other loans & advances*	Total loans & advances
2004	12.6%	5.0%	47.5%	35.0%	100.0%
2005	12.3%	4.7%	50.0%	33.0%	100.0%
2006	11.0%	4.5%	50.9%	33.6%	100.0%
2007	10.8%	3.5%	52.0%	33.7%	100.0%
2008	10.9%	2.5%	51.7%	34.9%	100.0%
2009	10.8%	1.9%	53.8%	33.4%	100.0%
2010	11.0%	1.4%	53.7%	33.9%	100.0%

Source: SARB Quarterly Bulletin (via Quantec)

The relative performances in the accumulated stock values of the different types of credit extension to the domestic private sector are shown in Figure 2. It indicates largely similar patterns in instalment sales credit, leasing finance and mortgage advances between January 2000 and the end of 2004, with comparatively lower growth in other loans and advances over this period.

Figure 2: Relative performance of loans & advances extended



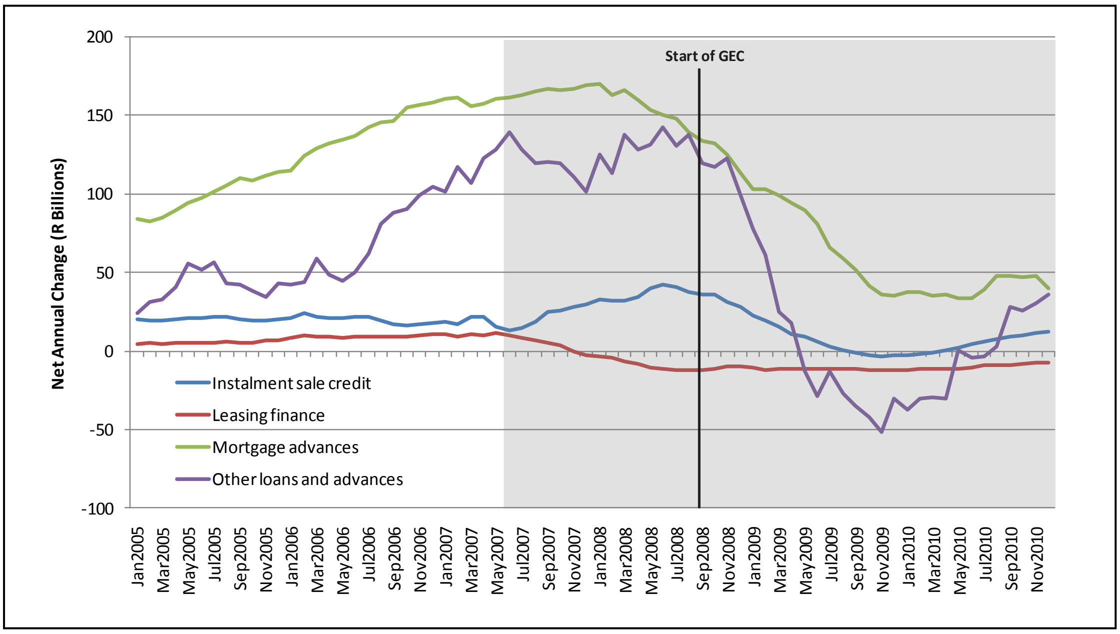
Source: SARB Quarterly Bulletin (via Quantec)

From 2004, trends start to diverge, with faster growth of mortgage advances, and similar rates of growth in the other three categories until the introduction of the NCA. The most pronounced impact of the NCA appears to have been to discourage leasing finance, which has declined by 56%. Although the start of this decline coincides exactly with introduction of the NCA, changes in the tax treatment of leasing transactions and other factors could also have played a role. The other three categories of credit extension appear to have been largely unaffected by the new legislation – continuing the trends established in the pre-NCA period for some time after it was introduced.

By contrast, the impact of the Global Economic Crisis and ensuing domestic recession was far more pronounced, with substantially slower growth in mortgage advances, and declines in instalment sale credit and other loans and advances. While the latter two categories have shown signs of recovery from around the third quarter of 2009, the pace of mortgage advances growth has continued to be muted – with annual growth consistently in the 3.5% to 4.5% range over this period.

Figure 3 highlights the shifts in the different categories of credit extension to the domestic private sector by focusing on the net annual change in the underlying stock values. These figures represent the combination of new loans and advances less any repayments or redemptions.

Figure 3: Net annual changes in loans & advances



Source: SARB Quarterly Bulletin (via Quantec)

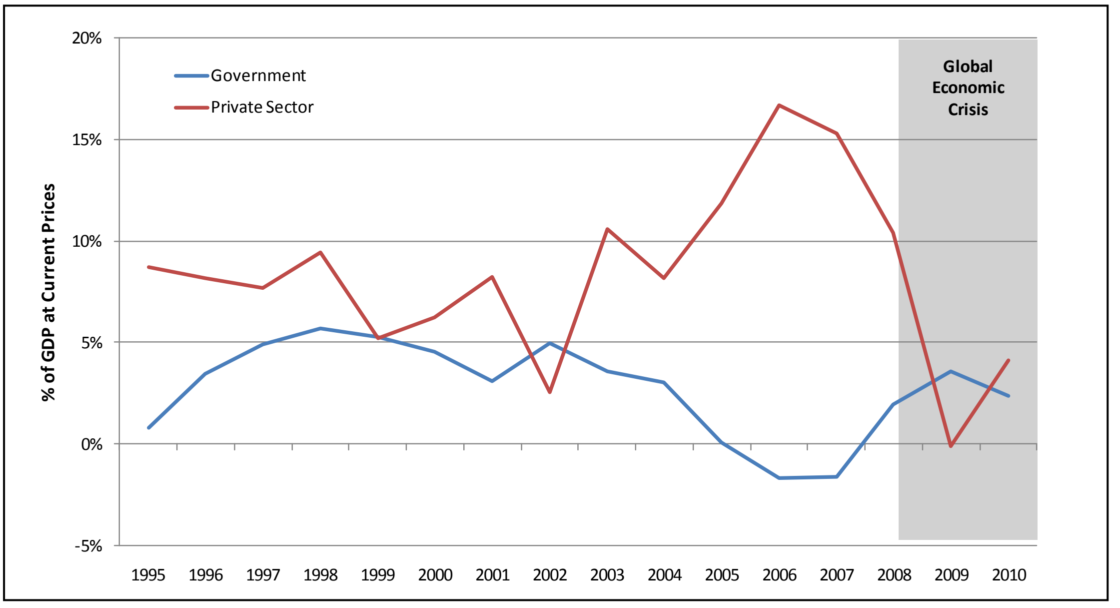
It indicates that net new mortgage advances were increasing by around R100 billion annually two years prior to the introduction of the NCA, and that this had risen to around R160 billion at the time the NCA came into effect. This figure increased marginally over the next nine months, but then started to decline from around the beginning of 2008 – most likely in response to the cumulative impact of a number of mortgage rate increases over the preceding 18 months. Net new mortgage advances continued to decline after the start of the recession – falling to less than R34 billion in May 2010 before recovering somewhat in the latter half of that year.

Net new other loans and advances were increasing by around R50 billion annually a year prior to the NCA's introduction, but the rate of increase raised sharply from mid-2006 to mid-2007 to almost R140 billion when the NCA commenced: evidence of aggressive credit extension by providers. The annual value of net new advances within this category dropped back to around R100 billion in the six months immediately following the NCA's introduction, but then recovered over the following nine months. It fell sharply as the recession began to bite, and by November 2009, it had fallen by R50 billion when compared to its levels of a year earlier. Net new other loans and advances then experienced a fairly sharp recovery, so that by December 2010 it almost matched that of mortgage advances – up by almost R37 billion on the levels of a year earlier.

Currently, then the growth in other loans and advances, which includes overdrafts, personal loans and credit cards, matches the growth in mortgage origination. While this is not unprecedented (see Figure 10), it is an unusual occurrence and speaks of a credit crunch in the mortgage market. This matter will be further discussed in section 4.

Another aspect to consider is the extent to which levels of economic activity are either dependent on, or influence, the ability and/or willingness of the public and the private sector to take on new credit. Figure 4 below indicates net new credit extension to the government and private sectors as a percentage of GDP at current prices.

Figure 4: Net new credit extension to government and the private sector

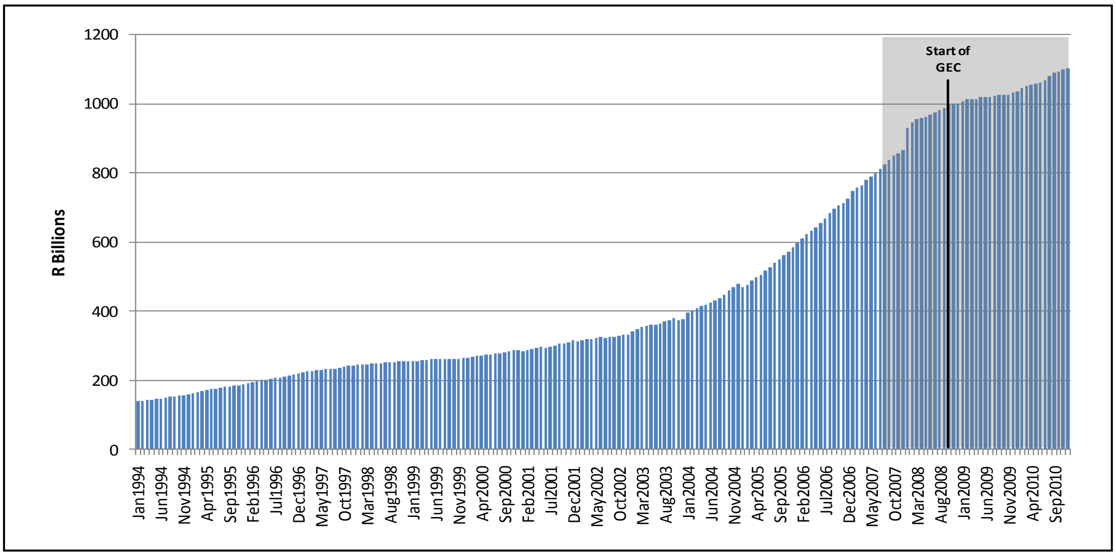


Source: SARB Quarterly Bulletin (via Quantec)

The trends in the ratio of net new private sector credit extension to GDP are an almost mirror image of trends in the government sector ratio – suggesting some level of competition over the same pool of available funds, and the potential for crowding out. Generally, in years when the ratio of net new credit extended to the government sector to GDP was increasing, the corresponding ratio for the private sector was declining, and in those years in which the former ratio was declining, the latter was increasing. The ratio of net new private sector credit extension to GDP reached a peak of 16.7% in 2006, before declining sharply to -0.1% in 2009. It recovered to 4.1% in 2010, but was still substantially lower than the average for the preceding 15 years.

Since the focus of the NCA and its associated regulator are on consumer credit, we now shift our focus to that portion of credit used by the household sector. Figure 5 indicates the total value of credit extended to households since 1994. This increased from R161 billion in 1994 to R1.1 trillion in 2010 – an almost 7-fold increase. The rate of growth in the value of credit extended to households was highest between 2004 and 2007, increasing by almost 22% a year over this period. This rate of expansion initially appeared to be unaffected by the introduction of the NCA, but started to slow from the beginning of 2008, and has averaged around 5% per annum growth since then.

Figure 5: Credit extension to households



Source: SARB Quarterly Bulletin (via Quantec)

Dividing the aggregate stock value of household credit in a year by firstly the corresponding population and secondly by the number of households provides some indication of the extent to which the average exposure of individuals and households to credit has changed over time. Table 2 below indicates that the average South African had debt of R4 660 in 1995, and that by 2010 this had risen to more than R22 000. When account is taken of the number of people in each household unit – by dividing population estimates by the estimated number of households - the total debt per household has risen from R20 495 in 1995 to more than R84 000 in 2010. Table 2 also indicates that the rates of growth – on both an individual and household basis – accelerated between 2002 and 2004, and remained high till 2007 – before moderating in response to the combination of higher interest rates and the local and international recession.

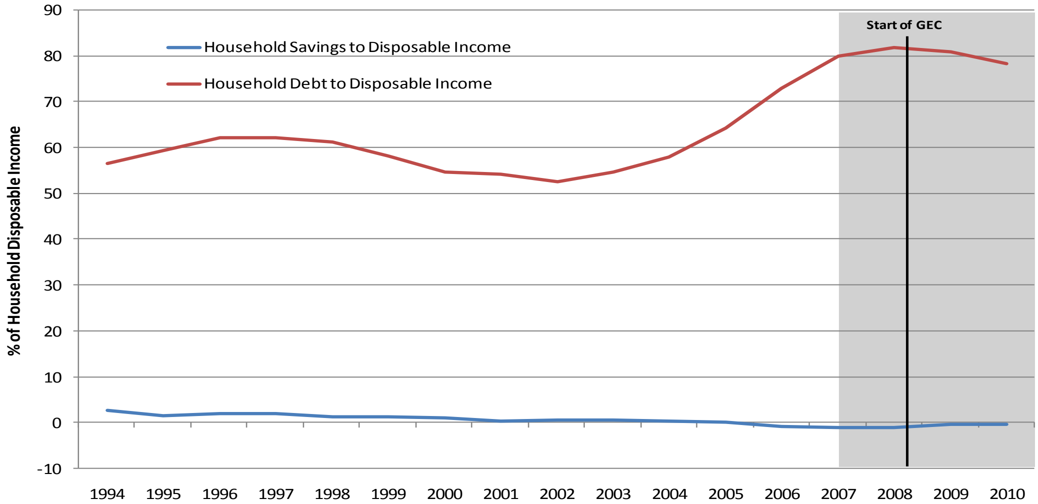
Table 2: Credit extensionto households (per capita & per household)

Year	*Credit Extended to ouseholds per Capita*		*Credit Extended to Households per Household*	
	Rand per Person	**Annual % Change**	**Rand per Person**	**Annual % Change**
1995	R 4,660		R 20,495	
1996	R 5,281	13.3%	R 22,737	10.9%
1997	R 5,775	9.4%	R 24,309	6.9%
1998	R 5,942	2.9%	R 24,445	0.6%
1999	R 6,038	1.6%	R 24,292	-0.6%
2000	R 6,506	7.8%	R 25,654	5.6%
2001	R 7,009	7.7%	R 27,185	6.0%
2002	R 7,310	4.3%	R 28,030	3.1%
2003	R 8,196	12.1%	R 31,211	11.3%
2004	R 10,241	25.0%	R 38,863	24.5%
2005	R 12,382	20.9%	R 46,937	20.8%
2006	R 15,185	22.6%	R 57,589	22.7%
2007	R 17,940	18.1%	R 68,131	18.3%
2008	R 20,486	14.2%	R 77,933	14.4%
2009	R 20,849	1.8%	R 79,424	1.9%
2010	R 22,044	5.7%	R 84,060	5.8%

Source: SARB Quarterly Bulletin, Statistics South Africa (via Quantec)

The increased propensity of South Africans to acquire debt and the declining propensity to save is reflected in Figure 6. It shows the ratio of household debt and household savings to household disposable income – which is current income less direct taxes.

Figure 6: Ratio of household debt & savings

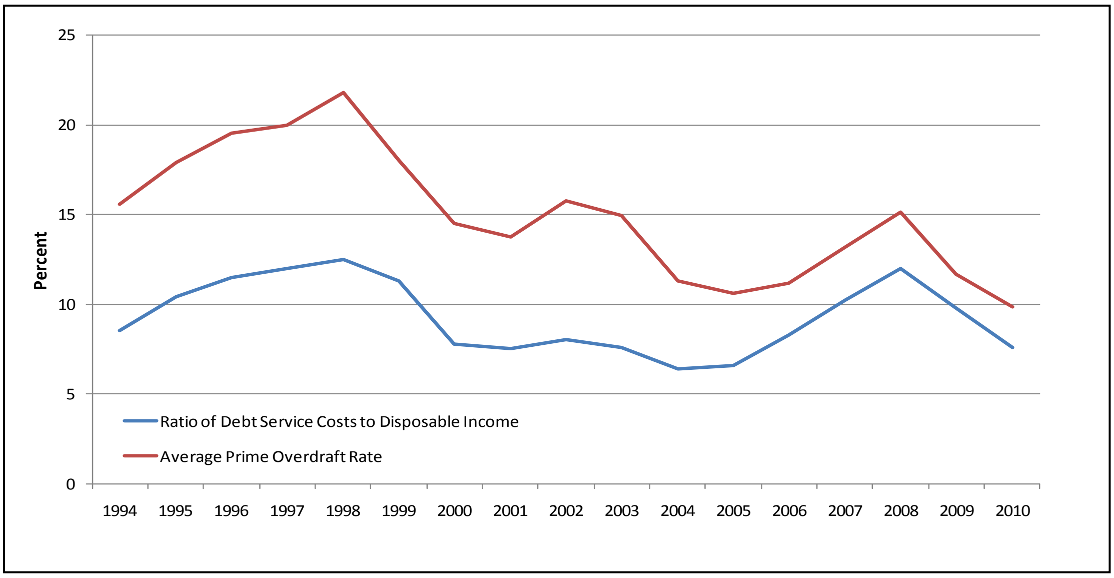


Source: SARB Quarterly Bulletin (via Quantec)

The average level of household indebtedness has increased over the past decade, from levels equivalent to 52% to 55% of disposable income in the early 2000s to in excess of 80% in 2008 and 2009. In 2010, the ratio of debt to disposable income declined marginally to just over 78%. At the same time, the share of household disposable income that is saved - which has been consistently low by the standards of many advanced and emerging market economies – continued to decline over most of the period shown in the figure, falling from 2.7% of disposable income in 1994 to a dis-saving of one per cent in 2007 and 2008. The average household continued to dis-save in both 2009 and 2010 by around 0.3% of their disposable income. As will be discussed in greater detail later in this report, the low levels of savings (and dis-saving) mean that most households have limited, if any, buffers to see them through times of crisis such as employment loss or medical emergencies. On the one hand, this creates a need for access to lines of credit as there are no other buffers, but on the other, it means that many households and individuals that are already highly indebted become debt-stressed, or over-indebted, when faced with unforeseen negative events.

The cost of servicing debt is determined by the quantum of the debt and the rate of interest charged. Figure 7 indicates the average debt service costs of South African households expressed as a percentage of household disposable income, as well as the prevailing prime overdraft rate – which is typically used as a benchmark rate for consumer credit extension. The strong correlation between debt service costs and the prime rate is clearly evident. The narrowing of the gap between the two is consistent with the fact that households have tended to take on more debt over time. Debt service costs reached a maximum of 12.5% of disposable income in 1998 – when the prime rate averaged almost 22%. In 2008, the ratio stood at 12% with a prime rate of just over 15%.

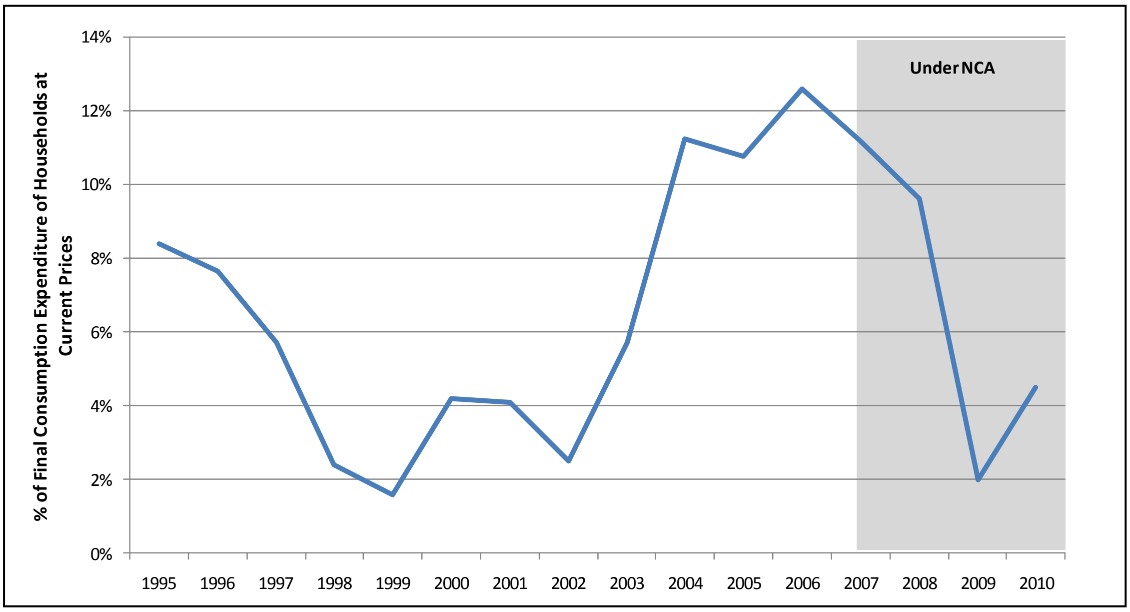
Figure 7: The ratio of debt service costs to household



Source: SARB Quarterly Bulletin (via Quantec)

Consumer credit enables households to bring forward their purchases of goods and services. These purchases may be designed to generate additional income in future – such as the financing of education, or the provision of working capital for start-up businesses – or be for purely consumption purposes – such as spending on food, home appliances and household furniture. Figure 8 shows the ratio of net new credit extension to the household sector as a percentage of the final consumption expenditure by households for the corresponding period. It provides some proxy of the extent to which new consumer credit is being used to finance current economic activity by households. It indicates a significant increase in the average household's propensity to take on additional debt to finance their consumption between 2002 and 2006 – from about 2.5% to 12.6%. This was followed by a dramatic fall back to 2% in 2009, and slight recovery in 2010 to 4.5%. The factors that influenced these trends are many and complex, and are likely to include income effects arising from wage and salary increases, increased employment and reductions in debt service costs due to lower interest rates; and wealth effects arising from higher house and equity prices.

Figure 8: Net changes in credit extension to households



Source: SARB Quarterly Bulletin (via Quantec)

When trying to meet their credit needs, consumers are faced with a range of products and providers. Some credit products are secured – either by the underlying asset being purchased or by insurances or personal guarantees – while others offer no direct security other than the likelihood that the consumer will try to repay the amount due to avoid sanction and other penalties. Some credit is provided for a short term and is typically of lower value. Some credit is provided as discrete loans, while others – such as credit and store cards – are revolving facilities that can be used as a long as required portions of the outstanding debt have been repaid. Table 3 indicates the composition of household credit, and how it has changed over time.

Table 3: Composition of household credit

Type of Credit	*Share of Total Credit Extended to Households as at:*					
	30 June 2008	**31 Dec 2008**	**30 June 2009**	**31 Dec 2009**	**30 June 2010**	**30 Nov 2010**
Instalment Sales	3.8%	3.2%	2.8%	2.4%	2.0%	1.7%
Leasing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mortgages	80.1%	80.8%	81.2%	81.1%	81.8%	81.2%
Credit Cards	6.0%	5.8%	5.6%	5.5%	5.2%	5.0%
Overdrafts	2.9%	2.8%	2.8%	2.6%	2.5%	2.3%
Other Loans and Advances	7.2%	7.4%	7.6%	8.4%	8.6%	9.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SARB BA900 Returns (via Quantec)

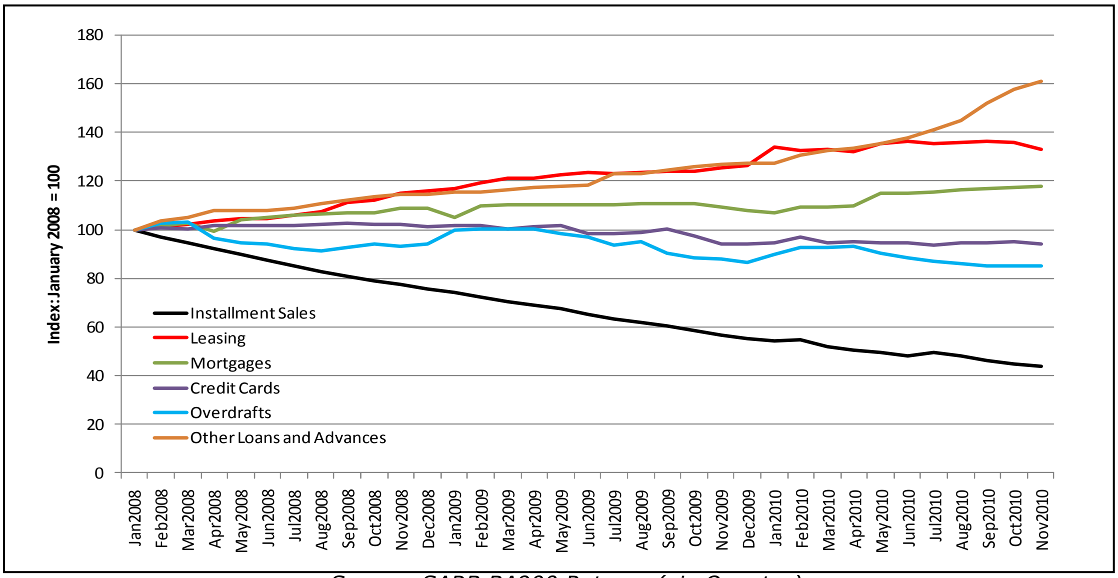
The following trends are evident:

- The share of instalment sales has declined over the period shown – from 3.8% of the total in mid-2008 to 1.7% at the end of 2009. Given typical terms for this type of credit, and the fact that the figures reflect compositions of stock values, the fairly rapid decline suggests that it reflects more than simply the decline in vehicle sales in the wake of the economic downturn.
- Leasing is not an option favoured by either consumers and/or credit providers. Although Figure 9 indicates there has been an increase in this form of credit in recent years, it has been off a negligible base.
- Mortgages are by far the most important type of credit extended to households – accounting for in excess of 80% of the total. Mortgages' share initially increased between mid-2008 and mid-2010 but then declined. Given the tighter conditions and requirements for substantially higher deposits imposed in the wake of the recession, the initial increase probably reflects the fact that the large share of the total, and the long term injected a greater degree of stability into these figures. However, there are other dynamics relating to the mortgage market that are explored in greater detail later in this report.
- The decline in the share of total credit extended to households via credit card facilities - from six per cent of the total in June 2008 to five per cent at end 2010. This reduction could be the result of the cancellation of some facilities due to retrenchment, reductions in credit limits due to perceived deteriorations in credit worthiness, and the lowering of the interest rate cap which may have reduced the number of people eligible.
- Overdraft facilities have also declined as a percentage of total credit extended to households – from 2.9% in mid-2008 to 2.3% by the end of 2010.
- Other loans and advances – which mainly incorporate term loans – have increased as a share of the total, from 7.2% in June 2008 to 9.7% in November 2010. This is largely the result of an increase in both the size of loans available and an extension of their term. These developments will be discussed in greater detail later in this report.

In contrast with the data in Table 3 above – which shows changes in the composition of household credit –Figure 9 indicates the relative trends in accumulated credit extension to households by different types of credit from the start of 2008. The 56% decline in instalment sales (which relates mainly to the financing of assets such as motor vehicles) between the start of 2008 and the end of 2010 is clearly evident. The more modest decline in credit extension via credit facilities (overdrafts and credit cards) is also apparent. The value of overdraft facilities utilised at the end of November 2010 was 15% lower than at the beginning of 2008, while that of credit card facilities was six per cent lower. By contrast, the value of mortgage loans still in effect was almost 18% higher, and that of leasing 37% up on its levels at the start of 2008. The most significant growth was experienced by other loans and advances, which were more than 60% higher at the end of November 2010 than in the beginning of 2008. The rate of growth in this type of credit was particularly strong over the second half of 2010.

Unlike the situation described in Figure 3 – which reflected net changes in credit extended to the whole domestic private sector (including the corporate sector) – there is relatively little evidence of a substantial impact of the Global Economic Crisis on trends in the types of credit extended to households. In most cases, the trends that were established prior to the onset of the crisis appear to have continued after it had commenced. Changes in the level of interest rates also seem to have had limited direct impact on particular types of consumer credit extension over this period.

Figure 9: Trends in credit extension to households by credit type



Source: SARB BA900 Returns (via Quantec)

This section has provided an overview of the consumer credit market over the past few years, so as to provide a backdrop to the more detailed discussion that follows. In the next section, we focus on the themes that have emerged though the 2011 research conducted on behalf of the NCR. Some of the trends identified in this section will be further examined in the light of particular sector dynamics presented in Section 5.

3. Consumer credit market practices

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.

For this research, the market practices in the consumer credit market have been explored through interviews with experts, ombudsmen and consumer journalists (referred to here as "market practice" interviews to distinguish them from the interviews with credit providers), 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.

The research has attempted to pull together the common themes emerging from all these sources. We have categorised the themes in terms of the life cycle of the consumer's interaction with the credit provider. In the process we identify the following stages:

- Marketing and advertising
- Credit application and quotation
- Agreements - Pricing and disclosure
- Default and complaint process

As background to this discussion, information about the demand side of the market - as gleaned from the Focus Groups - is now briefly presented.

Box 1: Motivation for obtaining credit

Focus Group 4:
You know, in the community that I come from, you'll find that at your home, there are eight kids and only your parents are working. So there are things that you would wish you could have while you're still in school and you find that your parents cannot afford to buy them for you. So as soon as you get employed, let's say you're earning two thousand, and yourdreams are more than two thousand, then you'll start noticing these adverts in the newspapers and you'll want to close that gap of those dreams that you had while you were growing up, of the things you couldn't have. And they'll show you an easier way, which is to go into credit, so you'll take that route, just to "achieve" all those things that you wanted as you were growing up.

Focus Group 1:
My point is that in life we all love to have nice things and live a good life. You go to some of your friends and you find out that they have TVs, DVDs and sound systems and you do not have anything. (You) can be a victim of peer pressure..

Focus Group 2
(I) tell them that I work in an office because of the clothes that I am wearing as whatever I am wearing is something that I have bought it on credit. … I would want to take something that is expensive so that they can see me that I am also beautiful, that I have taste.

Focus Group 4
… I think it's just the pressure of wanting something, you don't want to wait for a year and save all that money, you want something now. And because that's how things are marketed it makes the pitch seem so much better and you go for the option that's easiest.

The motivation for having obtained credit appears similar for all the participants (See Box 1). In all cases, social aspirations are a key motivator to obtain credit and credit is seen as a quick way to achieve these aspirations. In many cases, the participants had got into debt through spontaneous credit purchases, without much consideration.

While none of the participants in the focus groups (including those in the control – who were indebted – but not debt-stressed) had accessed credit for the purposes of starting a business, or for conducting or expanding a business, there was some recognition that people who accessed credit for education purposes, or to start businesses were more likely to be successful, and less likely to be over-indebted.

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. If the participants in the focus groups are representative of the broader society, most consumers' first access to credit is for conspicuous personal consumption purposes, driven by a desire to look better (and more successful) than personal financial circumstances might allow. It may be that this initial taste of credit affects attitudes to other types of credit.

Box 2:   Financial literacy and competence

Focus Group 2

No one is educating us, as I am a registered nurse and I go to BMW they say to me okay you are going to pay about R5000 I am thinking yes I am going to be able to pay it. Not thinking that the R5000 is not all that I am going to pay …

Focus Group 2

You do not really plan because you do not know how much it is going to cost you. You could have an idea that I could afford R500 but then you get there and they tell you that you will be required to pay R580 then you are going to agree and say it is fine not realizing that you are now nearly be paying about R600 and you calculated R500

Focus Group 3

And I think it would be best that (credit providers) to sit down with you first and read with you and make you understand and ask you, 'do you understand this phase'? And if you say no just elaborate it further, they have to do that. They have to employ people who will sit with consumers only to do their agreement and make him or her understand what they are getting themselves into because I guess that is where (it is lacking). There is not too much education the impact the loan has on whatever lives we are running. We need to be educated more.

Given that it is often useful to have some level of credit history when accessing other types of credit, a well-serviced store card history provides an entrée to other types of credit. In the case of the focus group participants, this was usually personal loans from micro lenders and banks such as Capitec and African Bank, although in some cases it extended to financing the purchase of motor vehicles and furniture.

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 (see Box 2).

There is a common thread that their education has failed them. Schooling did not enable them to prepare a budget, nor did it prepare them for the realities of credit contracts. Every group lamented the lack of awareness and education. They called for more financial education in schools, as well as for awareness campaigns for adults.

This sense of incompetence limits their confidence in asking the right questions or in engaging in research. Participants acknowledged that they had researched neither the different types of credit available, nor the different providers of such credit.

One participant from Group 3 said –

> *Most of the things we don't research…you just realise when you are in debt that I should have asked this question or tried to find something more affordable, but you only realise after you are (already) in debt.*

Another in Group 4 said

> *if (I) knew that (I) wanted to study at a particular university, (I) would have gone to the advisors there and they would have given me options, I don't think (I) would have tested the waters to see who would have given me the best student loan to study where I'm at.*

A Group 1 participant expressed it this way:

> *… it was a question of wanting money at that time, so doing research is something that is going to hold you back. You just go there and get yourself in debts; (but) it is like taking a rope and putting it around your neck…*

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.

Because most of the focus group participants were debt stressed and under debt review, it is not surprising that most of them regretted the credit choices that they had made earlier in their lives. They were especially regretful of what they now view as "unnecessary credit accounts" which hampered their subsequent financial mobility and independence. Their current debt-stressed status limited their dreams of a financially secure future, because – for example – their over indebtedness and blacklisting meant that they could not access business loans.

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. Generally, this acquired wisdom (and the fact that they had often not been able to access advice themselves) had led them to a recognition of the need to educate their children about how to use credit more responsibly.

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. They felt that greater efforts should be made to educate people about how to deal with credit, and about what their rights and responsibilities are in respect of credit agreements.

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. It was therefore surprising to see the extent to which attitudes to debt were similar across all the groups. In all cases, credit had been an appealing option - allowing instant gratification. Thereafter the reality of servicing the debt hit home. All groups expressed dismay at how being indebted placed constraints on them.

One of the key differences that emerged in terms of managing debt by Group 4 participants and those who are currently stressed was that the former were willing and *able* to make sacrifices to get out of debt. The responses from the Group 4 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*, and so on). By contrast, the other groups typically indicated that there were no such easy alternatives. Indeed, several participants spoke about a shock such as divorce or loss of employment as tipping their precarious position into one that was unmanageable.

While Group 4 (and a few of the participants in the debt stressed focus groups) exhibited an apparently more responsible approach towards the acquisition and use of credit, this had much to do with being able to emerge from - and reconsider their approach to - debt.

3.1. Marketing and advertising practices

The research revealed the general impression that post-NCA, providers were compliant regarding visible or public material. In spite of this, when marketing and advertising practices were probed, invariably some reference was made to unsolicited marketing or misleading adverts.

The unsolicited offers of credit by the SMS channel was frequently mentioned, especially offers of gold credit cards to potential consumers. This was also the channel by which providers were offering "with disconcerting regularity" increased credit limits. Car finance is regularly touted through SMS channels.

The placement of misleading advertising appears to be widespread. The NCR itself highlighted what it considered to be inappropriate advertising on TV or on motorway billboards. A walk around a shopping mall in Randburg revealed that adverts offered within stores were misleading, so that the "savings on fees of R2000" or "0% interest" were quickly dismissed by salesmen who pointed out "Insurance will make up the difference on the savings" or "No-one ever gets that rate", and so on.

These adverts lure the consumer in. Some of the quotes from the focus groups are instructive:

Group 1 participant (Debt stressed)

> *When they advertise they convince you you can even take it for free, when you hear that you will take it. [But} it is not free…You know when they advertise they make it look good. You know when you are a cook you make sure that you cook something that will make people think that your food was best not make them think that you food is bad…You put all the good spices in…*

Group 3 participant (Debt stressed)

> *They have this thing where when you buy a car this month and you buy furniture the following month then you start paying in 3 months. Then you go for it. I mean if you don't sleep on a proper bed and you see this advert but your salary cannot sustain you to go and buy it and you see this 3 months thing then you will go okay I can only pay it in 3 months' time. Again the terms and conditions …are so unscrupulous and there is a need, I have to get a bed and here is this advert and I need to sleep peacefully and get here is this bed, I can wake up without a backache. And that's it, there is a need but with that need we are caught somehow where someone has to make not 20% or 10% profit but has to make 200% profit.*

Hence consumers are aware that the advertising may be deceptive, but the sales process is so smooth they often go along with the process:

One participant in the focus groups put it this way:

Group 3 participant (Debt stressed)

> I can say that they know the weakness of the consumer and they know their market. They are good. They are vocal and have good selling skills and I was so surprised that …they knew so much about me - things that I don't even know about myself.

Providers also pointed to misleading advertising, but were vague about those involved. One interviewee indicated for example, that the vast majority of adverts for motor vehicle finance were not compliant in terms of interest rates and deal structure. Another was concerned that the adverts with particularly attractive terms were offered to only a small minority of the customers, rather than to all customers. Another felt that providers should be required to advertise their average rate rather than a rate reserved for a very exclusive consumer segment. Interviewees pointed out that no one was policing misleading advertising. One person wondered whether it might be improved with the enforcement of the Consumer Protection Act.

Other areas where credit providers appeared to challenge both the letter and the spirit of the law included offering incentives to sign-up for credit, such as zero per cent interest, R20,000 cash-back, offers of credit to black-listed consumers, and so on. Consumers typically only discover the full consequences and cost sometime after the contract has been signed. Market practice interviewees who pointed to these practices felt that these adverts were deceptive and hence contravened section 76(4)*c*(iii) of the NCA, as well as section 75(1). Once again, the focus groups provide confirmation of these practices:

Group 3 (debt-stressed)

> *I was called by someone who offered me a personal loan and said I will not be paying for 6 months and that they won't be checking on the credit bureau. And I thought wow that was great; so I will take this one to pay off that one. And when I found myself I said no man gosh! I got money and I settled a few things but when I looked at the clause and when I looked at the interest it was double what the bank charges. It is a way of getting at you because 90% of the people are listed on the credit bureau and it is difficult to get a personal loan from the bank, so it is easy. Though they are regulated under the Credit Act they are still unscrupulous. Then other day I had this one who called me and said you qualify for a loan and I said did you look at my credit profile?*

It is possible that unscrupulous providers exploit the inevitable delay between the time the advert is circulated, the realisation by the consumer that it has been misleading, and the enforcement process that must be followed by the authorities. For example, the *Brusson Finance* and *AMS* cases - that the NCR have successfully prosecuted - began with adverts purporting to offer loans whereas they were transferring property and stripping consumers of their assets. By the time the NCR intervention had closed the operations down, too many consumers had fallen victim to the scam.

It seems from the research that misleading advertising is more common than may be suspected, even though one provider went so far as to say that there was over-compliance in the industry.

Misleading advertising is only part of the problem. Also highlighted were prohibited marketing and sales practices (Section 74 and 75), such as negative option marketing and marketing at home or work. One market practice interviewee was particularly concerned that employers allow access to their workers during office hours. When this happens, the consumer often feels that the employer has endorsed the agent allowed on the premises. The influence of marketing at the workplace on making a rash decision was highlighted in the following extract from focus group 2 (debt stressed focus group):

Respondent 1*:*	*When I took that loan it was company event - everyone was just signing up. If I had met with an agent from X bank on my own I would not have taken the loan*
Respondent 2*:*	*Hmm*
Respondent 3*:*	*You see as she was saying that when you are at work you have that pressure that everyone is taking out a loan*

No specific concerns were raised regarding loans originated over the internet, but two of the market practice interviewees highlighted concerns regarding granting of loans at an ATM. The claim is made that there are no assessments of the consumer's creditworthiness in real time. Providers have explained that they conduct pre-assessment of certain consumers according to their score cards, and offer targeted amounts on this basis. These are effectively pay-day loans. From the side of the consumer comes the claim that it is difficult for them to read the terms and conditions when they are standing in an ATM queue and so they are negatively surprised by the terms of the loan after the fact. There may be a requirement for providers of this type of loan to rise some of the specific terms of the loan when they communicate in other ways with targeted consumers.

While no interviewee could identify any special terms and conditions designed for a specific income or other consumer group, one of the interviewees pointed out that there was a lot of inappropriate marketing going on. For example, domestic workers were targeted with holiday timeshare, for which credit was offered. Another interviewee concurred that there was inappropriate selling as the *pool of the credit worthy was getting smaller and the competition stiffer*.

Underlying the concerns reported under this topic is a sense that the provisions in the NCA relating to marketing and advertising practices are not always complied with and – more disconcerting – are not adequately enforced.

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

- Considering an outright restriction on marketing in the work place.

We shall return to such issues in the recommendations.

3.2. Credit application and quotation stage

One of the aims of the NCA was to enable consumers to shop around for the best credit available for their needs. The thinking was that in this way consumers could make rational decisions based on the best available information and in the process encourage competition.

Given the insight provided by the mystery shopping exercise, as well as the information from the focus groups, it is clear that consumers do not shop around for comparative quotations. Several factors on both the demand and supply side play a role here.

First, 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. The clear exception to this appears to be mortgages. In many cases, the supplier of credit was determined by the nature of the goods purchased. Also, many consumers make decisions based on unsolicited offers of credit, often received by phone. When they hear they are eligible for credit, they are often tempted to take it up, but no-one mentioned that this made them think of finding out what they might be eligible from other suppliers. 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.

The following quotations from the focus groups reflect this:

Group 1

> *With clothes and furniture … you just go to the store where they sell quality*

Group 3

> *…they phone you to say okay you qualify for R100 000. Can we deposit it into your account? They don't give (in to) that story of (yours) saying I need R10 000 just to repair my car, no they say, we will give you R100 000. So they actually offer you that money…And then you get excited because you want 10 but now you are getting 100 000 and then you said okay deposit it and then you have fun with it.*

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 another instance, the provider made it clear to the consumer that since the credit bureau had flagged him as having applied for a similar type of credit at another provider, they were not prepared to countenance his application. It was apparent that for some categories of credit, such as store cards and credit cards, while the credit application process appears simple, it seems impossible to obtain a quotation in advance. 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. The interviews with providers also highlighted that it is common practice for providers to approach consumers as soon as they have nearly repaid their debt, with an offer of further credit. The consumer gains the impression that loyalty is rewarded, and shopping around is not a priority.

Market practice interviews confirmed that there is little evidence of consumers shopping around or negotiating fees or interest. For example, several interviewees mentioned that while there might be some efforts to compare prices and negotiate with providers for a mortgage or car finance, the reality was that most consumers did not shop around. One interviewee said:*"This is not how our society works"*. Moreover, there was no ability to negotiate the fees down. It was mentioned that when consumers attempted to do this, they were told the fees were compulsory or statutory.

From both the demand and supply side then, there is little that encourages comparative shopping and decisions made upon this. Clearly there needs to be more consumer education as to the benefits of asserting their rights and there needs to be more enforcement of NCA requirements by the regulator. Both of these approaches are necessary, but may only reap rewards down the line.

One possible fairly short–term change that could encourage requisite behavioural change is a requirement for the full term and total cost of credit to be explicitly set out on the front page of all quotations and contracts in a prescribed font. The focus groups revealed that had consumers known what the total cost of credit was upfront – even if they only knew at the time of signing - they would have walked away from the deals. The mystery shopping exercise showed that quotations are not readily presented for all types of credit and the focus group interventions suggests that in many cases consumers went straight from solicitation to the contractual phase - without having seen a quotation, so it is necessary that contracts also display this information. The following excerpt from the Focus Groups displays the cynicism about information revealed by providers.

Group 4:

Facilitator	*How do you think the credit application process can be improved?*
Respondent 1*:*	*Just by them giving you an exact figure, at the end of it, saying, this is exactly what you're looking at; this is exactly what is going to happen every month; this is what could happen; these are the possibilities; if you do this then that; just like a really clear communication about what you're actually getting yourself into.*
Respondent 2*:*	*It's never going to happen.*
(Laughter)	
Respondent 2*:*	*Because you're not going to want it after all of that.*
Respondent 3*:*	*It would scare you away.*

In terms of the quotations obtained through the mystery shopping process, the quality in terms of setting out the consumer's commitment and total cost of credit was highly variable. The font for the instalment was frequently smaller than for the rest of the information; it was not always clear what the consumer was going to pay for add-ons and the total cost of credit was sometimes missing or hidden in the fine print. It was not easy to compare prices and terms and conditions. The variability in quotations is not particularly surprising when the variability in agreements is taken into consideration. We shall discuss the latter in the next section.

Group 2:

Respondent 1:	*The information (on the quotation) is not good, the amount becomes double. You think [the monthly instalment] is R159 but then you realise that I will pay that amount for 3 years… When you sit down and calculate that money you will realize that you have paid so much*
Respondent 2*:*	*Yes, take that R159 and multiply it by 24 months you will see that it much bigger than the cash price*

Group 4:

I just can't understand why there can't be legislation against these [providers], I mean, I once went for car finance and the value of the car that I bought then was R55 000. At the end of the day I ended up paying over R98 000 for that car over 5 years and they never explained to me how it was going to work out for me. At the time when I was organising the finance for the car, I was under the impression that I was going to be paying R 78 000 but after the 5 years I ended up paying ninety odd thousand for the car plus there were hidden costs they never told me about; plus they added top-up insurance; plus they added this insurance and that insurance. So my car payment, instead of being what they had told me initially, R 1 500, it ended up being R 2 200.

Interviewees were concerned that pre-agreement disclosure was not always adequate and commented on the "huge package of extras" which certain credit providers attempted to fob off on to consumers, such as extended warranty on furniture. One interviewee suggested that some of these fees were "unconscionable" and should be prohibited.

We conclude this section with some remarks on the impact of the reckless lending provisions. The incentives for providers to expand their book (via bonuses), and the incentives for consumers to qualify for credit tend to nullify regulatory attempts to prevent reckless lending.

The reckless lending provision stems from the notion that a provider should suffer the consequences of having an agreement declared illegal should the provider have failed to exercise judgment as to whether or not the consumer could afford the loan or credit extended. This evaluation happens at the time of the origination of the loan and implies a judgment about income and expense streams.

What the reckless lending provisions have brought about is widespread adoption of affordability evaluations of consumers. Of course these evaluations differ significantly 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. Examples were given of accepting that R500 was enough to feed a family of four for a month. The following quotation from the focus groups is pertinent:

Participant in Group 3 (Debt stressed)

> *Some of these debts could be avoided by better [honesty] e.g. you are applying for a loan they will give you a page whereby you have to break down all your expenses for them to go through your expenses and see if you are going to be able to pay back this loan. But we tend to lie … and you say I buy R500 groceries per month where you buy a R1800 or R2000 on groceries and then come school fees and you say no it is R200. You are reducing every amount so that it will be attractive for that person to give you a loan and by the time you get that loan everything comes to reality that you don't pay the R200 or the R100 or R50 on airtime because with cell phones sometimes you pay R300 or R400. So when you get the loan everything comes to reality you have to pay the R400 that you were paying for the cell phone and you have to buy your R2000 groceries and you have to also pay the R1800 school fees and in a day's time that money is gone. You haven't covered anything that you wanted to cover.*

So there are incentives for consumers to underestimate their expenses, and there are incentives for providers to accept or encourage such unrealistic statements of expenditure.

A case that was highlighted by the Consumer Credit Ombud sets out an example of the process. An illiterate state pensioner living on a state grant with an income of around R1,000 a month (for herself and her two grandchildren) obtained a furniture loan where the income and expense form was completed by the salesperson. Total monthly expenses allowed for were R200 for all living expenses, R50 for rates and taxes and R60 for cell phone expenses. The monthly instalment for the furniture (shown in very small print) was around R684 per month, although the pensioner claims that she understood it would be around R350. Some months down the line, the pensioner claimed the monthly instalment was unaffordable and that she has been granted reckless credit. The credit provider showed that - according to their calculations - the pensioner still had R19 to play with at the end of the month, and refuted the claim. The provider had the scrawl of the consumer - which testified that she had understood what she had to pay and that she had made a full disclosure of her expenses - to support its case.

Participants in the focus groups commented on the failure of the reckless lending provisions to protect them. One participant offered the following:

Group 4 (Indebted, but not debt stressed)

> *I think there is something that needs to be included, something that will protect us even from the system itself. The system must not allow any application to go through if you'll be left with R1000 or less. If you are going to be left with that, it must just reject the application.*

In interview, a number of providers argued that appropriate affordability evaluation was not being conducted throughout the industry. A situation was mentioned where consumers who had been refused further credit by the particular provider subsequently defaulted on their existing payments when credit was offered to these same consumers by a third party.

To allow the reckless lending provisions to function more effectively, the NCR should provide guidance on the minimum living expenses required by consumers in different income and social strata. This information is not hard to come by and is the basis of the calculation of the Consumer Price Inflation of different segments of the population. This would help mitigate against the risks of consumers understating their expenses and of sales staff encouraging them to do so.

Some providers have already adopted such an approach, where they have minimum expenses for different family sizes, say, regardless of the disclosure by the prospective client. They point out that in many cases, the consumer unintentionally omits certain expenses. In one particular case, a provider uses the self-disclosed expenditure of the client relative to his or her income as a predictor of default. Where stated expenditure is a relatively smaller share of the income, the probability of default rises significantly.

3.3. Agreements and disclosure at point of sale

Our analysis of agreements suggests that especially among intermediate and large agreements, there is considerable variance when it comes to attention to the detailed requirements of the NCA among suppliers. The analysis is dependent on the completeness of the documents with which we were furnished by the NCR. Documentation was made available to the NCR by the credit providers themselves. In some cases it seems we have not received all the relevant documentation. It is not clear whether the NCR was ever provided with all the information or if some pages went astray.

From the information provided, we were able to evaluate a range of credit agreements from the perspective of the consumer. For this reason, a legal analysis of the contracts was avoided. We looked at the degree to which the sample contracts met requirements in three main areas:

- NCR pricing requirements
- Disclosure during the process
- Common sense readability of the contract

A detailed discussion is provided later in this document. The summary is provided here.

In terms of the definition of the NCA, a credit agreement and credit facility means agreements that meet all the criteria set out in Section 8 and 8(3) respectively. Section 93 and Regulations 30-31 set out the requirements and suggested format for small, intermediate or large agreements. Small agreements should be concise and straightforward - an example is provided Form 20.2 of the Regulations. It should be relatively easy for credit providers to adhere to this format. The requirements for intermediate or large agreements are relatively more comprehensive. It is perhaps for this reason that we found weaker compliance in the intermediate agreements we had at our disposable than the small agreements. Nonetheless, there was a fairly high level of compliance for large agreements.

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. Other firms have work to do and should strive to emulate these.

In general, market practice interviewees noted that credit providers were compliant with the letter of the law, but that where matters had been left for interpretation, or where the letter of the law could be used to protect the credit provider, all such opportunities were typically exploited. One interviewee said that "*providers will interpret various sections of the NCA to suit their purposes or apply the sections in the manner most beneficial to themselves*".

Examples of the latter included getting consumers to sign declarations (sometimes hidden in the small print) that grant voluntary surrender of goods; set-off from their bank accounts; waiving of rights regarding reckless lending should they not provide full disclosure of their expenses; that they were given free choice to select their own insurer and so on. Consumers claim that they were unaware of such provisions in the contract or other documentation, but invariably, their signature is appended, and the credit provider is protected.

At the point of sale, the incentives for transparency (on the part of the provider) and understanding (on the part of the consumer) are weak.

The focus groups indicated greater awareness by the participants of the need to scrutinise contracts before they were signed. But they were very aware that they were tempted not to do so:

Group 4:

> *I also think that before you buy something, you need to give yourself time. If you want something now and you have to sign an agreement, firstly you need to read that agreement, know what you're getting yourself into. But if you are desperate and they give you a ten-page letter and you won't have time to read it because now your mind is dealing with the fact that*

after you sign this we will give you the loan. So your mind is now focussed on all those things you want to buy - so you don't look at the contract that you're signing and you just sign and sign and sign.

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 – which may be the only time the consumer actually engages in the practice.

The fact that even a common sense evaluation like this has revealed considerable variation in meeting the basic disclosure required by the NCA suggests that there may be a need for more rigorous enforcement by the NCA on these matters. The work involved to provide comprehensive evaluation of contracts is considerable. Specific clauses could be targeted. An incremental approach of calling for the contracts as and when complaints are received – and providing analysis of them individually - may be more suited to the NCR's current resourcing. Either way, the regulator will need to take a more pro-active stance in evaluating contracts.

3.4. Default and 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.

Group 1:

Respondent 1: *There are charges and interest in there. The thing is that you did not read that there will be extra interest when you not pay*

(Laughter)

Respondent 1: *You did not read … that if you skip a month there will be interest*

Respondent 2: *You find out that if did not pay for one month that when you pay the next month they charge double and they will also put interest on*

From the focus groups, it appears that consumers, who are in arrears and move into default, have nowhere to turn. Many of them simply keep it to themselves and try to avoid acknowledgement of their problems. For some the reality of their harsh situation becomes real when assets are repossessed

When they are repossessing things in the township that is so painful, your neighbours saw things being delivered and now they see things being taken away. That is so painful(Group 1 participant)

The following extract from the transcript from the focus groups sets out some of the reasons for default:

Facilitator	*Why do we find ourselves in a situation that we are unable to pay our debts?*
Respondent 1:	*We do not have money*
Respondent 2:	*There are a lot of reasons*
Respondent 1:	*The first one is the over commitment*
Respondent 3:	*The second one is a change in your personal circumstances. You lose your job; you spend like 6 months to 1 year not working. Obviously if you have a back log of a year without work it means that you are in serious debt problem*
Respondent 1:	*Yah*
Respondent 3:	*It is not the issue of [lack of] responsibility, but circumstances*
Facilitator	*What are the reason for failure to pay your debts? #1 I have a personal crisis; #2 lack of responsibility; #3 misinformation from the credit provider, #4 interest rate that was not revealed, #5 reckless lending?*
Respondent 1:	*I would say number 1*
Respondent 2:	*Yes, me too*
Respondent 3:	*Yes, it is personal crisis*
Respondent 4:	*Hmm, it is not like you are stubborn you are do not want to pay*
Respondent 5:	*The other thing is the mismanagement of the funds.*

But ultimately, the focus group respondents admitted that it was their fault they were in the precarious situation in which they found themselves:

Group 1:

Respondent 2:	*I think that in all earnest we are the people that are responsible for the problems we have*
Respondent 2:	*Look as much as the creditors had a share in the amount of pain, as people that took up credit, we are responsible*
Respondent 1:	*Even the contracts - we are the ones that we are supposed to read them*

What was also apparent was how shocked the focus group participants were that after years of loyal service, if they suddenly could not pay, they were charged additional fees and treated brusquely by the providers. The ombudsmen also raised this as a frequent complaint from consumers:

Group 3:

It is like when somebody calls me and says you need to pay by tomorrow and I said I cannot pay you tomorrow can I pay you on Friday? And they said no and I kept on asking him what I should do, do you want me to promise you or do you want me to say I will pay tomorrow to *end this conversation? So he did not say anything so I said okay I will pay tomorrow and then I paid him on Friday. It is because they have no compassion, they don't try to help people. If you want to pay them and I think it is not an ego thing because you don't want to be in the debt that you are in and you want them to try and help you. You have been with someone with 3 years and you are left with 1 year to pay up and shit comes your fan and you expect them to say okay she has been with us for 3 years and we had no problems. So they don't care.*

Once again, the responses here suggest there is an evident urgent and on-going need for more consumer education. Further, providers appear to fail the consumer in setting out obligations clearly. The fact that some contracts fail to even mention the costs and implications of default points to a need for more rigour from the regulator – perhaps in observing the realities of consumers at the point of sale.

In each of the theme areas, there are a number of concerns that have been raised, with a sense that similar concerns are raised for disparate sources, consumers, consumer watchdogs and the providers themselves. The recommendations from this section will be re-iterated later in the report.

In spite of these complaints most commentators indicate that there has been a noticeable improvement since the pre-NCA days, with improved clarity in contracts and greater awareness of consumer rights. The fact that those currently in default may have entered into contracts before the NCA became effective, clouds the issue of its efficacy.

Moreover, given that the consumer base in South Africa is generally regarded as passive, the fact that consumers have taken some time to become aware of their rights under the NCA is not surprising.

We turn now to the detail of the various credit market segments.

4. Trends in the consumer credit market

In Section 5, the detailed analysis of the survey will be presented. In this section, a summary of some of the trends apparent from our research are highlighted and discussed.

There are a number of 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

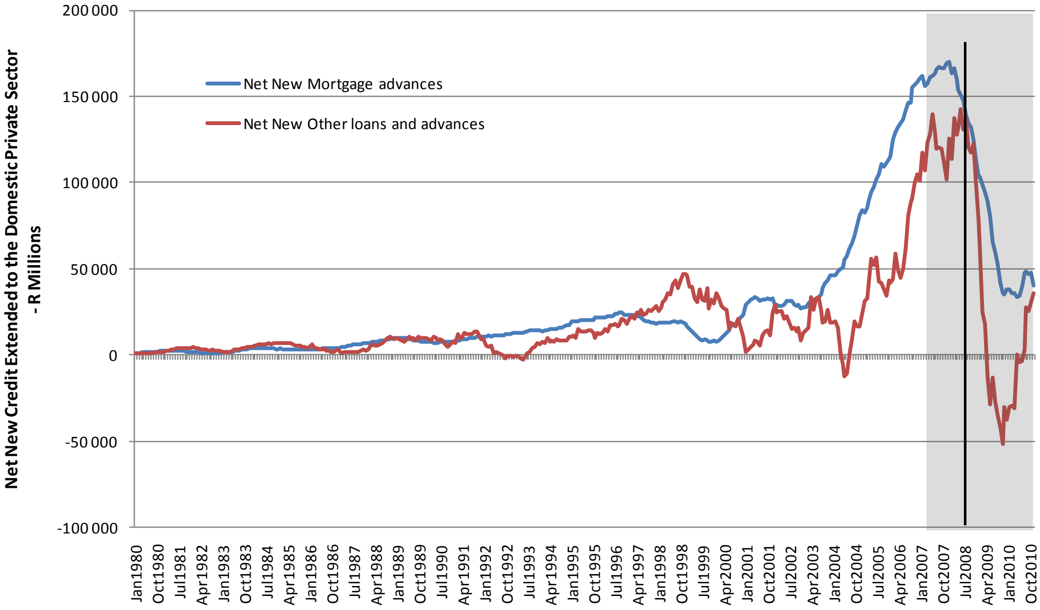
These key trends underlie much of what is observed in the detailed sectoral analysis. We will discuss them in turn.

4.1. The slump in new mortgages advanced

The macroeconomic data on the growth in mortgages advanced (see Figure 1) 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 10 is produced here. It shows new mortgage and other loans and advances extension since 1980.

Figure 10: "Net" New mortgage extension since 1980



Source: SARB Quarterly Bulletin (via Quantec)

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.

These longer term data help us to put the current slump in mortgage growth in perspective: Firstly the fall comes from a boom that was likely to be 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.

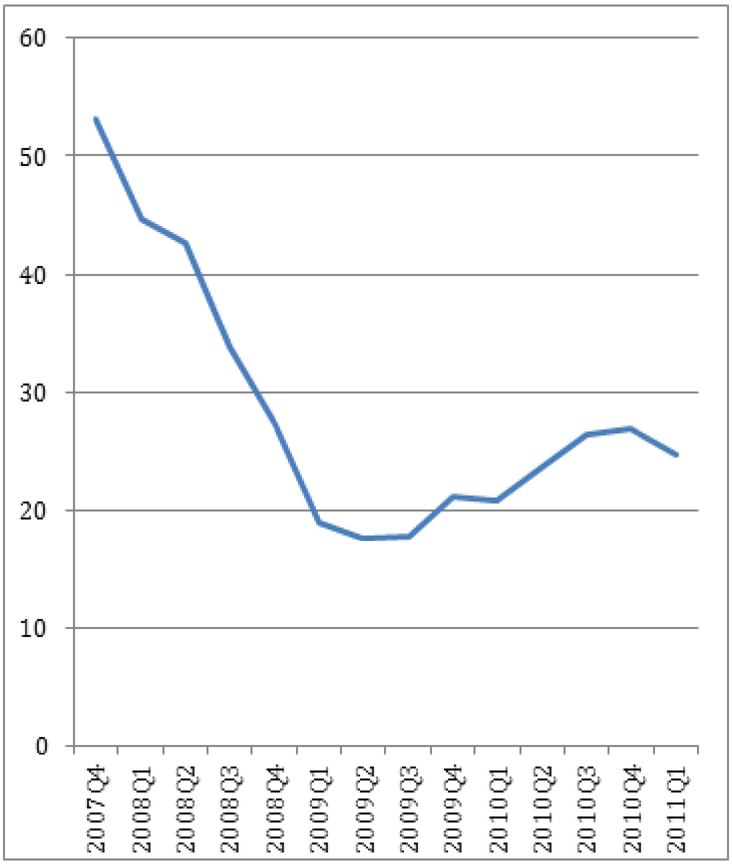
Box 3: Differences in "new" and "net new" mortgage data

The figures in Figure 10 shown above reflect the net value of new mortgages advanced (the blue line) according to SARB data (annual changes in series 1364M on S-22). In effect, this 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.

This is different from the gross value of "New mortgages loans and re-advances granted during period" (series 2127M on S-25) which reflects only the gross value of new advances in a particular month. The problem with the gross amounts used is that they only reflect the effect of repayment or cancellation of existing bonds after some delay. So – for example – if a house with an outstanding mortgage value of R1 millionis sold for R2 million and the buyer obtains a mortgage to cover 100% of the purchase price, the gross value of new mortgages extended would rise by R2 million, but the net value of mortgage advances would only rise by R1 million (because R1 million of the new mortgage would go towards settling the outstanding existing mortgage). Of course, in most cases the original owner will purchase a new property that may also require a mortgage, so the difference between gross and net mortgage advances should even out over time – but with some lag. However, during a downturn in the business cycle such as South Africa has recently experienced, the combination of falls in real house prices and general pressures on income could result in people being forced to "buy down" – with the result that the value of new mortgages advanced could be less than the value of existing mortgages repaid.

Given the difficulties of individual mortgage providers tracking the use of their mortgages to settle outstanding mortgages with other providers, the SARB accepted from October 1988 that gross amounts would be provided and published. Of course, this issue falls away in respect of the stock/book value of outstanding mortgage advances– which is what is reflected inFigure

Figure 11: Value of gross new mortgage advances – NCR data



10.

Although there are differences between the value of new mortgages advanced published by the SA Reserve Bank and those published by the NCR, the general trends are consistent. Figure 11 shows the value of gross new mortgage advances according to the NCR. This indicates that the gross value of new mortgages advanced declined from R53 billion in the 4th quarter of 2007 to around R17.5 billion in mid-2009, before recovering to almost R27 billion at the end of 2010. The first quarter of 2011 saw new mortgage advances fall back to under R25 billion.

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.

Related to this last, mortgage providers expressed concerns around 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.

In particular, what is apparent is the size of unsecured loans on offer to consumers. Loans in excess of R150,000 – over as much as seven years - are now offered – and it is this market in particular which bears closer examination.

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

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 that they are used for the following purposes:

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

It is also clear from the interviews that those who are offering these loans are doing so in effort to grow and secure their market share. 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 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.

One commentator pointed out the growth in the books of some banks, and some retailers is in excess of 25% over the past year or so. But does the growth reflect an improvement in consumer creditworthiness of this amount – or does it reflect the competitive drive between providers to expand their market share? If it is dominated by the latter, then the possibility of a bubble in the low-middle income market segment cannot be ruled out. One provider pointed out that there is a 35% overlap in the consumers served by themselves and other competitors offering similar unsecured products. By their own admission this is high.

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 that in the past – in spite of the historically low interest rate caps.

Clearly this is an outcome of the impact of the higher caps on unsecured credit – which when offered together with cell-captive credit life insurance has made the margins on offering this kind of product highly attractive.

While the credit life insurance is discussed further below, the shift out of mortgages cannot be ignored by the regulator. While some of the factors listed above are clearly beyond the remit of the NCR, to the extent that the debt review process has genuinely undermined the provision of mortgages, it would be useful to examine what can be reasonably done to address this. One provider pointed out - with some chagrin - that the banks were foolish to allow the negotiation of the debt review process to ignore the importance of mortgages in terms of the order of repayments by debt stressed consumers.

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 consumers benefit fully from credit life insurance remains a moot point and the various offerings in this regard are currently under review by the National Treasury.

From our perspective, the role of credit life insurance in terms of its impact on specific credit offerings is of interest. Credit life insurance can be seen to provide security to the provider so that there will be reduced risk on the capital extended. Our research shows that there appear to be three models in the credit life insurance offerings of providers:

- Cell-captive approach to credit life insurance offered by the credit provider
- Insurance of the whole credit provider's book
- Self-insurance by the provider.

These are discussed in turn.

The cell-captive approach to credit life insurance is relatively common amongst large credit providers, who have the resources to register with the Financial Services Board and can provide the necessary capital to support their registration.

This approach allows the credit provider to appear competitive in terms of comparable interest rates and fees on the credit offering, but to make up for lost ground in the pricing of credit life insurance. Moreover, the credit life insurance offering is often a highly profitable separate income stream.

The comparison of the pricing and terms of credit life insurance is relatively complex. Moreover, while providers do allow consumers to provide proof of their own insurance in many instances, given the incentives at the point of sale to conclude the credit transaction, consumers typically do not make use of this provision in the law, and take up the cell-captive offering made at the point of sale. The consumer is explicitly charged for this insurance, over and above the repayments associated with the credit offering.

A second model in the industry is one where the provider's book or books are insured on an aggregate basis. In this case the credit life insurance is not explicitly charged for the consumers' own account, but would typically be priced into the credit offering. Capitec is an example of a provider operating on this basis.

A third example is that where providers do not offer credit life insurance, either their own (due to lack of capital) or another provider (as this would make their loans more expensive). We may see this as a self-insurance model where the credit provider has to suffer the full effects of default. These are typically smaller providers whose mechanism to ensure low levels of default is to offer low risk loans on a conservative basis. Their competitive edge is the ability to offer a lower rate as they tend to have a better performing book and do not add the costs of credit life insurance onto their charges. In our view, it is only this 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 its (or its equivalent's) lowest level for 30 years. More than one commentator felt that the repo rate had been reduced too far and too fast – and that this was a matter for engagement with the Reserve Bank. It also appears that the cost of funds has not fallen commensurately. A recent report sponsored by the Banking Association calls for a rethink on the formula by which the caps are calculated (Econometrix, 2011).

The level of the repo rate has clearly impacted on the maximum permissible interest rate that can be charged for the different products. However, it was only a feature of our interviews in two categories of credit – unsecured personal loans– which have been growing rapidly in spite of such perceived constraints - and credit cards. We will discuss the latter.

In the case of credit cards, there was the suggestion that the credit card facility allowed one to enter into a long-term relationship with the consumer – and that given that this was a cheaper option for many clients than a personal loan, it should become more readily available as a source of household credit. However, at prevailing rates, it was not sustainable to offer a facility – be it a credit card or store card – to lower income consumers. Hence there was a suggestion that a special dispensation for cards should be created under "credit facilities". It may well be that there is space for more "granularity" in some of the categories of credit for which the NCA determines the rate, and this should be given more thought.

More generally regarding the interest rate cap, our view is that the formula has proven to be generally sound as offering a guide to the maximum permissible rates. We think a sudden change to the formula should be resisted. 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[1]. Beyond some level however, it would no longer fall or rise.

5. Consumer credit market analysis

In the following sections, the analysis highlights the results of the survey of credit providers conducted as part of this research. The discussion goes into considerable detail and combines the information from the survey with comments from the provider interviews, in particular.

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.

[1]. 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.

- 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 4 below. With the exception of the monthly rate applicable to short-term credit transactions, all of the prescribed rates are derived from formulas that use the Reserve Bank's Repurchase (Repo) Rate as a reference rate.

Table 4: 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

Since 2008 the fees being charged have tended towards the maxima - and in some cases - so too, have the interest rates. It is worth noting that there has been no change in the prescribed maxima relating to fees, and there may be inflationary pressures on the costs destined to be covered by the fees. As regard the interest rates, the maxima have all fallen since September 2008, when the repo rate was 12% per annum. The repo rate is now 5.5% per annum, making the maximum prescribed rates some 14.3% lower than the permissible rates the last time the survey was conducted. In this context, it is not surprising that most firms are charging the maximum fees and many of them are charging the maximum interest rates.

Over time, the Annual Percentage Rate (APR) has been shown to be the best mechanism to compare costs of various loan values and terms. This allows for more standardised comparison where the initiation fee is not paid separately and is included in the principal debt. Section 102 fees – fees which may be included in the principal debt – also include extended warranty; delivery, installation and fuel charges; taxes, licences or registration fees and the premiums for credit insurance.

Box 4: The interest rate & APR

The interest rate is generally seen as the price of a loan. However, while the interest rate is important, it is typically only one of the charges associated with credit.

The NCA makes allowance for a service charge (typically charged on a monthly basis) and an initiation fee (which may be included as part of the principal debt). At a minimum, an evaluation of the total cost of credit across products needs to take these charges into account. One way of doing so is by means of the Annual Percentage Rate calculation. Here, the cost of credit is calculated on a NACM basis, i.e. as a Nominal Annual rate, Compounded Monthly. The simplest form of the calculation is:

- Monthly APR = f (No. of periods, Payment per period, Present value of loan)
- Annual APR = Monthly APR *12

For example, a person takes a short-term loan of R10 000, over 12 months. The consumer is required to pay back R1 000 per month to cover the interest and the capital sum. Compounded monthly, the interest rate will be 35.1% p.a. But if the provider charges an initiation fee of R1 140 (R1 000 plus VAT) which is capitalised, and a monthly service fee of R57 (R50 plus VAT), over and above the interest rate, the consumer will have to pay R1 171 per month, and the effective cost of the loan will be 45.2% p.a.

Over and above this, the NCA allows for other Section 102 fees, which may be included in the principal debt such as extended warranty; delivery, installation and fuel charges; taxes, licences or registration fees and the premiums for credit insurance.

Comparison across different providers and different products requires an inclusion of typical and permissible fees, and although the NCA does not make it compulsory for providers to disclose or advertise such an inclusive rate, it is practical to use the APR as a basis for comparison here.

For the purposes of calculating the APR in this study, the present value of the credit agreement includes capital, initiation and any other Section 102 fees. The payment per period is inclusive of the monthly service fee.

5.1. Mortgages

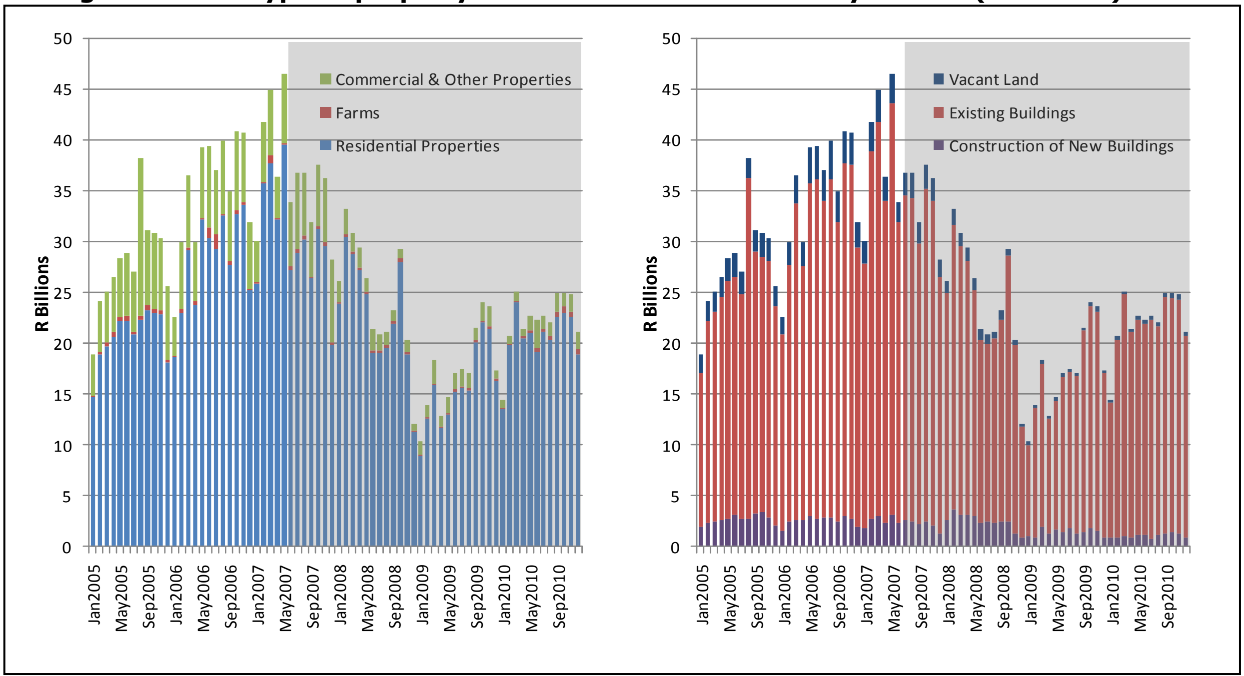
The analysis of general trends in the mortgage markets in Section 4 of this report focused on changes in the accumulated stock of different types of credit. In order to provide some context to the analysis of the results of the survey it is also necessary to take account of some of the dynamic developments in relation to new lending in the mortgage markets.

Figure 12 indicates the value of new mortgage loans and re-advances in terms of both the type of property being mortgaged (split between residential, farms and commercial and other properties) and the nature of the activity being funded (comprised of construction of new buildings, additions and alternations to existing buildings, and purchases of vacant land). Residential property is by far the most significant type of property being financed – accounting for between 86% and 96% of all new mortgage loans advanced between January 2008 and December

2010. Advances for farm purchases constituted a negligible share (typically 1% to 3%) of total new mortgage advances over the period, while the contribution of commercial and other properties ranged from three per cent to 13% over the past three years.

Not entirely sure how this figure relates to our other one of net new advances. We will have to say something on this.

Figure 12: Type of property financed & nature of activity funded (R billions)

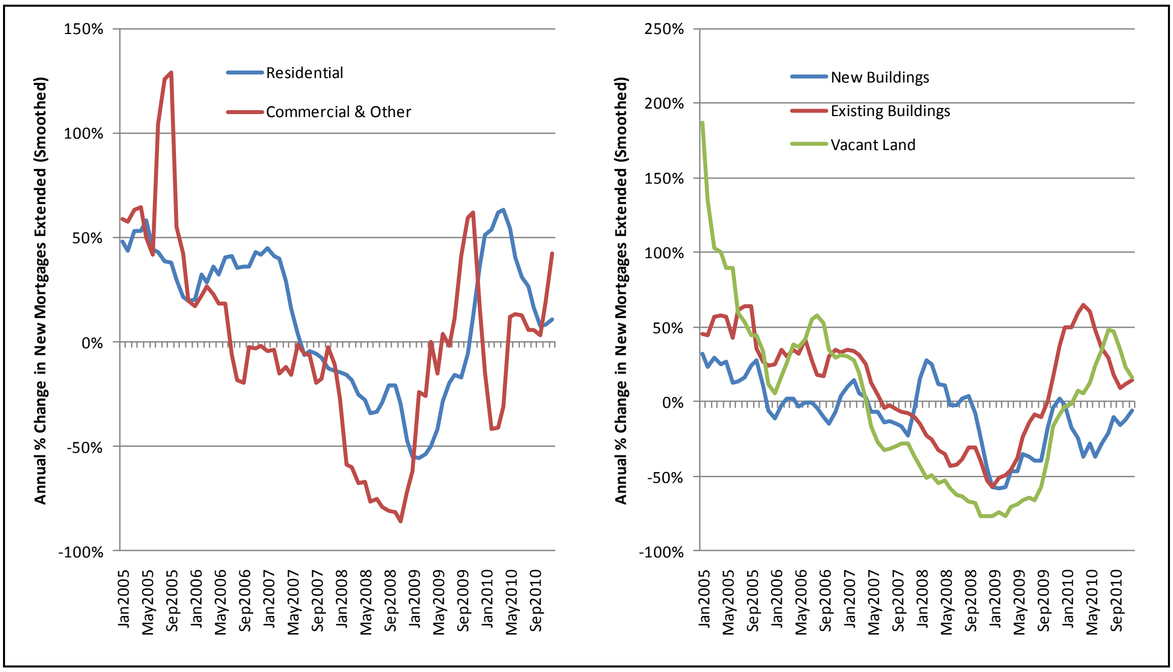


Source: SA Reserve Bank Quarterly Bulletin (via Quantec)
Note: Shaded area indicates period during which NCA has been in effect

The figure on the right indicates that a very high proportion of new mortgage loans and advances are used to finance additions, improvements and alterations of existing buildings, and that the proportion of funds used to fund new building construction, or the purchase of vacant land for subsequent development is much lower. Mortgages to fund new building construction appear to have been particularly negatively affected by the liquidity squeeze arising from the Global Economic Crisis. Since the beginning of 2008, the share of total new mortgages used to fund new building construction has ranged from 4% to 12%, while funding of work on existing buildings has varied from 84% to 95% of the total. Finance to purchase vacant land has averaged three per cent of the total over the same period.

Figure 13 indicates the annual percentage change (smoothed using a 3-month moving average) in the type of property financed with new mortgage loans (the graph on the left), and the type of activity funded by the loan (the graph on the right). The figure on the left indicates a steady decline and then contraction in the values of new mortgages advanced to finance the purchase of both residential and commercial and other properties from the beginning of 2005 to the last quarter of 2008. There was some resumption of growth during 2009, but - in the case of commercial and other properties - this once again turned negative in the latter half of 2009. There was a divergence of growth patterns during 2010, with a recovery in funding for commercial properties, but a gradual slowing down of growth in the aggregate value of loans for residential buildings.

Figure 13: Type of property financed & nature of activity funded (Annual change)



Source: SARB Quarterly Bulletin S – 25 (via Quantec)

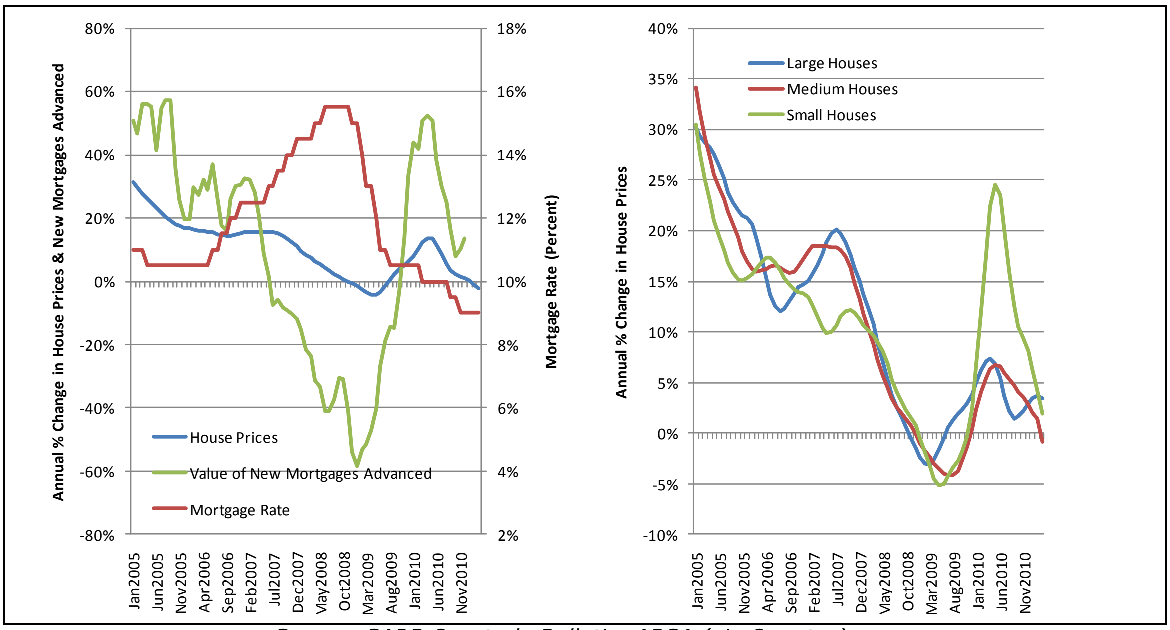
The figure on the right shows a general declining trend in funding for new building construction, spending on existing buildings and the purchase of vacant land between the start of 2005 and the end of 2009. This was followed by a recovery in all three types of applications in the first three quarters of 2009, but funding for new buildings never achieved positive growth rates over this period, and started to contract more rapidly in the last quarter of 2009 and first quarter of 2010. Loans to fund additions and improvements to existing buildings achieved year-on-year growth rates in excess of 60% early in 2010, but the rate of expansion slowed again dramatically. Funding for vacant land purchases achieved growth of around 50% in mid-2010, but this then also started to decelerate.

It is apparent from both graphs in Figure 13 that developments in the mortgage market were not directly affected by the Global Economic Crisis in an obvious and easily predictable way. Rather, the contraction in mortgage lending preceded the commencement of the crisis, and its subsequent recovery coincided almost exactly with the end of the crisis. This raises the question of what has really been driving developments in the markets for mortgage loans.

The graph on the left side of Figure 14 suggests that mortgage extension behaves in a manner consistent with house prices (for which there is a positive association) and the mortgage rate (for which there is an inverse relationship). These are two proxies representing supply and demand respectively. Roughly speaking, new mortgages advances will increase if house prices rise and if the mortgages rate falls. However, the relationship appears to have broken down in the latter three quarters of 2010, with both the price and value of new loans advanced falling simultaneously. This suggests that other, non-price factors have been having a more pronounced impact on activity in this market.

One clue could come from changes in house prices (represented here by annual changes in ABSA's House Price Index). If house prices are falling, the same aggregate value of new mortgage loans advanced will finance a larger number of property purchases. Similarly, if the demand for houses is characterized by a general trend towards "buying down", with consumer preferences shifting towards smaller (and presumably cheaper) properties, then the same aggregate value of mortgage loans and advances will finance a greater number of property purchases. This is consistent with the economic recession which followed the Global Economic Crisis - and the affordability of smaller houses - and the trend is likely to have been encouraged by the significant increases in property-owning costs arising from higher municipal rates and service charges, and electricity prices. The "buying down" phenomenon is reflected in the graph on the right side of Figure 14 – which indicates substantially higher price increases for small houses between mid-2009 and mid-2010. However, in the latter half of 2010, the price changes in all three size classes trended lower, and the price of medium sized houses actually declined in nominal terms in early 2011. In real terms, price changes of both medium and small houses were negative in the first quarter of 2011.

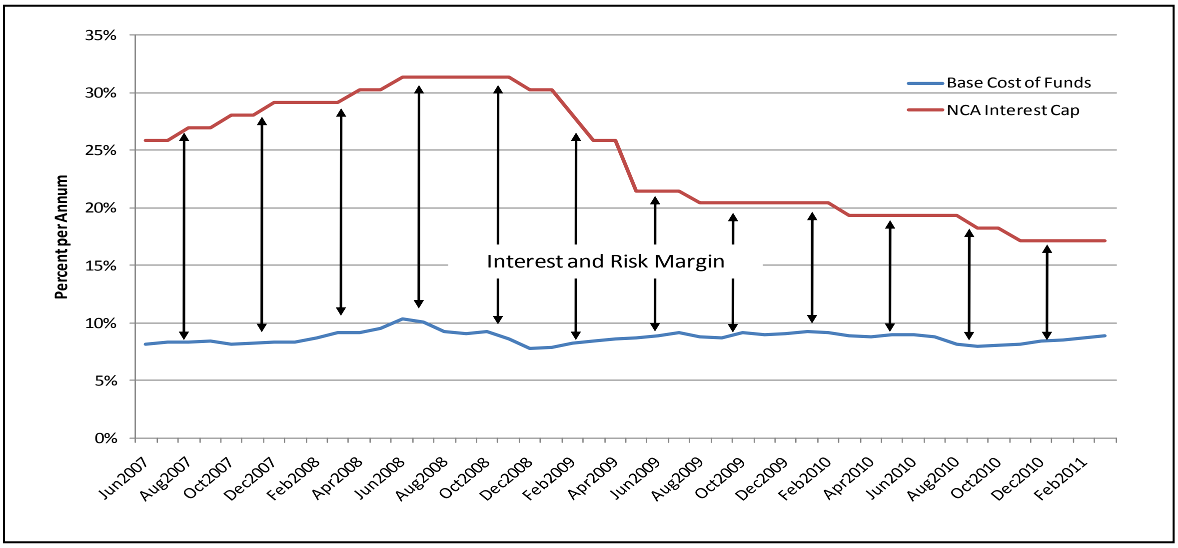
Figure 14: Changes in house prices & the value of new mortgages



Source: SARB Quarterly Bulletin, ABSA (via Quantec)

Another reason for the slower growth in new mortgage loans advanced could be the narrowing of the interest and risk margin between the cost of funds and the interest cap imposed by the NCA. The formula used to calculate the level of the cap [(Repo rate x 2.2) +5%] makes it highly sensitive to changes in the Repo rate. As the Repo rate has declined, the NCA interest cap has come down by a proportionately greater amount.

Figure 15: Interest and risk margins in the mortgage loan market



Source: SARB Quarterly Bulletin (via Quantec), NCA

The difference between this price cap and the base cost of funding (we have used the yield on Government bonds with a term of 10 years or longer as a proxy) represents the interest and risk margin of mortgage providers. Figure 15 indicates how this margin has changed over time in response to both changes in the Repo rate and changes in base funding costs. The margin has declined from 22.8% in November 2008 to 8.2% in March 2011. Although it will be clear from the subsequent analysis of the survey results that the majority of the household mortgage market is still accommodated within the current cap and interest and risk margin, it is likely that an increased portion of higher risk mortgage loan applicants have been, and will be, rejected as a result of the substantially lower interest cap and reduced ability to price fully for risk.

We now turn our attention to the results of the survey of mortgage loan providers.

5.1.1. Trends in the mortgage book

Table 5 indicates the combined value of the outstanding book of mortgage providers surveyed broken down according to different loan sizes, as well as the combined value of the outstanding mortgages of all providers surveyed and the percentage share of this value of the total outstanding mortgage loans and advances recorded by the Reserve Bank for the same period. In total, the respondents surveyed declared an aggregate book of R682,5 billion at the end of

2010. The figures indicate that the survey respondents represent between 85% and 89% of all mortgages advanced to the household sector in South Africa.

Overall, the survey respondents indicate that the aggregate mortgage book grew by some 7% in nominal terms between June 2008 and December 2010. This represents low growth, particularly as compared to other forms of consumer credit (see Section 2). Moreover, the number of mortgages declined marginally over this period. The interviewees pointed out that mortgages were increasingly uninteresting to providers, given erosion of margins due to the lack of buoyancy in property prices, the bond originators taking a margin and various factors undermining the ability of providers to realize the security of the house.

Between mid-2008 and the end of 2010 the combined book value of mortgages less than R300,000 had declined by more than R10 billion – from R104 billion to less than R94 billion. The decline is probably due to the effects of house price inflation – which has meant that fewer and fewer properties fall within this price category; and the effects of employment loss in the wake of the recession which has probably impacted on this market segment more than most.

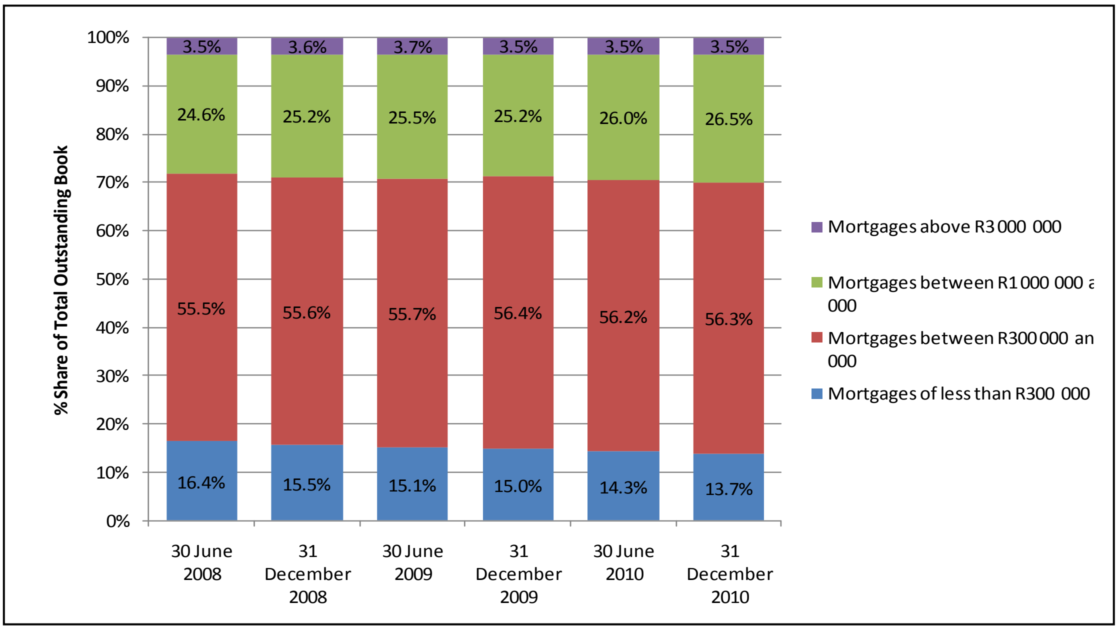
The aggregate value of outstanding mortgages in the R300,000 to R1,000,000 price range increased by more than R30 billion over this period, with mortgages between R1,000,000 and R3,000,000 increasing by almost R24 billion. Mortgage loans with values above R3,000,000 rose by just over R1 billion.

Table 5: Value of outstanding mortgage book

Outstanding Book as at:	***Aggregate Book of Survey Respondents - R Billion***					***Total Outstanding Book According to BA900 Analysis (R Billion)***	***Survey Response as % of SARB Total***
	Mortgages of less than R300 000	Mortgages between R300 000 & R1 000 000	Mortgages between R1 000 000 & R3 000 000	Mortgages above R3 000 000	Aggregate Book of Respondents - Total		
30 June 2008	104.2	353.8	156.7	22.5	637.2	717.6	89%
31 Dec2008	102.7	367.5	166.6	24.0	660.9	745.3	89%
30 June 2009	100.7	372.0	170.2	24.5	667.3	754.9	88%
31 Dec 2009	94.6	356.2	159.2	22.0	632.1	736.5	86%
30 June 2010	96.0	377.4	174.8	23.6	671.7	786.4	85%
31 Dec 2010	93.8	384.5	180.6	23.6	682.5	806.7	85%

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

Figure 16: Mortgage sizes



Source: Feasibility NCR Survey 2011

Table 6 shows how the mortgage size composition of the combined book of respondents has changed over time. The share of loans with values less than R300,000 has fallen from 16.4% in June 2008 to 13.7% in December 2010. The share of mortgages with values of between R300,000 and R1 million, and between R1 million and R3 million have both increased over this period – from 55.5% to 56.3%, and from 24.6% to 26.5% respectively. The share of mortgages with values above R3 million has remained static at 3.5%.

In spite of the aggregate increase in the combined value of the outstanding book of survey respondents, the total number of loans still in effect has declined over the period. Table 6 indicates that the total number of mortgages declined by around 40,000 loans between June 2008 and December 2010 - from 1.84 million to 1.80 million. However, the decline was confined to mortgages with values of less than R300 000 – which dropped by around 124,000 loans. In spite of this, the number of mortgages with a value of less than R300,000 still make up the bulk of the accounts (48%). All other loan sizes increased. It is not clear what effect house price increases at the low end (pushing an increasing portion of new sales above the R300 000 limit) played in this trend. It is also likely to have been impacted by the more than 1 million job losses since 2008.

The share of South African households with an outstanding mortgage is estimated to have declined from around 14.3% to 13.7% over the period – suggesting a general reduction in access to mortgage finance. Given average household sizes of 3.8 people, this suggests that around 152,000 fewer people had access to mortgages in December 2010 than in June 2008. Since household sizes of lower income groups are generally larger than the national average, the number affected is likely to be higher than the above figure suggests.

Table 6: Number of mortgage loans outstanding & estimated household coverage

Outstanding Book as at:	***Aggregate Book - Total Number of Loans Outstanding***					***Estimated Number of Households in South Africa***	***Estimated % of Households Living in Mortgaged Dwelling***
	Mortgages of less than R300 000	Mortgages between R300 000 and R1 000 000	Mortgages between R1 000 000 and R3 000 000	Mortgages above R3 000 000	Total Book		
30 June 2008	988,860	724,249	122,242	6,263	1,841,614	12,857,469	14.3%
31 Dec 2008	877,961	732,954	126,077	6,105	1,743,097		
30 June 2009	927,488	756,958	131,648	6,692	1,822,787	12,984,457	14.0%
31 Dec 2009	877,961	732,954	126,077	6,105	1,743,097		
30 June 2010	886,014	770,091	136,621	6,384	1,799,110	13,109,845	13.7%
31 Dec 2010	864,989	788,121	142,074	6,474	1,801,659		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

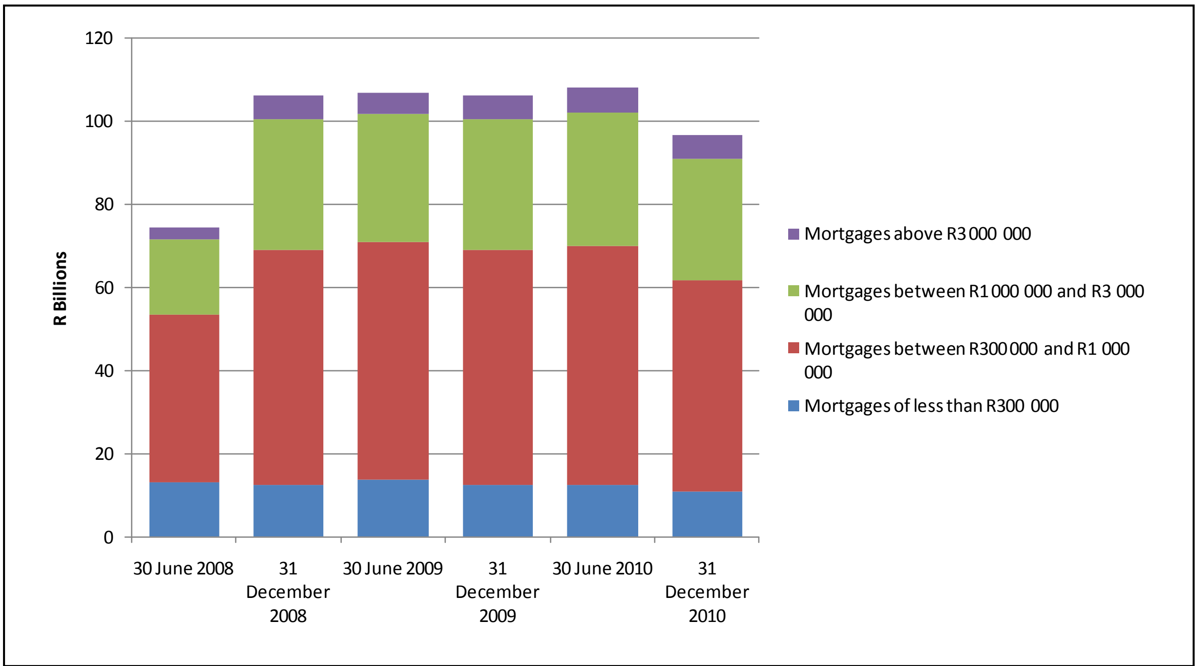
5.1.2. Mortgage loans in arrears

The proportion of mortgage loans in arrears – by value as well as by number – provides some indication of changing levels of debt stress over time. People generally regard their residence as an essential item, and as an asset, and would like to avoid defaulting on their mortgage repayments. Nevertheless, the relatively high repayment values on most mortgages does mean that people faced with an unforeseen shock – such as the loss of their job – may be unable to avoid going into default.

Interviewees suggested that the debt counselling process may have also unintentionally undermined the repayments associated with mortgages, as some consumers have received advice to settle their most expensive credit first. Also, since mortgages repayments are not prioritized by the Payment Distribution Agents (PDAs) managing the repayments of debt stressed individuals, by the time the mortgage repayments is queued; available funds have already been whittled away by other commitments. This means the number of rejected mortgages repayments has been on the rise.

Figure 17 indicates the aggregate value of mortgages in arrears between mid-2008 and the end of 2010 according to different loan sizes. It indicates a significant jump in default rates between June 2008 and December 2008. The aggregate value of loans in arrears of survey respondents increased from R74 billion to R106 billion over this period. It remained at these levels until mid-2010, after which it declined to around R97 billion by end-2010. This value represents 14.2% of the value of the book surveyed(see Table 7).

Figure 17: Value of mortgage loans in arrears by loan size



Source: Feasibility NCR Survey 2011

Table 7 shows the value of loans in arrears per size category, and in total, as a percentage of all mortgage loans still in effect at that time, from the survey. It is notable that arrear rates for lower value loans are lower than for higher value loans, and that the increase in arrear rate by the end of the period was more marked in the case of higher value mortgages. This tends to support a view that the recession impacted on all income classes, and that levels of over-indebtedness were probably higher amongst higher income groups. Default rates for loans with values above R3 million more than double over the period, and were more than twice as high as loans with values of less than R300,000 at the end of December 2010 – supporting the approach by some banks to require substantially higher deposits on these high value loans. Increases in default rates for the loan size categories R300,000 to R1 million and R1 million to R3 million were more moderate – rising from 11.4% to 13.2% in the case of the former category, and from 11.4% to 16.2% in the case of the latter. By the end of 2010, default rates for loans of less than R300,000 were lower than mid-2008.

Table 7: Per cent of the value of mortgage loans in arrears

Outstanding Book as at:	*Value of Arrears as % of Outstanding Book*				
	Mortgages of less than R300 000	Mortgages between R300 000 and R1 000 000	Mortgages between R1 000 000 and R3 000 000	Mortgages above R3 000 000	Total Book
30 June 2008	12.6%	11.4%	11.4%	12.9%	11.7%
31 December 2008	12.1%	15.4%	19.0%	23.8%	16.1%
30 June 2009	13.5%	15.4%	18.1%	21.3%	16.0%
31 December 2009	13.1%	15.9%	19.8%	26.1%	16.8%
30 June 2010	13.1%	15.2%	18.4%	25.2%	16.1%
31 December 2010	11.7%	13.2%	16.2%	24.2%	14.2%

Source: Feasibility NCR Survey 2011

Although the various ratios are slightly different, the number of loans in arrears as a percentage of the total number of loans still on the books of the providers surveyed tells a similar story. It is shown in Table 8. The total number of loans in arrears increased from around 166 000 to 228 000 between June 2008 and June 2009, before declining to around 194 000 by the end of 2010. In total, around 10.7% of the mortgage accounts are in arrears.

Table 8: Per cent of the number of mortgage loans in arrears

Outstanding Book as at:	*Number of Arrears as % of Number of Loans Still on the Books of Credit Providers Surveyed*				
	Mortgages of less than R300 000	Mortgages between R300 000 and R1 000 000	Mortgages between R1 000 000 and R3 000 000	Mortgages above R3 000 000	Total Book
30 June 2008	10.6%	10.0%	9.8%	11.0%	9.0%
31 Dec 2008	11.2%	13.2%	16.0%	21.3%	12.4%
30 June 2009	11.7%	13.0%	15.1%	18.0%	12.5%
31 Dec 2009	11.2%	13.2%	16.0%	21.3%	12.4%
30 June 2010	11.1%	12.7%	15.0%	21.2%	12.1%
31 Dec 2010	10.1%	11.0%	13.1%	19.8%	10.7%

Source: Feasibility NCR Survey 2011

5.1.3. Current lending patterns

Respondents were surveyed in respect of the current lending patterns. Their responses are summarized in Table 9. It appears that a relatively low proportion of mortgage lending (a weighted response of 11.4% of the total value of mortgages advanced) is to small businesses[2]. This figure should be treated with some caution because different organizations approach small business lending in different ways. Some do not specifically differentiate at the application stage, and are therefore unable to estimate the proportion going to small business. Others do not lend to incorporated businesses at all, while other providers have

[2] In this case, “small business’ was defined by the respondents themselves

separate divisions dealing with small businesses and have not included these figures in their estimates. The definition used by mortgage providers to define small businesses for operational purposes also varies and seldom coincides with the definition referred to in the NCA (which in turn refers to the definitions contained in the National Small Business Act).

With the above concerns as caveats, aggregate lending to small businesses appears to have declined over the past two years, with 4 respondents indicating it had remained roughly the same and 3 indicating it had declined.

Lending to juristic persons constitutes a small – and declining - proportion (a weighted average of 2.6% in early 2011) of total mortgage lending. Again, this figure should be treated with some caution. Most respondents are unable to accurately identify juristic persons within their loan books, so – where provided – responses are estimates. The R1 million asset and turnover limits that apply to the definition of juristic persons in the NCA also significantly impact on lending to this sector. It is simply not a market that is afforded a high priority by mortgage providers (and credit providers generally) and one must question the appropriateness of this classification in the NCA.

Unlike some other types of consumer credit, the typical term of mortgage loans has not changed over the past two years.

Table 9: Recent mortgage lending patterns

Lending Patternover past two years	*Response/Value*	*Method of measurement*
Proportion of lending to small business	11.4%	Average of respondents weighted by share of total book value at end 2010
Trend in lending to small business	4 unchanged 3 decreased	Count of responses
Proportion of current mortgage lending to juristic persons (per NCA definition)	2.6%	Average of respondents weighted by share of total book value at end 2010
Trend in lending to juristic persons	4 decreased 3 unchanged	Count of responses
Trend in term of mortgage loans advanced	7 unchanged	Count of responses

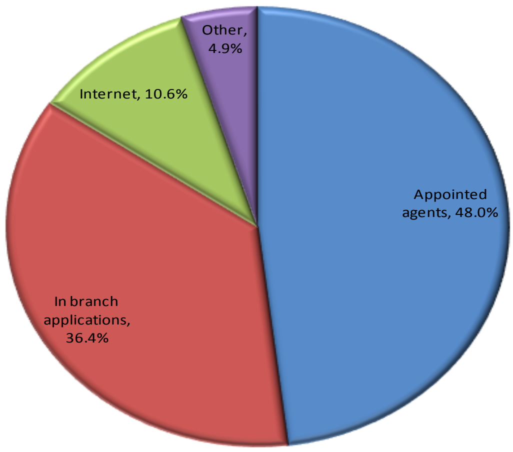
Source: Feasibility NCR Survey 2011

5.1.4. Application channels, commissions and outlets

Technological change – particularly in relation to the internet and communications technology - is making it possible to submit mortgage loan applications through an increasingly diverse number of channels. Figure 18 indicates the weighted average response of the providers relating to the loan application channel. Appointed agents located at estate agents and bond originators are still the most significant access channel – accounting for 48% of the value of mortgage applications received. This is followed by applications submitted in branches (36%) and electronic applications submitted over the internet (11%). Around five per cent of applications are submitted using some other channel.

In interviews, providers indicated that while bond originators were for some years the dominant origination channel, there has been some move away from this, with at least two major banks engaging directly with estate agents. Bond originators are seen to erode the very thin mortgage margins even further, not so much because of commission, but because of the discount applied to the book originated through originators.

Figure 18: Mortgage loan application channels



Source: Feasibility NCR Survey 2011

In the light of this, the information on the commission payable to appointed agents is somewhat misleading as originators and estate agents are grouped together. Nonetheless, given the weighted average commissions typically payable on these different channels (and ignoring discussion of any other role that each channel might play), the relative attractiveness of alternatives to appointed agents becomes apparent. On average appointed agents achieve commissions of around one per cent of the value of loans introduced, while the people who handle "in-branch" applications earn an average commission of 0.15%. In some cases the latter commission is replaced by a flat fee of R1 950/per application processed. The average commission earned on applications submitted over the internet is 0.02%, while that earned through other (unspecified) channels is 0.17%. Of the seven respondents, four said that their commission structure had unchanged over the past two years, while the other three noted that it had changed.

The respondents to the survey collectively have over 3,700 sole branded outlets and a further 605 co-branded or shared outlets. Of the mortgage providers surveyed, three had reduced their number of branches of the past year, two had kept the number the same, and the remaining two had increased their branch footprint.

Of the 9 mortgage providers that responded to the survey, 5 are planning to increase their physical presence as part of their institution's broader distribution strategy. One provider is planning to expand its footprint beyond the borders of South Africa, while another envisages additional sub-branches in the south of Johannesburg and the north of Pretoria. Three providers are not planning an increase in their physical presence.

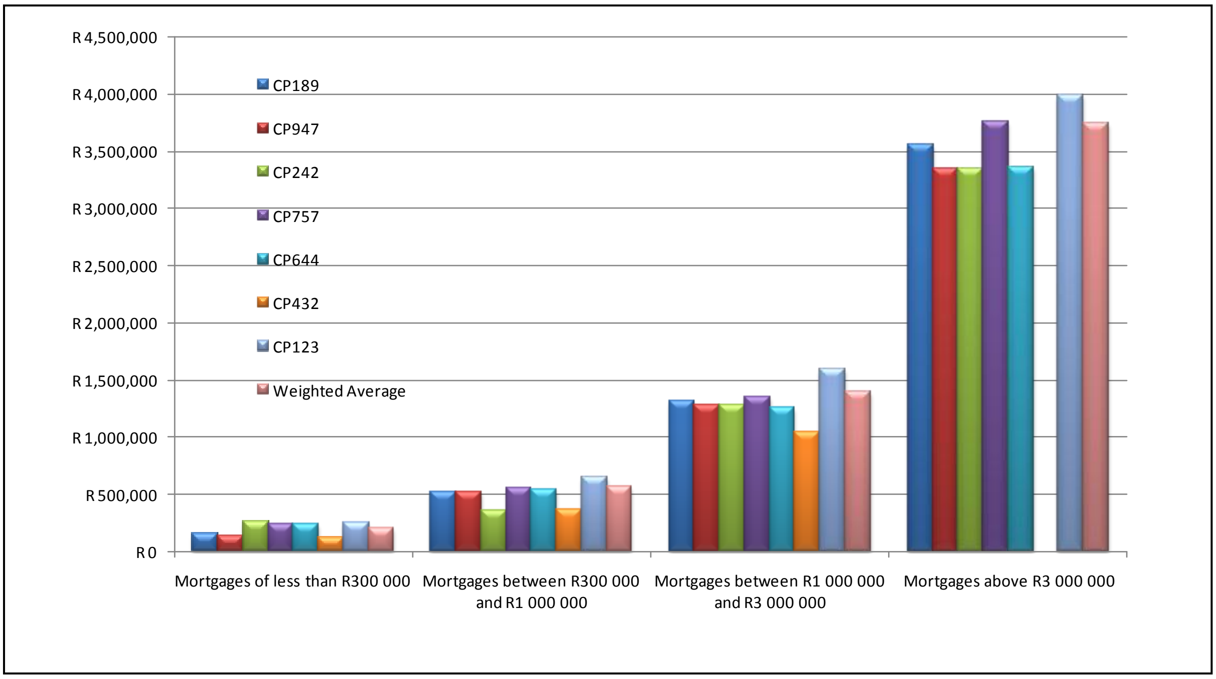
5.1.5. Average loan values, required or realized incomes and terms

Figure 19 indicates the typical values of mortgage loans granted by each of the providers surveyed within each value category. These are largely consistent across the different providers although some providers tend to operate at the lower end of the value range. The weighted median average loan values granted within each value category are as follows:

Category of mortgage size	Typical value
Below R300,000	R 202,766
Between R300,000 & R1,000,000	R 561,886
Between R1,000,000 and R3,000,000	R 1,399,842
Above R3,000,000	R 3,743,144

The weighted average typical loan values tend to be towards the lower end of each range, but there is quite a substantial jump between the averages for loans within the R1 million to R3 million range, and those above R3 million – suggesting substantially different market segments.

Figure 19: Typical (median) value of mortgages granted



Source: Feasibility NCR Survey 2011

Since the implementation of the NCA, income levels have provided a progressively weaker proxy for affordability. Increasingly people with middle to high gross incomes may have limited, or no, ability to service any additional debt – because they have been targeted by credit providers and are already highly indebted. Conversely, lower income individuals may have relatively little existing debt, and are therefore able to afford relatively larger loans. The average incomes associated with applicants qualifying for the arithmetic average of loans currently being granted is shown in Table 10. In some cases, this constitutes a minimum income requirement of the particular credit provider – while in others it reflects the average incomes of recently successful applicants. The figures indicate a high degree of variability in income requirements for mortgage loans up to R300,000. The weighted average income for a loan of only R178,000 is just over R9,000 per month, but one provider will grant loans of this size with monthly incomes as low as R4,319, while another notes that the average incomes of recently successful applicants for this loans size is as high as R27,264. The explanation for this discrepancy probably lies in the fact that different mortgage providers may target different market segments. The provider with high average incomes of applicants may be dealing primarily with established applicants that wish to finance home improvements or alterations, while the one with lower income requirements may be targeting new and entry-level home buyers. Some providers caution that their activity in the entry/affordable housing market segment is very low, and that this is likely to lead to some distortions in the figures provided.

The weighted average income achieved or required for a loan of around R566,000 is about R20,000 per month, while that for a loan of close to R1.5 million is about R47,000 a month. The incomes of people who successfully applied for mortgages of around R4.4 million ranges from R110,000 to R139,000. Only two of the respondents indicated that they take account of joint/household incomes when considering eligibility for a loan.

Table 10: Required income of successful mortgage applicants

	Mortgages of less than R300 000	*Mortgages between R300 000 and R1 000 000*	*Mortgages between R1 000 000 and R3 000 000*	*Mortgages above R3 000 000*
Weighted average loan size	R 178,254	R 565,884	R 1,483,125	R 4,429,050
Average actual income or qualifying income for average loan size				
Minimum	R 4,319	R 15,400	R 40,132	R 110,411
Weighted average	**R 9,075**	**R 20,192**	**R 47,285**	**R 130,855**
Maximum	R 27,264	R 37,724	R 65,534	R 138,543

Source: Feasibility NCR Survey 2011

The weighted average term of mortgage loans currently being advanced ranges from 239 months in the case of loans up to R300,000 to 258 months for loans between R300,000 and R3 million and 253 months for loans above R3 million.

Table 11 shows the minimum, weighted average and maximum deposit typically required by credit providers for the different loan size categories. In the case of loan values up to R300,000 this ranges from 0% to more than 34% - with a weighted average of just over 11%. It should be noted that some providers of mortgages provide cash advances - secured by property - to retirees. Such providers' requirement for a deposit is clearly different to other providers funding applicants with limited "net property equity".

The weighted average deposit required increases to 16% - 17% for loan values between R300,000 and R3 million, and then jumps to almost 25% for mortgages above R3 million – indicating continued risk aversion on the part of mortgage providers to higher value properties.

Table 11: Required deposits for mortgage loans

	Mortgages of less than R300 000	*Mortgages between R300 000 & R1 000 000*	*Mortgages between R1 000 000 & R3 000 000*	*Mortgages above R3 000 000*
Minimum	0.0%	0.0%	10.0%	15.0%
Weighted average	**11.1%**	**16.2%**	**16.8%**	**24.6%**
Maximum	34.2%	25.6%	27.2%	31.5%

Source: Feasibility NCR Survey 2011

On average, around 97% of mortgage loans currently being advanced are provided on a flexible interest basis. Although most providers do offer a fixed rate option, there appears to be very limited interest in the market for it. The preference for fixed rates is slightly higher for lower value loans, with one large provider indicating that 7.5% of mortgages with values less than R300,000 are on a fixed rate basis. Interviewees have indicated that some (particularly lower-to-middle income) consumers, attach higher importance to the certainty and predictability of having repayments that do not vary from month to month. Conversely, mortgagees with loans in excess of R3 million have all opted for variable interest rates.

All mortgage providers require comprehensive homeowners' or property insurance for the mortgages they advance, and all but one of those surveyed offer the requisite insurance from within their group. In each of these cases, the mortgage loan division receives a commission or payment from the insurance division for the value of policies underwritten. In addition to the property insurance, two providers (one of which operates in the affordable housing loan arena) require that loan applicants also have credit life insurance to cover the value of the mortgage.

5.1.6. Pricing

Survey respondents were asked to provide pricing data for standardized mortgage value and term products. The various elements of pricing include the following:

- Initiation fees
- Monthly service fees
- Interest costs
- Credit life insurance (where this is a condition of obtaining a loan)

- Comprehensive homeowners' or property insurance (where this is a requirement of obtaining a loan).

Initiation fees are capped under the NCA at a maximum of R5,000 excluding VAT. Most respondents charge the maximum permissible (highlighted in green) – or close to it – on higher value loans (R650,000 and higher), but less than is permitted on the R280,000 loan. The weighted average initiation fee charged on the lower value loan is R3,868 (including VAT), compared with fees of more than R5,402 for higher value loans (R5,700 is the maximum permissible inclusive of VAT). The fees charged in 2011 are generally higher than the corresponding weighted average fees charged in the 2008 Survey. For example, in 2008 the weighted average initiation fee for a R280,000 loan was R3,163, and that for a R1.3 million loan was R5,268.

Table 12: Initiation fees charged on mortgage loans

Mortgage Provider	*Mortgage Value*			
	R 280,000	**R 650,000**	**R 1,300,000**	**R 4,000,000**
CP123	R 2,960.00	R 5,550.00	R 5,700.00	R 5,700.00
CP189	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00
CP242	R 3,990.00	R 5,700.00	R 5,700.00	R 5,700.00
CP432	R 5,000.00	R 5,000.00	R 5,000.00	R 5,000.00
CP644	R 2,576.40	R 4,474.50	R 5,472.00	R 5,472.00
CP757	R 2,960.00	R 5,550.00	R 5,700.00	R 5,700.00
CP947	R 5,700.00	R 5,700.00	R 5,700.00	R 5,700.00
Weighted Average	**R 3,868.24**	**R 5,318.33**	**R 5,439.12**	**R 5,402.03**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

The NCA also caps monthly service fees - at R50 plus VAT – on all credit agreements. There is some degree of variability in the monthly service fees charged by respondents – with one provider choosing not to levy the fee, and another charging the maximum permitted. The weighted average monthly fee charged on a R280,000 loan is just over R39. This increases to above R42 for higher value loans. The corresponding average monthly service fees in the 2008 Survey was R35 per month for all loan sizes.

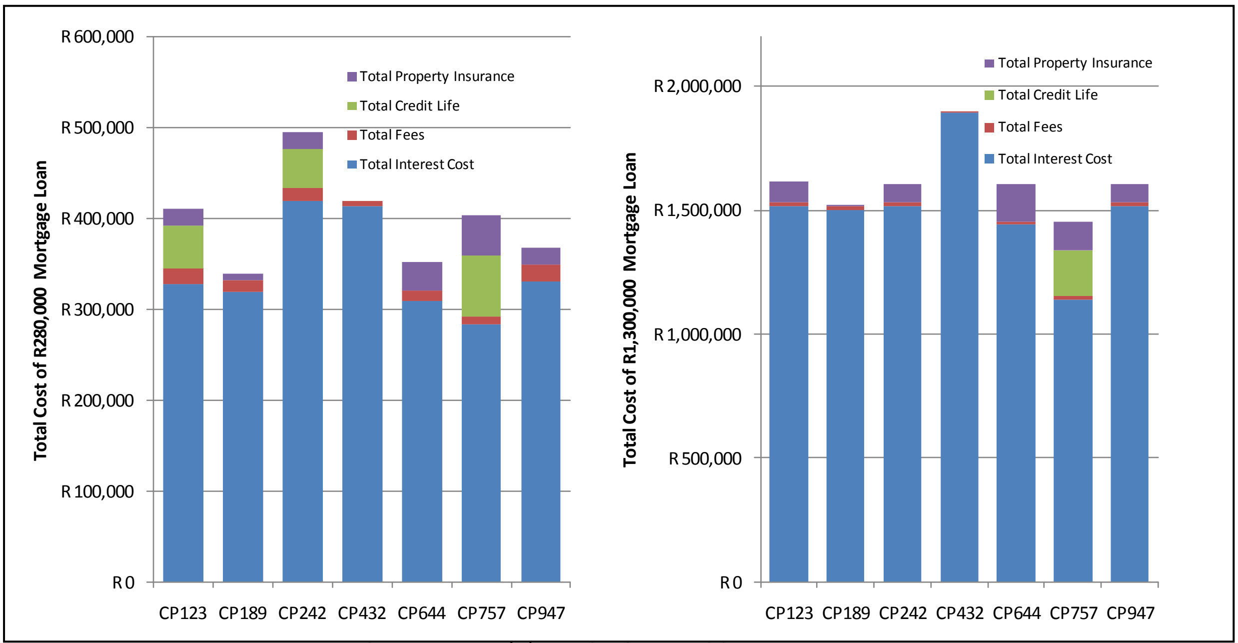
Table 13: Monthly service fees charged on mortgage loans

Mortgage Provider	*Mortgage Value*			
	R 280,000	**R 650,000**	**R 1,300,000**	**R 4,000,000**
CP123	R 57.00	R 57.00	R 57.00	R 57.00
CP189	R 28.50	R 28.50	R 28.50	R 28.50
CP242	R 39.90	R 52.00	R 52.00	R 52.00
CP432	R 0.00	R 0.00	R 0.00	R 0.00
CP644	R 35.00	R 35.00	R 35.00	R 35.00
CP757	R 22.12	R 39.63	R 39.90	R 39.90
CP947	R 52.00	R 52.00	R 52.00	R 52.00
Weighted Average	**R 39.19**	**R 42.50**	**R 42.50**	**R 42.15**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

When the various charges (including credit life insurance and property insurance) are applied to the principal debt for the indicated term of 240 months it is possible to calculate the total cost of the loan offered by different mortgage providers. Figure 20 indicates the total cost, and its composition, of a loan of R280,000 (left hand graph) and one of R1.3 million (right hand graph). It is clear that providers choose to structure their interest, fees and insurance charges in different ways. The fee component generally constitutes a more significant share of total costs for lower value loans. Credit life and property insurance also tend to be more significant elements of cost for lower value loans.

Figure 20: Total costs of a R280,000 and a R1,300,000 mortgage loan



Source: Feasibility NCR Survey 2011

The total cost of a R280,000 loan (including credit life and property insurance) ranges from around R339,000 to R496,000. When insurances are excluded, costs fall to a minimum of R292,000 and maximum of R433,000 – suggesting that insurances can add between R47,000 and R63,000 to the cost of a loan of this size. In the case of a R1,3 million mortgage loan, the total cost (inclusive of credit life and property insurance) ranges from R1,45 million to R1,9 million – a difference of almost R447,000. Excluding insurances reduces the lowest cost option to R1,2 million, but does not change the most expensive option – because that provider does not charge (or did not provide quotes) for either credit life or property insurance.

When account is taken of the various fees and charges levied, it is possible to calculate the Annual Percentage Rate or APR. In our calculations we have specifically excluded property insurance because of its variability from one location to another. APRs can be calculated inclusive or exclusive of insurance. These are shown in Table 14 (including credit life) and Table 15 (excluding credit life) below. The weighted average APR for a R280,000 loan is 9.6% per annum including credit life insurance, and 9% per annum when credit life is excluded. The effective rates charged by providers ranges from 8.9% to 12.1% per annum inclusive of credit life insurance, and from 8.1% to 11.3% per annum when credit life is excluded.

Table 14: APRs of mortgages inclusive of credit life insurance

Mortgage Provider	*Mortgage Value*			
	R 280,000	**R 650,000**	**R 1,300,000**	**R 4,000,000**
CP123	10.4%	10.2%	9.1%	9.0%
CP189	8.9%	9.0%	9.0%	9.0%
CP242	12.1%	9.1%	9.1%	9.0%
CP432	10.9%	10.8%	10.9%	10.8%
CP644	8.8%	8.7%	8.7%	8.7%
CP757	9.6%	8.6%	8.1%	7.7%
CP947	9.3%	9.1%	9.1%	9.0%
Weighted Average APR 2010	**9.6%**	**9.3%**	**8.9%**	**8.8%**
Weighted Average APR 2008	**15.0%**	**14.9%**	**14.7%**	**14.6%**

Source: Feasibility NCR Survey 2008, 2011

The weighted average APRs generally decline slightly with higher value loans – from 9.6% p.a. for a R280,000 loan to 8.8% p.a. for a R4 million loan, when credit life is included. The above tables, and subsequent analysis of other types of credit, confirm that mortgages are the cheapest form of credit available to consumers by a significant margin. While this is not new, the importance of a mortgage loan to enable a consumer to generate an asset, and ultimately personal wealth should not be underemphasized.

Both Table 14 and Table 15 show the comparable APRs for 2008 as well as 2010. In both cases, the outcome of the reduction in the repo rate and the NCA maxima since 2008 is clearly reflected in the prevailing market prices. So whereas a R280 000 mortgage was priced at 15% in 2008 (inclusive of insurance), in 2010, the price was 9.6%. A mortgage of R4 million would have cost 14.6% in 2008, and 8.8% in 2010. The credit life insurance is a relatively small share of the pricing, with a steady differential of 0.5% between the inclusive and exclusive pricing in 2008. In 2011, the pricing differential varied from 0.6% in the smallest loan canvassed, compared to 0.1% for the largest loan. In 2008, five out of eight respondents charged credit life insurance (over and above property insurance) and in 2010 six out of seven respondents indicated they charged credit life insurance.

Table 15: APRs of mortgages exclusive of credit life insurance

Mortgage Provider	*Mortgage Value*			
	R 280,000	**R 650,000**	**R 1,300,000**	**R 4,000,000**
CP123	9.3%	9.1%	9.0%	8.9%
CP189	9.0%	8.9%	8.9%	8.9%
CP242	11.3%	9.1%	9.0%	8.9%
CP432	11.0%	10.8%	10.8%	10.7%
CP644	8.8%	8.7%	8.6%	8.6%
CP757	8.1%	7.4%	7.1%	7.4%
CP947	9.4%	9.1%	9.0%	8.9%
Weighted Average APR 2010	**9.0%**	**8.7%**	**8.7%**	**8.7%**
Weighted Average APR 2008	**14.5%**	**14.3%**	**14.2%**	**14.1%**

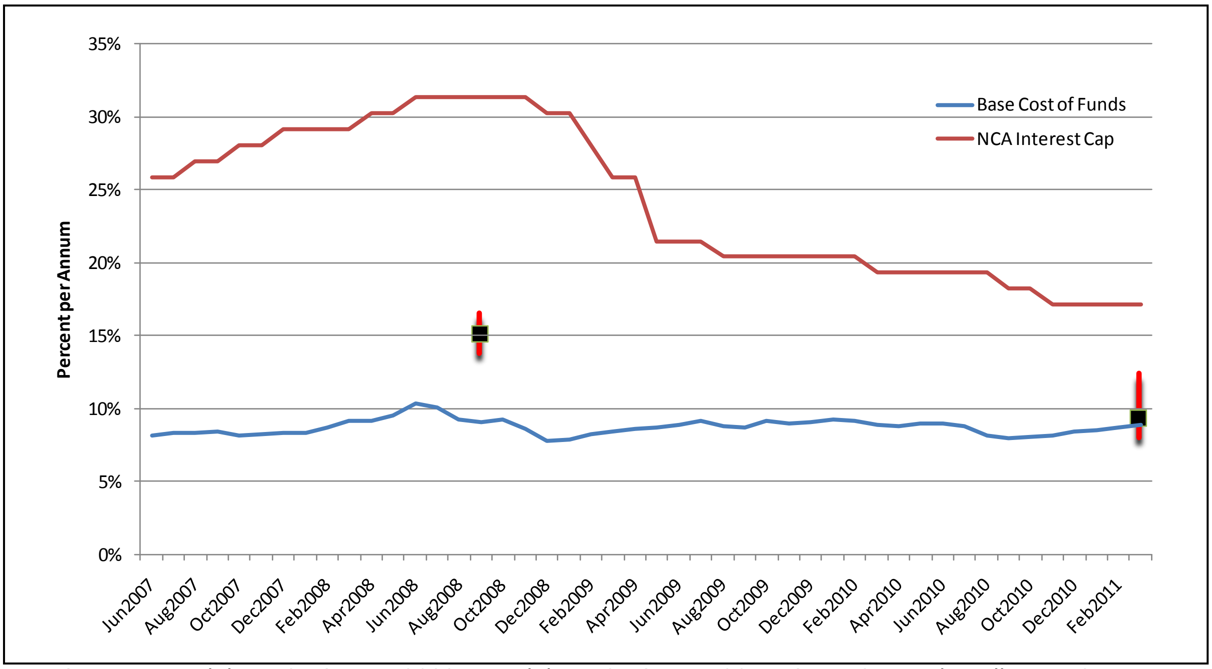
Source: Feasibility NCR Survey 2011

Figure 21 indicates the general pricing band within which mortgage providers may be expected to operate, and compares the APR results (inclusive of credit life insurance) of the 2008 Survey with those of the 2011 Survey. The high-low bars indicate the maximum and minimum APRs, and the black squares show the weighted average APRs. The base cost of funds is represented by the yield on government bonds with a term of 10 years of longer. It is noteworthy that whereas the maximum, minimum and weighted average APRs in the 2008 Survey were all well within the bands, the market is now operating very close to our base cost of funds proxy, and the lowest APR in our survey is actually below the base funds cost. This suggests that there may be some necessary reliance on depositors' funds to support the mortgage book. This may imply a mismatch between the term of funds being borrowed by credit providers and the term of loans to which it is being applied. In other words, some providers may be borrowing short and lending long.

The analysis suggests that the mortgage market may not be the most profitable for providers at this time, and may explain increased rejection rates, and a channelling of riskier loan applicants to unsecured term loans. The apparent lack of appetite of providers to extend this form of credit more readily is of concern.

Six of the survey respondents indicated that there had been a general increase in the fees associated with mortgage loans, while four respondents noted no change. The reasons advanced for the increase in fees charged ranged from general administrative cost increases (4 providers) to reduced interest margins (1 provider) and higher risks linked to difficulties in recovering assets in the case of default.

Figure 21: General pricing band within which mortgage providers operate



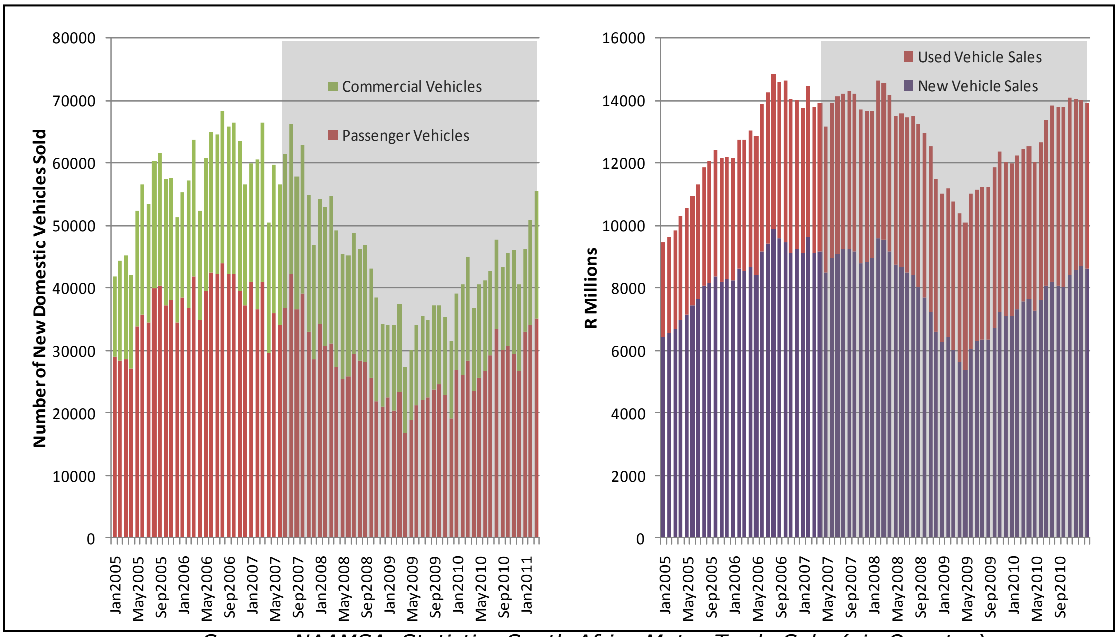
Source: Feasibility NCR Survey 2008, Feasibility NCR Survey 2011, SARB Quarterly Bulletin, NCA

5.2. Asset finance

Asset finance refers to credit provided to finance the purchase of high value assets other than fixed property where the principal security for the loan is the asset itself – the ownership of which does not formally pass – in the case of instalment sales agreements – to the buyer/borrower until the loan has been repaid. In practice, asset finance relates primarily to the funding of purchases of passenger and commercial motor vehicles, but it could also cover private boat and yacht purchases, quad bikes, motor bikes and potentially also extend to art, antiques and other high value collectibles. However, the focus of this analysis is on motor vehicle finance.

Figure 22 indicates trends in relation to the number of new motor vehicles sold within the South African market (the left hand graph) and the value of retail sales of new and used motor vehicles (the right hand graph). The total number of new motor vehicles sold in South Africa peaked at 66,503 in March 2007 – of which just over 44,000 were passenger vehicles. The lowest number of new vehicle sales since January 2005 occurred in April 2009. In that month only 27,398 vehicles were sold – of which less than 16,800 were passenger vehicles. Since then there has been a fairly strong recovery, with monthly sales rising to just under 55,500 units in March 2011. It is not clear how many of these new vehicle sales are financed.

Figure 22: Detail of new & used motor vehicles sold

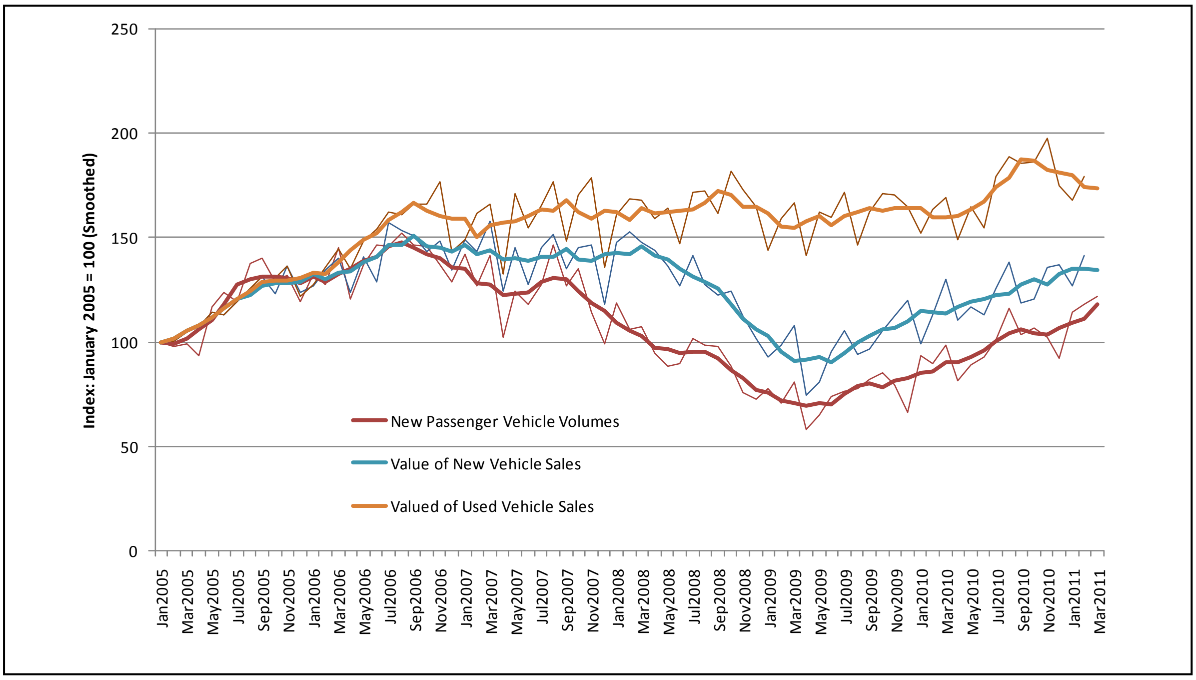


Source: NAAMSA, Statistics South Africa Motor Trade Sales(via Quantec)

There is also significant vehicle asset finance activity in relation to the purchase of used vehicles. The figure on the right indicates the monthly value of sales derived from the trade in new and used motor vehicles from January 2005 to February 2011. This indicates that total revenue derived from such sales rose from R9,5 billion in January 2005 to almost R15 billion around mid-2006. Revenue remained fairly flat till around the middle of 2008, before falling sharply to just over R9 billion in April 2009 before recovering again. By early in 2011, monthly sales were back around the R14 billion mark. Of course these figures are not adjusted for inflation, so in real terms recent motor trade sales are still substantially lower than they were in 2006. The proportion of total sales contributed by the sale of second hand vehicles increased from around a third to almost 50% in May 2009, but has since fallen back to just under 40%. It is, however, not clear how many vehicles these sales figures reflect. Nor do they indicate the proportion or number of sales that are financed.

The relative changes in the volume of new passenger vehicle sales and the values of new and used vehicle sales are shown in Figure 23. The data indicates similarities between these indicators during 2005, but the indicators then start to diverge – with the value of used vehicle sales accelerating more rapidly and then remaining quite stable. The value of new vehicle sales revenue was also fairly stable between mid-2006 and the end of 2007, even though sales volumes were declining. This implies that the average price of new vehicles sold was increasing over this period. New vehicle sales revenue declined by around 50% during 2008 – first in response to monetary tightening and higher interest rates, and then as a result of the impact of negative developments in the global economy. Between mid-2006 and the middle of 2009, the volume of new passenger vehicles sold in the domestic economy declined by 62%. It has since increased and by the end of the first quarter of 2011 was almost 22% higher than at the start of 2005.

Figure 23: Relative changes in the volume & value of vehicle sales



Source: NAAMSA, Statistics South Africa Motor Trade Sales(via Quantec)

5.2.1. Trends in the asset finance book

The total book value of survey respondents of asset finance deals still in effect declined from close to R197 billion in mid-2008 to less than R182 billion in mid-2010 before recovering to R191 billion at the end of 2010. Table 16 indicates how the combined book of surveyed respondents is split between different loan value sizes, as well as the percentage share of the total value of outstanding instalment sales and leasing loans recorded in the BA900 returns. The figures indicate that close to 60% of the total outstanding book of respondents at the end of December 2010 related to finance deals with values of between R100,000 and R300,000. The aggregate book value which incorporates the closing value of the book at the end of the previous period plus net new deals in the current period shows that deals financed up to R60,000 declined over the period shown from close to R10 billion to just above R6 billion. The combined value of deals still in effect that were originally valued at between R60,000 and R100,000 dropped from more than R31 billion to R24.5 billion over the same period. In contrast the outstanding value of deals originally above R300,000 increased from R42.9 billion to close to R53 billion.

The share of the combined book of survey respondents of total instalment sales and leasing credit extended to households increased from 57% of the BA900 data to more than 100% over the period shown in Table 16. The initial discrepancy between the Survey data and the Reserve Bank data may be accounted for by the consolidation in the industry over this period and the timing of incorporation in the surveyed book.

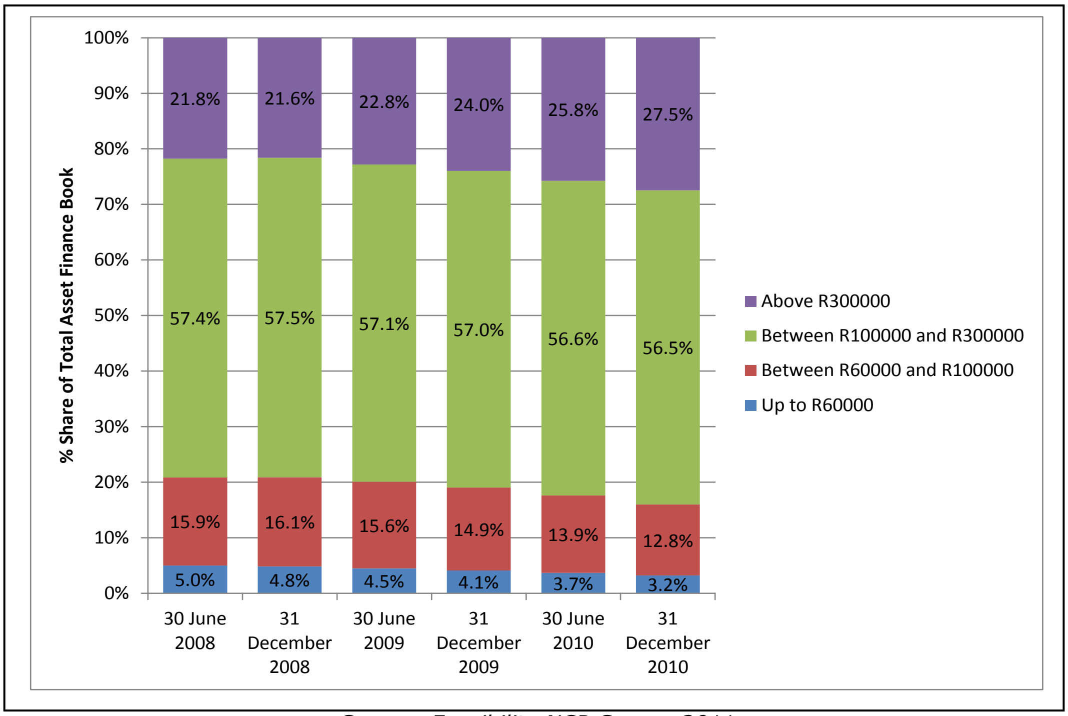
Table 16: Value of outstanding asset finance book

Outstanding Book as at:	*Aggregate Book Summary - R Billion*					*Total Outstanding Book According to BA900 Analysis*	*Survey Response as % of SARB Total*
	Up to R60000	**R60000 <> R100000**	**R100000 <>R300000**	**>R300 000**	**Total Book**		
30 June 2008	9.8	31.3	113.2	42.9	197.4	345.1	57%
31 December 2008	9.1	30.1	107.8	40.5	187.4	298.5	63%
30 June 2009	8.2	28.5	104.4	41.7	182.8	257.0	71%
31 December 2009	7.5	27.1	103.4	43.5	181.5	219.1	83%
30 June 2010	6.8	25.7	104.5	47.5	184.5	190.3	97%
31 December 2010	6.1	24.5	108.3	52.6	191.5	173.8	110%

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

Figure **24** indicates the compositional changes in the combined book of survey respondents in respect of different deal sizes. Finance deals valued at up to R60,000 have seen their share decline from 5.3% to less than 3.5% since mid-2008. This is probably due largely to the effect of motor vehicle price increases, which has resulted in fewer and fewer deals falling within this value category. This value bracket will increasingly capture only second hand car sales. The outstanding book value of finance deals valued at between R60,000 and R100,000 has declined as a share of the total from just less than 17% to around 13.5%. The share of the outstanding book of finance deals originally valued at between R100,000 and R300,000 initially increased marginally, but has since returned to contributions similar to those of mid-2008. The share of the total outstanding book attributable to deals valued at more than R300,000 increased from just more than 19% to 24% over the same period.

Figure 24: Compositional changes in the combined asset finance



Source: Feasibility NCR Survey 2011

The total number of loans still in effect declined by around 182,000 deals between June 2008 and December 2010 - from 1,9 million to 1,7 million. Off these, more than half were originally deals valued at between R100,000 and R300,000, while about 466,000 are for assets valued at between R60,000 and R100,000. Given the estimated number of households in South Africa in 2010, these figures suggest that around 13.2% of households are currently repaying loans for motor vehicles or other moveable assets. This is down from around 15% in June 2008.

Table 17: Number of vehicle finance &estimated household coverage

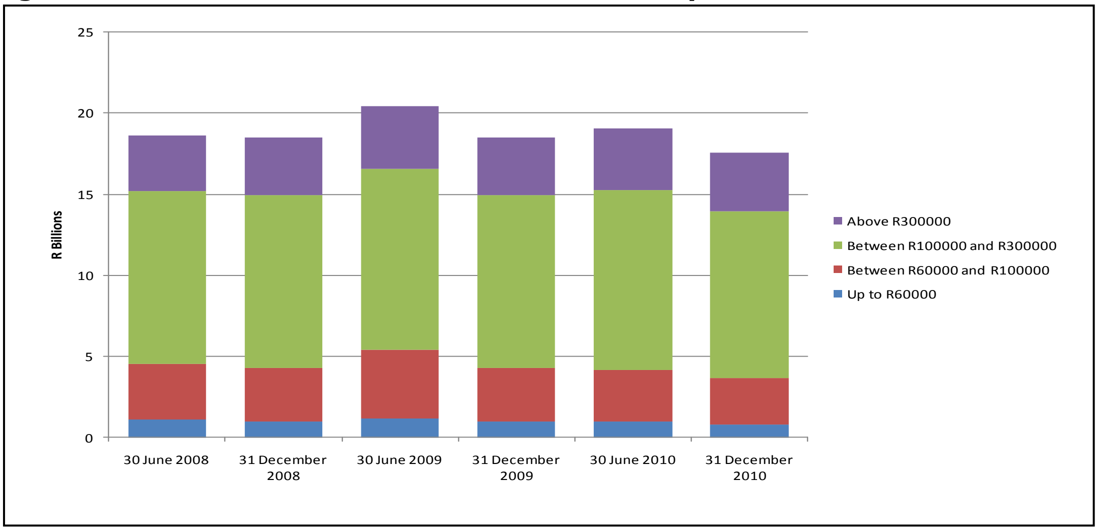
Outstanding Book as at:	*Aggregate Book - Total Number of Loans Outstanding*					*Estimated Number of South African Households*	*Estimated % Households with Financed Motor Vehicle or Other Asset*
	Up to R60000	**Between R60000 & R100000**	**Between R100000 & R300000**	**Above R300000**	**Total Book**		
30 June 2008	317,580	536,635	934,532	123,930	1,912,677	12,857,469	14.9%
31 December 2008	244,826	492,271	889,306	129,485	1,755,888		
30 June 2009	268,828	508,029	888,729	123,236	1,788,822	12,984,457	13.8%
31 December 2009	244,826	492,271	889,306	129,485	1,755,888		
30 June 2010	222,439	473,689	897,605	139,951	1,733,684	13,109,845	13.2%
31 December 2010	221,086	465,567	922,091	133,767	1,742,511		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

5.2.2. Asset finance loans in arrears

Figure 25 indicates the aggregate value of asset finance deals that were in arrears at particular dates. This increased from just over R18 billion to more than R20 billion over the year to June 2009. By the end of 2010 the value of arrears had dropped back to around R17.7 billion. This was lower than the pre-Crisis levels and suggests a cautious approach on the part of providers.

Figure 25: Value of asset finance loans in arrears by loan size



Source: Feasibility NCR Survey 2011

In contrast to the mortgage arrears book, default rates in the asset finance book decrease with loan size: from 13% for deals worth less than R60,000 to less than

8.5% for values above R300,000. In respect of the lower deal value ranges (up to R100,000) there has been a slight increase in default rates over the course of the past few years – although the latest figures still represent a substantial improvement on those of end December 2001, which saw default rates rocket to around 20% for all value ranges (see Table 18). The default rates for loans originally valued at between R100,000 and R300,000 initially increased, but were back at the same levels of mid-2008 (i.e. before the Global Economic Crisis) by the end of 2010. In aggregate terms just less than 10% of the total value of providers' outstanding book was in default at the end of December 2010 – down from 12% in mid-2009.

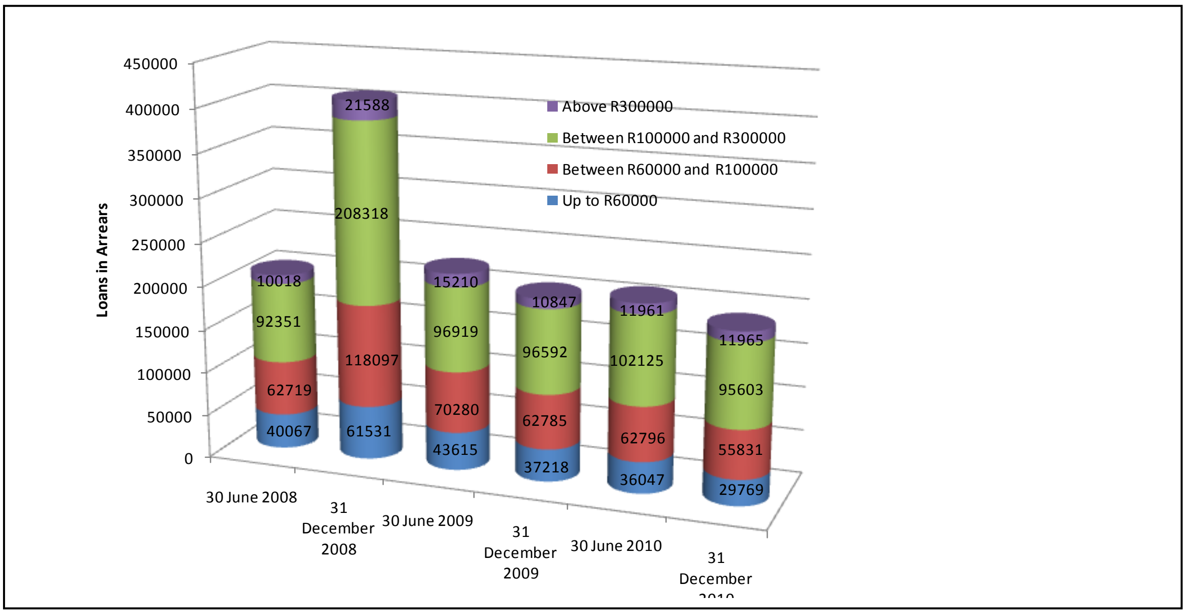
Table 18: Per cent of the value of asset finance loans in arrears

Outstanding Book as at:	*Value of Arrears as % of Outstanding Book*				
	Up to R60000	**Between R60000 and R100000**	**Between R100000 and R300000**	**Above R300000**	**Total Book**
30 June 2008	11.5%	10.9%	9.7%	9.8%	9.7%
31 December 2008	18.4%	20.2%	21.6%	20.3%	21.0%
30 June 2009	14.4%	14.8%	11.1%	11.6%	12.0%
31 December 2009	13.4%	12.2%	10.7%	10.1%	10.9%
30 June 2010	14.0%	12.6%	10.9%	9.8%	11.1%
31 December 2010	13.1%	11.7%	9.7%	8.4%	9.8%

Source: Feasibility NCR Survey 2011

Figure 26 indicates the number of loans in default within each value category. At the end of 2010, more than 193,000 asset finance deals were in arrears – down from a peak of almost 410,000 at end December 2008, and consistent with pre-Crisis levels. The bulk of the agreements in arrears at end 2010 (close to 96,000) were in respect of loans originally valued at between R100,000 and R300,000, while close to 56,000 were for loans between R60,000 and R100,000.

Figure 26: Number of asset finance loans in arrears by value



Source: Feasibility NCR Survey 2011

5.2.3. Current lending patterns

Table 19 summarizes the current lending patterns of asset finance providers. It indicates a weighted average share of total current lending to small businesses of 5.5%, and to juristic persons of only 1.4%. In overall terms, lending to small businesses has probably declined, given that six respondents stated that it had unchanged, and two indicated it had declined. On a similar basis, lending to juristic persons has probably remained relatively static over the past two years. However, the same caveats expressed in the analysis of mortgage lending also apply to the estimates of small business and juristic persons in this section.

On a weighted basis, respondents estimate that around 18% of their current lending is used to finance the purchase of "productive assets" – i.e. assets used in the production of other goods and services. It seems likely that this share has declined in recent years. The share of current lending used to fund the purchase of second hand assets is quite high, at around 57% - but may also have declined slightly over the past few years given the net response of those providers surveyed.

A very high, and rising, share of current deals (more than 95%) is instalment sales, with the balance (less than 5%) being leases.

The trend identified in the 2008 Survey of the term of asset finance deals being extended continues, with half of the respondents indicating that their average term was increasing, and the other half saying that it had stayed the same over the past two years.

Table 19: Recent asset finance lending patterns

Lending Pattern over past two years	***Response/Value****
Proportion of asset finance extended to small business	5.5%
Trend in proportion of lending to small business	6 unchanged2 decreased
Proportion of current asset finance extended to juristic persons (as defined in the National Credit Act)	1.4%
Trend in proportion of lending to juristic persons	1increased5 unchanged1 decreased
Proportion of current asset finance used for the purchase of productive assets	17.7%
Trend in the proportion of lending to fund productive assets	6 unchanged2 decreased
Proportion of current asset finance used for the purchase of second hand, or previously-owned assets	57.4%
Trend in the proportion of lending to fund purchase of second hand or previously-owned assets	2 increased3 unchanged3 decreased
Proportion of current asset finance that are instalment sales	95.5%
Trend in the proportion of lending that is instalment sales	6 increased2 unchanged
Trend in relation to the term of typical asset finance agreements	4 increased4 unchanged

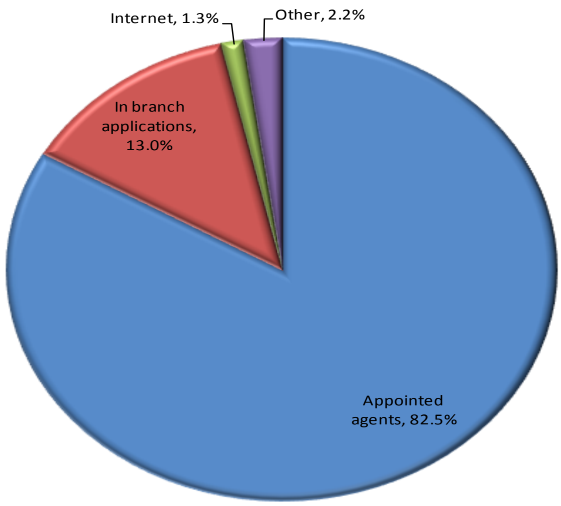
Source: Feasibility NCR Survey 2011

*Note:Measurement of % by weighting average of share of total book value at end of 2010

5.2.4. Application channels, commissions, and outlets

Motor vehicle finance providers still rely heavily on appointed agents and sales staff in motor vehicle dealerships to source and channel applications for finance to them. On a weighted basis, more than 82% of all deals are sourced from dealerships, and another 13% are submitted in person by the prospective borrower at branches of the asset finance provider. This leaves the internet and other applications with little role to play

Figure 27: Application channels for asset finance



Source: Feasibility NCR Survey 2011

currently. Collectively they currently account for an estimated 3.5% of applications for funding. Commissions paid to agents in dealerships range from 0% to 2.8% of the deal value, and may include a flat monetary fee per deal processed. Some providers only pay a flat fee of around R4,950 per deal processed, while at least three of the respondents indicated that they do not pay any commissions to agents or sales staff in dealerships.

The commissions payable to branch staff are substantially lower than those paid to agents and sales staff in dealerships – ranging from nothing to 0.4% of the deal value. In some cases, a flat fee of just over R450 is paid. Only one of the respondents indicated that they pay a commission (0.1% of the deal value plus R234) for applications generated over the internet. Other providers currently pay no commissions for internet applications.

Collectively, the respondents to this survey currently have 2,526 sole branded branches or outlets through which they deal with potential customers. There are a further 627 co-branded or shared outlets or branches which also provide of physical point of interface.

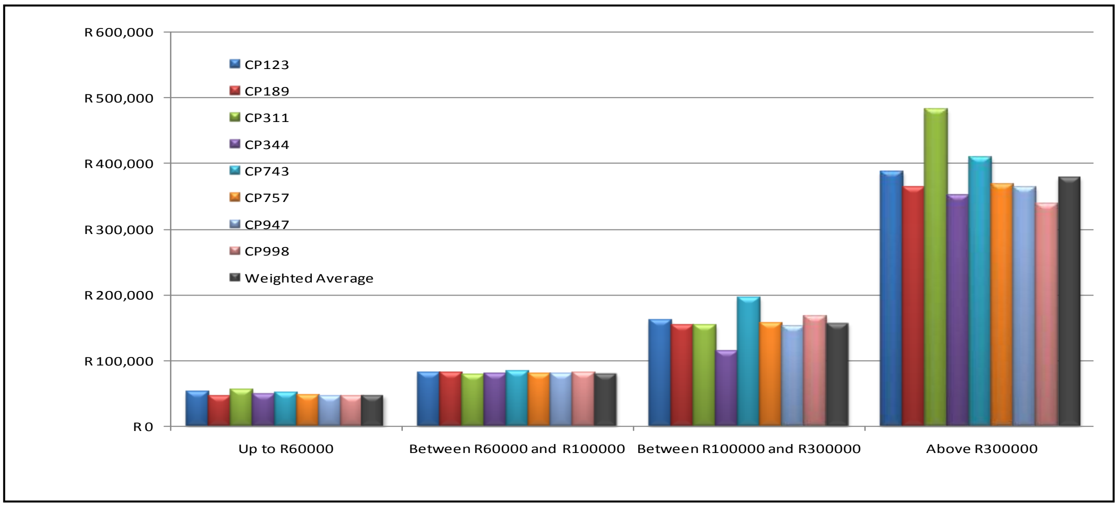
Five respondents indicated that they plan to increase their physical "footprint" in coming years. One respondent plans to establish a presence in Zambia, while three others envisage a general expansion across all provinces. One provider envisages that new branches will tend to be concentrated in the Western and Eastern Cape and Kwazulu-Natal.

5.2.5. Average loan values, required or realized incomes, and terms

Figure 28 indicates the typical values of asset finance extended by each of the providers surveyed within each value category. There is a very high degree of consistency in typical deal value within the two lower value categories. However, there is more variation in respect of agreements with values above R100,000 as some providers specialise in different sub-markets or market segments, as determined by particular vehicle brands and models. The weighted median average loan values granted within each value category are as follows:

Category of asset finance deal size	**Typical value**
Below R60,000	R 47,248
Between R60,000 & R100,000	R 80,626
Between R100,000 and R300,000	R 157,267
Above R300,000	R 379,078

Figure 28: Typical (median) value of asset finance loans granted



Source: Feasibility NCR Survey 2011

As was noted in the discussion of the results of the survey of mortgage providers, income no longer provides a reliable proxy for affordability of individuals to take up different sizes and types of credit. The income required to qualify for specific values of asset finance are in some cases simply determined by taking an average of the gross income of recently-successful applicants. As shown in Table 20 this can lead to distortions – as is suggested by the highest response for finance up to R60,000. In this case the average monthly income of recent applicants was R50,000. Other providers were prepared to extend loans for a similar size with monthly incomes as low as R3,500 and the median income required or achieved was around R11,200 per month. In the case of vehicles or assets requiring funding in excess of R300,000, the typical or required incomes ranged from R27,500 to R82,000 per month. Generally speaking, financing an entry level new vehicle of around R85,000 will require a monthly income of about R14,000, while about R25,000 will typically be required for asset finance worth R166,000.

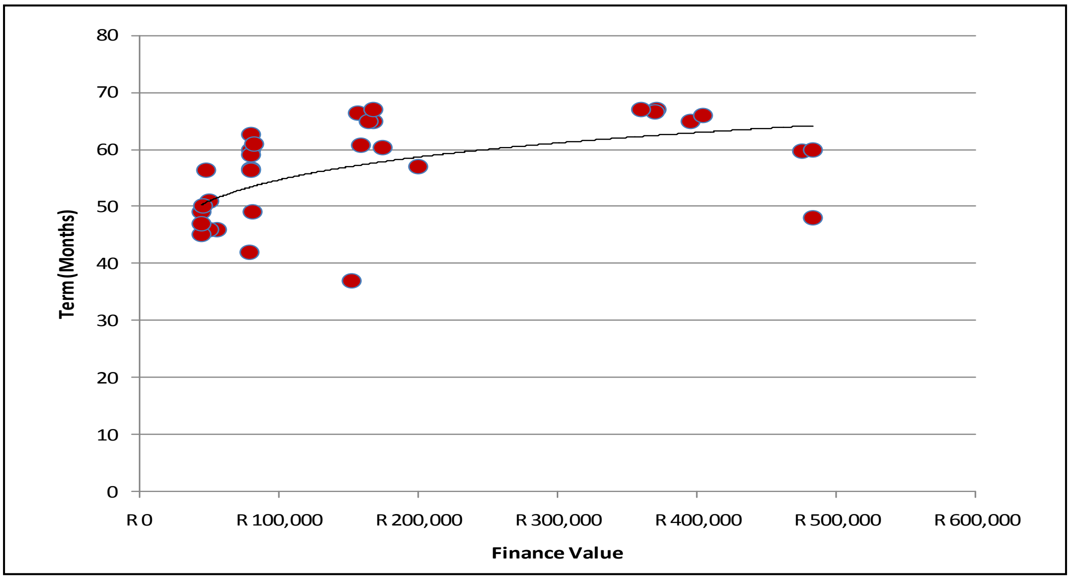
Table 20: Average asset finance loan sizes & actual or required incomes

	Up to R60000	*Between R60000 & R100000*	*Between R100000 & R300000*	*Above R300000*
Weighted average loan size	R 46,083	R 80,421	R 165,587	R 427,895
Income required to qualify for average loan size				
Minimum	R 3,473	R 5,573	R 12,089	R 27,478
Weighted average	**R 11,173**	**R 14,032**	**R 24,955**	**R 55,158**
Maximum	R 50,000	R 24,127	R 33,145	R 82,006

Source: Feasibility NCR Survey 2011

It was noted earlier that there has been a trend towards extending the term of asset finance loans. This is usually done to make repayments more affordable, but carries the risk that the underlying asset (usually the vehicle) will depreciate to less than the value of the finance still outstanding, thereby undermining the security to providers. Figure 29 indicates the relationship between the value of asset finance loans and their typical term in months. For a loan of around R160,000 some providers will limit the term to around 38 months, while others will go as far as 68 months. Generally, the term increases with the value of the finance extended, but typical terms for vehicle finance of around R480,000 is lower than for R380,000 deals.

Figure 29: Relationship between the value and term of asset finance



Source: Feasibility NCR Survey 2011

Table 21 shows the minimum, weighted average and maximum deposit typically required or achieved by credit providers for the different finance value categories used in the survey. It should be noted that some of the higher deposit values are not necessarily stipulated by the funding provider. They arise from the fact that existing vehicles are often trade–ins on new purchases. In these cases the deposit realized would be substantially higher than any that may be required by the provider. In the case of loan values up to R60,000 this ranges from 4.3%% to more than 61% - with a weighted average of just over 32%. The weighted average deposit achieved or required decreases to around 11% for loan values between R100,000 and R300,000, and then increases marginally to 12% in the case of the highest value category.

Table 21: Required deposits for asset finance loans

	Up to R60000	*Between R60 000 & R100 000*	*Between R100 000 &R300 000*	*Above R300 000*
Minimum	4.3%	7.9%	7.5%	3.9%
Weighted average	**32.2%**	**16.9%**	**11.0%**	**12.1%**
Maximum	61.2%	37.0%	20.0%	20.0%

Source: Feasibility NCR Survey 2011

Although the predominant industry practice is to extend finance on a flexible interest basis, a greater proportion of agreements make use of fixed rate agreements than was apparent in the case of mortgages. This is particularly true in respect of finance agreements valued at up to R60,000 – where close to a third of loans are provided on a fixed rate basis. This proportion declines as loans values increase. On a weighted basis, just over 19% of finance agreements valued at more than R300,000 are conducted on a fixed rate basis, leaving the remaining 81% on a flexible rate basis. There is significant variation in the practice of individual respondents around this issue – with some providers only offering variable rate agreements, while others rely on fixed rates for the majority of lower value deals. In the category of agreements with values up to R60,000 one respondents uses variable interest rates for only 17% of agreements, meaning around 83% are extended on a fixed rate basis. In the case of finance values above R300,000, the latter share drops to around 39%.

Table 22: Share of asset finance contracts with variable interest rates

	Up to R60000	*Between R60 000 & R100 000*	*Between R100 000 & R300 000*	*Above R300000*
Minimum	16.8%	27.5%	41.9%	60.6%
Weighted average	**67.2%**	**69.0%**	**73.2%**	**80.8%**
Maximum	100.0%	100.0%	100.0%	100.0%

Source: Feasibility NCR Survey 2011

All asset finance providers require comprehensive asset/vehicle insurance for the loans they advance, and all offer the requisite insurance from within their group. Four of the respondents receive intra-group commissions or payment transfers for insurance business referred to the group insurance activity. Three respondents do not. Half of the asset finance divisions or functions receive some form of intra-group commission or revenue transfer for the insurance business generated, while the other half do not. Five of the asset finance providers surveyed do not require credit life insurance in addition to the comprehensive asset insurance, but two do. In both of the latter cases, the insurance is underwritten by the provider itself, or by another division or company within the same group.

5.2.6. Pricing

The various elements of asset finance pricing include the following:

i) Initiation fees
ii) Monthly service fees
iii) Interest costs
iv) Credit life insurance (where this is a condition of obtaining a loan)
v) Comprehensive asset insurance (where this is a requirement of obtaining a loan).
vi) Extended warrantees

Initiation fees for "other credit agreements" – which incorporates instalment sales and leasing are capped under the NCA at a maximum of R1,000 (or R1,140 including VAT). Surprisingly, there are three instances where respondents to the Survey have indicated that they are charging more than the prescribed maximum for higher value finance agreements. It is not clear whether the survey responses represent a clerical error, or whether the respondents have a different interpretation of the Act, and that the response is an accurate reflection of their pricing policy. The weighted average initiation fee is at the statutory maximum for the lower three value examples, but higher than permitted for assets with a finance value of R400,000. With the exception of the three cases where respondents indicated that they are charging more than the prescribed maximum, there has been no notable change in weighted average initiation fee charged since the 2008 Survey. In other words, it has been standard practice for the industry to charge the maximum permissible initiation fee since the onset of the NCA.

In addition to the initiation fee, two respondents indicated that they also typically charge an additional amount (in both cases R3,695) as a Section 102 amount that can be capitalized. In the case of motor vehicle finance agreements, this is usually in respect of extended warranty plans. Because these charges are optional, and because they represent an additional value to the consumer, they have not been included in the calculations of APRs discussed below.

Table 23: Initiation fees charged on asset finance loans

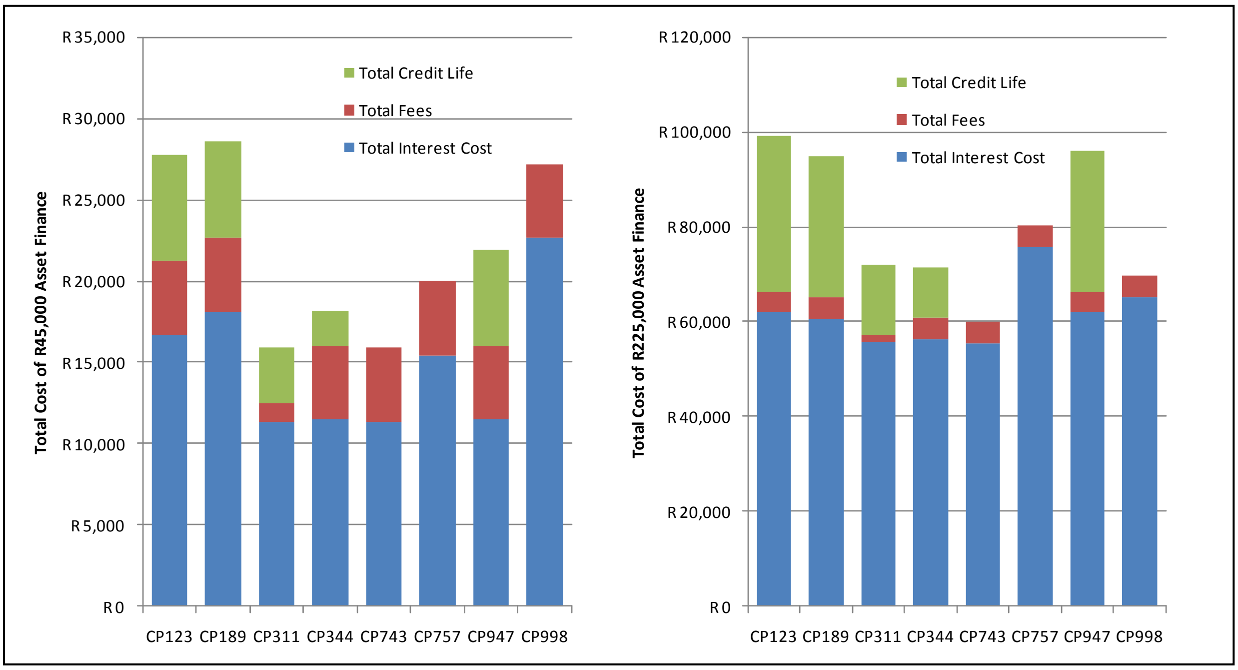
Asset finance Provider	*Asset finance Value*			
	R 45,000.00	**R 80,000.00**	**R 225,000.00**	**R 400,000.00**
CP123	R 1,140.00	R 1,140.00	R 1,140.00	R 2,500.00
CP189	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP311	R 1,140.00	R 1,140.00	R 1,520.00	R 2,230.00
CP344	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP743	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP757	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP947	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP998	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
Weighted Average	**R 1,140.00**	**R 1,140.00**	**R 1,140.09**	**R 1,371.05**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

With the exception of one respondent, that has chosen not to levy a monthly service fee on their asset finance contracts, all respondents charge the maximum permissible under the NCA (i.e. R50 plus VAT).

Figure 30 shows the total costs – including credit life where this is a requirement, but excluding comprehensive asset insurance – for asset finance of R45,000 (the graph on the left) and for R225,000 (the graph on the right). There is significant variation in the total cost of both loan sizes. In the case of the R45,000 loan, total costs range from close to R16,000 to just over R28,000 – of which the total interest cost ranges from R11,327 to R22,653. Total fees (initiation and monthly service fees) are R4,560 in the case of all respondents except one – which does not levy monthly fees. Total credit life insurance costs range from R0 (in cases where it is not a requirement) to a maximum of R6,534.

Figure 30: Total costs of a R45,000 and a R225,000 asset finance loan



Source: Feasibility NCR Survey 2011

For the R225,000 loans, total costs vary from R60,000 to just over R99,000, with total interest costs ranging from R55,518 to R75,682. The fee component is generally consistent for all providers except the respondent identified as CP311 – which does not charge monthly service fees. Credit life insurance can add more than R32,500 to the total cost of the finance. It is noteworthy that the imposition of credit life insurance – which reduces the risks facing the credit provider - does not appear to significantly reduce the interest component.

All of the providers surveyed indicated that they have not changed their fees in recent times, mainly because they are already charging the maximums permissible under the NCA.

Weighted average APRs of asset credit providers inclusive of credit life insurance range from 14.7% in the case of a R45,000 loan to 12.7% for R400,000 of finance. When the APRs of individual respondents are compared, it is evident that there is greater variability in the case of low value deals than higher value ones. In respect of a R45,000 loan, the APRs range from more than 20% to 11.5% (Prime plus 250 basis points). For R400,000 deals, APRs can be as low as 9.2%, and as high as 14.9%.

Table 24: APRs inclusive of credit life insurance for asset finance loans

Asset finance provider	*Asset finance Value*			
	R 45,000	**R 80,000**	**R 225,000**	**R 400,000**
CP123	19.6%	18.2%	15.2%	14.9%
CP189	20.2%	16.9%	14.6%	13.5%
CP311	11.5%	11.2%	11.2%	11.2%
CP344	13.1%	12.1%	11.2%	11.0%
CP743	11.5%	10.4%	9.5%	9.3%
CP757	14.4%	13.4%	12.5%	12.3%
CP947	15.8%	15.1%	14.8%	14.5%
CP998	16.2%	12.8%	10.3%	9.2%
Weighted Average APR 2010	**14.7%**	**14.3%**	**13.2%**	**12.7%**
Weighted Average APR 2008	20.4%	19.0%	17.7%	16.1%

Source: Feasibility NCR Survey 2008,2011

When credit life insurance is excluded from the calculations, the weighted average APR drops to 12.5% in the case of a R45,000 loan (a drop of 220 basis points), and to 9.1% in the case of R400,000 of finance (a decrease 360 basis points). The individual responses of asset credit providers surveyed are shown in Table 25.

Table 25: APRs exclusive of credit life insurance for asset finance loans

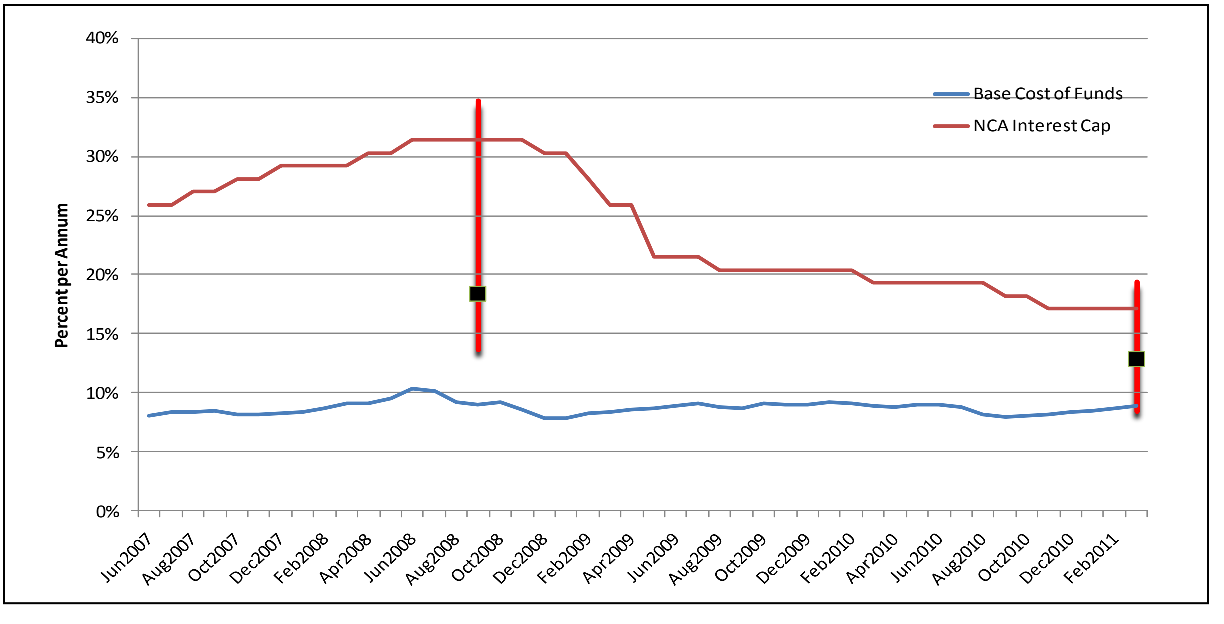
Asset finance provider	*Asset finance value*			
	R45,000	**R80,000**	**R225,000**	**R400,000**
CP123	15.4%	13.4%	9.8%	9.6%
CP189	16.3%	12.4%	9.6%	8.4%
CP311	9.2%	8.7%	8.4%	8.4%
CP344	11.8%	10.2%	9.0%	8.6%
CP743	11.7%	10.1%	8.8%	8.5%
CP757	14.5%	13.0%	11.7%	11.4%
CP947	11.8%	10.5%	9.8%	9.4%
CP998	16.3%	12.4%	9.6%	8.4%
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 NCR Survey 2008, 2011

Both Table 24 and Table 25 show the comparable APRs for 2008. In both cases, the outcome of the reduction in the repo rate and the NCA maxima since 2008 is clearly reflected in the prevailing vehicle finance prices. So whereas an average R45 000 vehicle finance arrangement was priced at 20.4% in 2008 (inclusive of insurance), in 2010, the price was 14.7%. Similarly, asset finance for R400 000 in 2008 was charged at an inclusive rate of 16.1% per annum, compared with 12.7% in 2010. What is notable is the importance of credit life insurance in the most recent survey. In 2008, the differential between the inclusive and exclusive rates was 0.2% for most sizes of loan. In 2010, the differential ranges from 2.2% to 3.6%, and whereas the credit life insurance was unimportant for higher value vehicles, it is especially prominent for higher value vehicles. Part of the key difference is that whereas in 2008, only one of the eleven surveyed providers consistently reported the charges associated with credit life insurance, in 2010, five of the eight providers reported credit life charges.

Figure 31 indicates the general pricing band within which asset finance providers may be expected to operate, and compares the APR results (inclusive of credit life insurance) of the 2008 Survey with those of the 2011 Survey. In this case, the proxy used for the base costs of funds is the yield on government bonds with a term of three years or less. The maximum and minimum rates shown in the bars reflect APRs for all loan sizes and all credit providers surveyed, while the weighted average (the black square) is the arithmetic average of the weighted average APRs for each loan size. The high variability in this type of credit extension is still apparent, but the difference between the lowest and highest rates has narrowed since the 2008 Survey. The average APR continues to be positioned roughly in the middle of the expected band of provision. It should be noted that the cap shown relates only to the interest rate charged, whereas the maximum, minimum and average APRs include credit life insurance where this is a requirement of the loan being provided. So, the fact that some rates charged exceeded the prevailing cap in both the 2008 Survey and the latest version does not signal that some providers are charging higher rates of interest than is permitted under the NCA. It does, however raise questions about the role of credit life insurance, and the effect that its imposition has on effective pricing.

Figure 31: Pricing of asset finance



Source: Feasibility NCR Survey 2008, Feasibility NCR Survey 2011, SARB Quarterly Bulletin, NCA

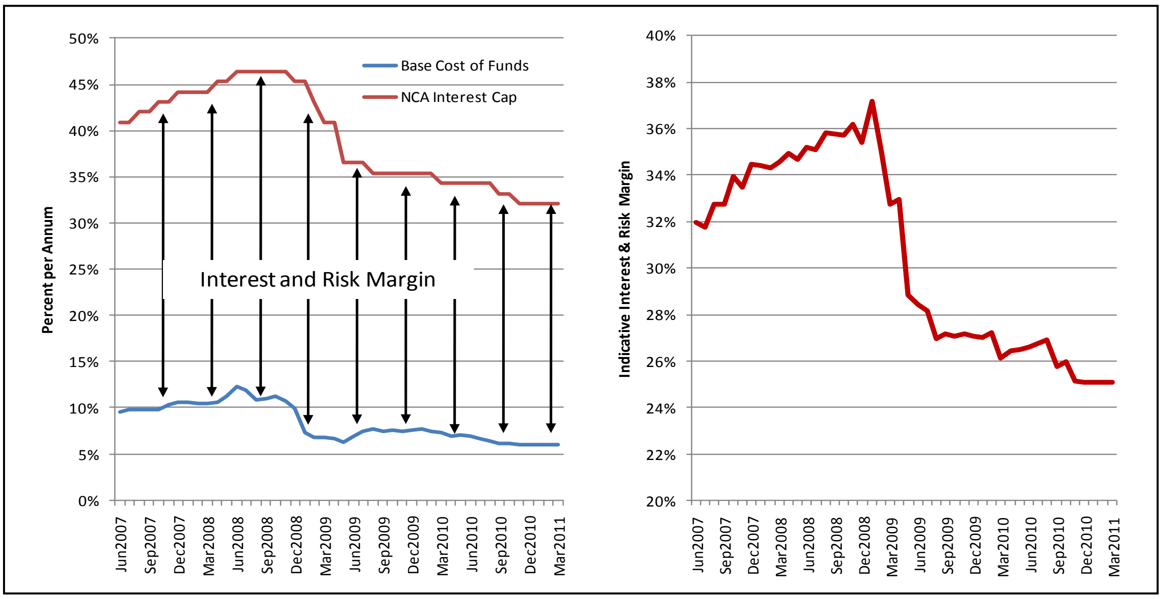
5.3. Personal loans and unsecured credit

Personal loans are a type of consumer credit extension that incorporates a wide variety of discrete loan values and terms. This includes one month (so-called "payday loans" which may be for as little as a few hundred Rand); short-term loans with terms less than six months and values that are typically less than R8,000 and term loans where values could be as high as R100,000 or more and terms are stretching to five years or longer.

The interest caps applicable to different types of personal loans range from five per cent per month for loans with terms up to six months, to a formula linked to the Repo rate ([Repo rate x 2.2] + 20%). Because of the link to the Repo rate, the interest cap initially increased after the NCA came into effect, but in the wake of the Global Crisis and subsequent recession locally the cap has declined by proportionally more than the 650 basis point decline in the Repo rate.

The left hand side of Figure 32 indicates the changes to the interest and risk margin – as a result of changes in the base cost of funds and the NCR cap. The base cost of funds is the average deposit rate paid on fixed deposits of three years or less. The difference between the interest cap and the proxy base cost of funds (the margin) is shown in the graph on the right.

Figure 32: Interest and risk margin in personal loans



Source: NCA, SARB Quarterly Bulletin

Ostensibly personal loans are unsecured and provider risk is managed through variations of both loan value and term. Generally, borrowers that are perceived to be higher risk may receive low value loans with term limited to a few months, while those that are believed to be of lower risk are more likely to be eligible for higher value loans with extended terms. Increasingly, many providers also obtain some degree of security by insisting that borrowers take out credit life insurance that protects the lender from losses that arise due to the death, disability, and - in many cases - loss of employment of the borrower. Under these circumstances the biggest risk facing the lender is that the borrower elects not to repay the loan and is prepared to accept the consequences that flow from that choice (typically black-listing at credit bureaux that results in him/her no longer being able to access formal credit for an extended period).

5.3.1. Trends in personal loan book

The combined value of loans still on the books of survey respondents – disaggregated by original loan size – is shown in Table 26. The total value of personal loans extended by respondents and still in effect increased from R36 billion to almost R72 billion between June 2008 and the end of 2010 – an increase of 100% over the period. The individual value categories show divergent performances. On the one hand, it appears that lower value borrowers are being forced to adopt shorter loan terms. So, while there is a drop of almost 5% in loans up to six months for R8,000 or less, there is simultaneous growth of 288% in short term loans with values less than R8,000. Close to a third of the value of all loans on book are in respect of original loan values of between R8,000 and R25,000. This category grew by a slightly more modest 70% between mid-2008 and December 2010 (but from a large base). By contrast, loans with values of between R25,000 and R100,000 contribute slightly less of the combined book of respondents, but increased by more than 300% over the period. Loans above R100,000 still contribute a relatively small proportion of the total, but increased by a stellar 1,136% over the 30 months to end-2010.

Table 26: Value & composition of outstanding personal loan book

Outstanding Book as at:	*Aggregate Book Summary - R Billion*							*Total Out-standing Book According to BA900 Analysis (Other Loans & Advances)*	*Survey Response as % of SARB Total*
	Up to R1000 (Short Term)	**R1000-R8000 (Short term**	**Terms longer than 6 months**						
			Up to R8000	**R8000 to R25000**	**R25000 to R100000**	**Above R100000**	**Total Book**		
30 June 2008	0.03	0.37	9.81	19.14	6.55	0.17	36.08	64.57	56%
31 December 2008	0.07	0.95	10.35	25.31	8.35	0.23	45.26	68.60	66%
30 June 2009	0.06	0.92	10.22	27.07	9.92	0.31	48.50	70.78	69%
31 December 2009	0.07	1.15	7.75	25.33	8.61	0.39	43.30	76.08	57%
30 June 2010	0.07	1.18	7.95	27.02	17.92	1.41	55.56	82.44	67%
31 December 2010	0.11	1.36	9.35	32.58	26.47	2.13	71.98	96.27	75%
% Increase between June 2008 and December 2010	**287.8**	**266.8**	**-4.7**	**70.2**	**303.8**	**1136.4**	**99.5**	**49.1**	

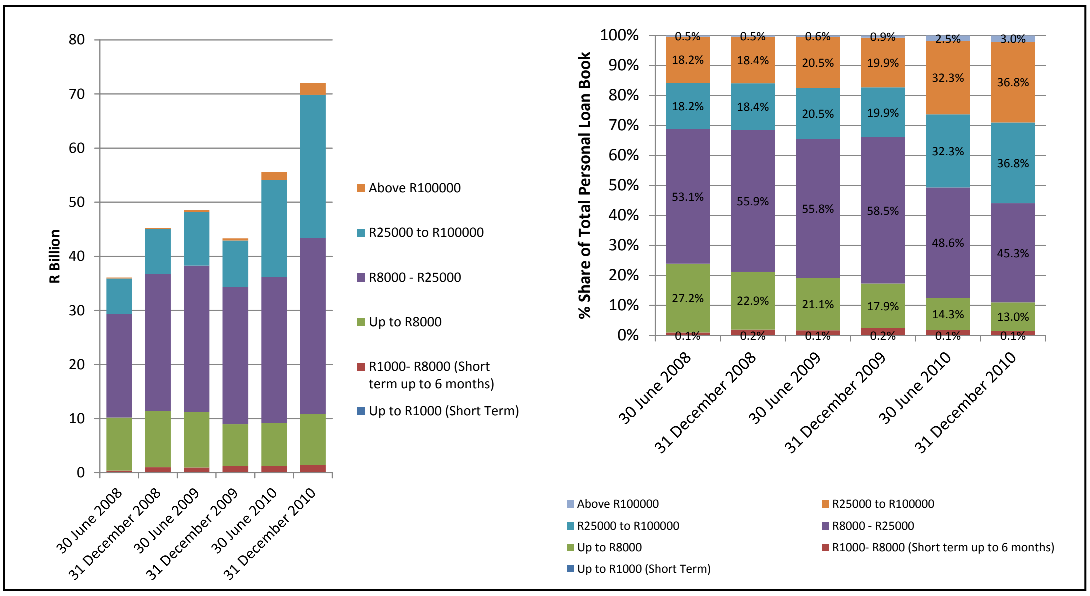
*Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec***)**

When compared with the combined debtors' book of monetary institutions reporting to the Reserve Bank via the BA900 returns in the "other loans and advances" category, which included overdrafts, for example the share of survey respondents has steadily increased – from 56% in mid-2008 to 74% at the end of 2010. Whereas the outstanding book of survey respondents increased by almost 97%, that of the BA 900 analysis only increased by 49%.

Figure 33 indicates both the overall value of the combined book of survey respondents (the left hand graph) and the composition of the book by loan size (the graph on the right). The compositional changes in the combined book of respondents in respect of different deal sizes indicates that personal loans with values of more than R100,000 are a relatively new phenomenon, and only really started to make a mark from the end of 2009.

Their share of total loans still on book has increased from 0.5% in June 2008, to three per cent at the end on 2010. In terms of value, loans of between R25,000 and R100,000 grew substantially – now making up 37% of the aggregate book (from 18% in 2008). By contrast, the share of term loans with values less than R8,000 declined from 27% of the total to 13%. Loans with original values between R8,000 and R25,000, while still accounting for the biggest share of the total outstanding book, have declined in overall share from 53% to 45% since mid-2008.

Figure 33: The combined value & composition of the personal loan book



Source: Feasibility NCR Survey 2011

Table 27 indicates similar trends to those shown in Table 26, except the focus is now in the *number* of personal loans on the books of the credit provider surveyed. It shows that the total number of personal loans of respondents increased from 4.66 million in June 2008 to 6.40 million at the end of 2010 – an increase of 1.75 million loans, or 37%. In terms of specific value categories, loans between R25,000 and R100,000 enjoyed an increase of 283% (or 540,000 loans). The value category for loans above R100,000 increased by only a net 18,000 loans between June 2008 and December 2010 – but this represented a 1,446% increase. When the estimated population of South Africa is divided by the number of loans reported by survey respondents, it suggests that the number of people with active personal loans has risen from 9.5% in mid-2008 to 11% in mid-2010.

Table 27: Number of personal loans outstanding & household exposure

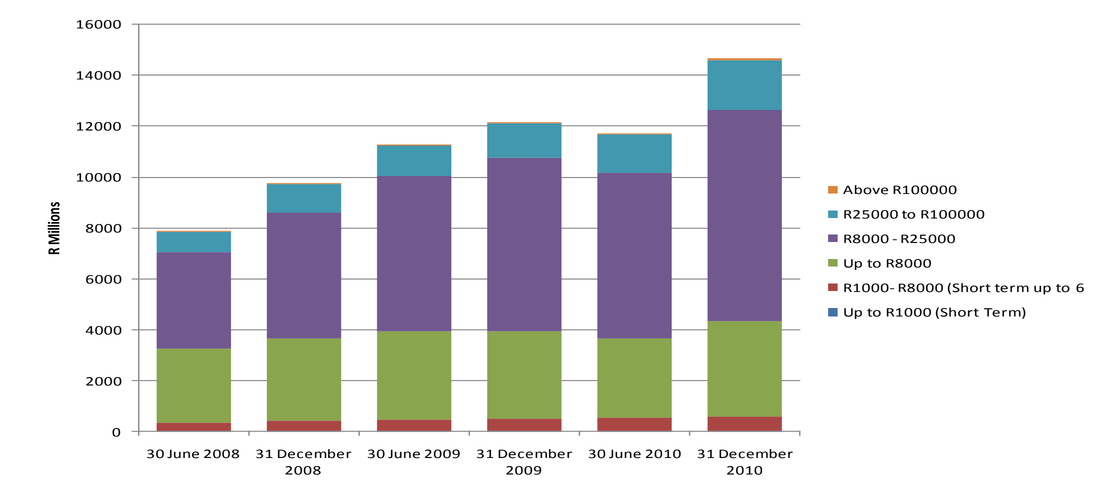
Out-standing Book as at:	*Aggregate Book Summary – Number of Loans*							*Estimated % of Population with a*
	Up to R1000 (Short Term)	**R1000-R8000 (Short term)**	**Terms longer than 6 months**					
			Up to R8000	**R8000 to R25000**	**R25000 to R100000**	**Above R100000**	**Total Book**	
30 June 2008	129,999	301,847	2,109,379	1,923,135	190,769	1,234	4,656,363	9.5%
31 December 2008	121,721	353,074	1,985,372	2,245,346	238,120	1,710	4,945,342	
30 June 2009	106,065	330,326	2,005,874	2,379,986	287,120	2,428	5,111,799	10.3%
31 December 2009	120,900	378,115	2,242,479	2,517,240	387,211	7,433	5,653,378	
30 June 2010	123,360	401,596	2,063,737	2,394,026	518,289	12,976	5,513,984	11.0%
31 December 2010	190,361	444,114	2,256,708	2,761,240	730,982	19,082	6,402,487	
% Increase between June 2008 & December 2010	46%	47%	7%	44%	283%	1446%	37%	

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

5.3.2. Personal loans in arrears

The combined value of loans in arrears of the personal loan providers surveyed increased from R7.9 billion to R12.2 billion between June 2008 and December 2009, but then decline marginally to R11.7 billion before rising sharply to R14.7 billion in the last six months of 2010. The loan value category with the highest aggregate value of loans in arrears is R8,000 to R25,000 – which accounted for more than half of all arrears at the end of 2010, and increased sharply in the latter half of that year. These trends are shown in Figure 34.

Figure 34: Value of personal loans in arrears by loan size



Source: Feasibility NCR Survey 2011

Table 28 indicates the default ratios of the different value categories used in the Survey. The aggregate default ratio rose from 22% at the end of 2008 to almost 29% a year later. The proportion of accounts in arrears then declined to 20.4% in mid-2010, before increasing marginally to 20.7%. Generally, default ratios for higher value loans are lower than for smaller loans. The proportion of accounts in arrears for the categories R25,000 to R100,000, and above R100,000 were 7.3% and 5% respectively at the end of 2010. This can be contrasted with default rates of more than 41% for loans up to R8,000 (both short term and longer term), and of 26% for loans between R8,000 and R25,000. The value of "pay-day loans" in arrears, was as high as 26% at the end of 2008, but has since declined to under 13%.

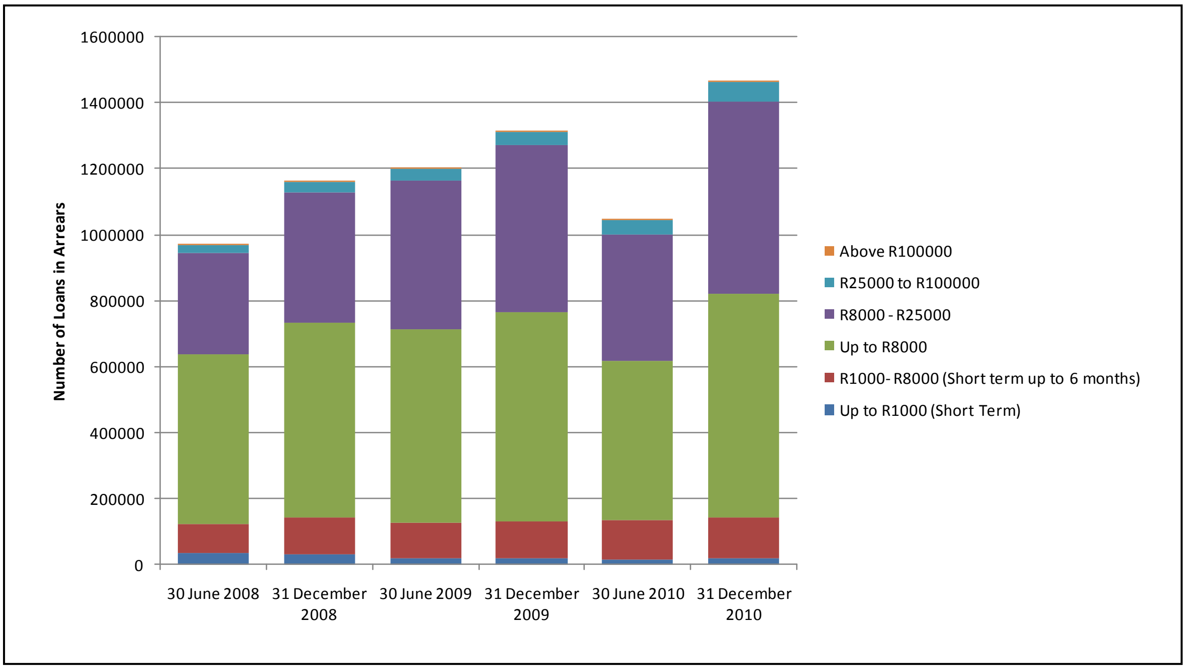
Table 28: Per cent of the value of personal loans in arrears

Outstanding Book as at:	*Value of Arrears as % of Outstanding Book*						
	Up to R1000 (Short Term)	**R1000- R8000 (Short term up to 6 months)**	**Up to R8000**	**R8000 - R25000**	**R25000 to R100000**	**Above R100000**	**Total Book**
31 December 2008	26.1%	41.5%	32.1%	20.3%	13.3%	3.1%	22.0%
30 June 2009	21.6%	46.6%	35.0%	23.3%	12.1%	3.4%	23.7%
31 December 2009	18.1%	41.3%	45.7%	28.0%	15.9%	6.3%	28.8%
30 June 2010	15.4%	42.7%	36.7%	23.5%	8.1%	3.9%	20.4%
31 December 2010	12.8%	41.7%	41.1%	26.2%	7.3%	5.0%	20.7%

Source: Feasibility NCR Survey 2011

The number of loans in default within each value category is shown in Figure 35. It indicates that the number of loans in arrears increased from 969,000 in June 2008 to 1.3 million in December 2009. It then dropped sharply to just over 1 million agreements in mid-2010, but then rose sharply to 1.46 million by the end of 2010. The number of loans in arrears is dominated by the categories with values up to R25,000, which collectively accounted for almost 1 million of the loans in arrears at the end of 2010.

Figure 35: Number of personal loans in arrears by loan value



Source: Feasibility NCR Survey 2011

5.3.3. Current lending patterns

Aspects of current lending patterns are captured in Table 29. It indicates a market that has shown relatively little innovation over the past two years, with most respondents indicating no changes in the value, term, or terms and conditions of the loans advanced. In respect of term, six out of 19 respondents did note some change: two had reduced the typical term of their loans and four had increased it. These variations in the term of loans are also reflected in the associated terms and conditions of lending.

As regards innovations around the value of loans, three respondents noted a change, while 16 reported no change. Of the three reporting some change, there was a combination of increasing loan values for lower risk customers, and – in some cases – reducing loan values for borrowers that are perceived to carry a higher risk. The most significant "innovation" has been the introduction by some of the more significant players in this market segment of substantially higher loan values of R100,000 and more, and an associated extension of term to try to make such loans affordable. In 2008, it was rare for personal loan values to exceed R60,000.

On a weighted average basis only 0.6% of personal loans are used to fund the purchase of productive assets. This figure should be treated with some caution, because the reality is that providers do not generally know what purpose their loans are used for. Even in cases where they are informed by the borrower that it is to be used for school fees, or to purchase stock for a business, there is no guarantee that the loan advanced is ultimately used for that purpose. Nevertheless, the very low value tends to confirm the widely held view that the capital requirements of small and micro businesses are generally poorly catered for by money and capital markets.

Collectively, the respondents indicate that a reasonably significant proportion of current loans are being used in some form of debt consolidation process. It emerged in the interviews that, while providers often have debt consolidation products, they are not actively marketing them out of concern that they tend to simply create scope for borrowers to increase their debt levels. As a rule, most providers do not like to be responsible for settling debt obligations of borrowers with other institutions. Nevertheless, providers believe that higher value, lower cost loans are being used to settle outstanding debts with other providers of credit. On a weighted basis, those surveyed indicated around 15% of loans are used to consolidate debt. One respondent indicated that almost 29% of their loans were used for debt consolidation, but a number of others suggested that none of their loans were used in this role.

Table 29: Recent personal loan lending patterns

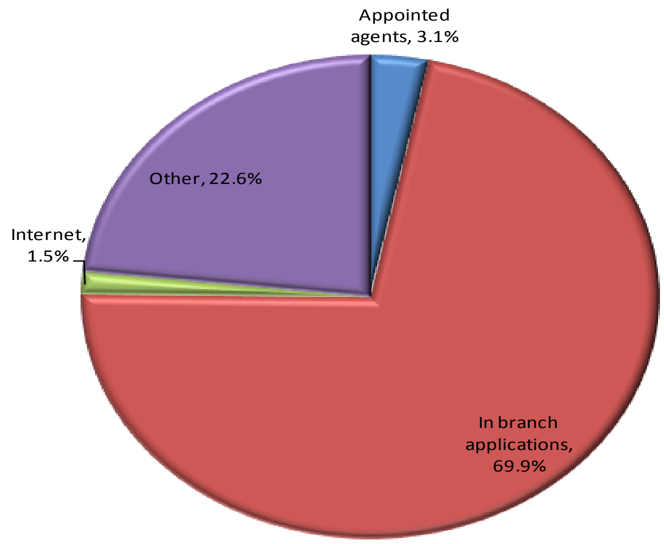
Lending Pattern over past two years	*Response/Value**
Trends in the typical term of loans	6 noted term had changed: 2 decreased, 4 increased; 13 reported no change
Innovations in lending that relate to the value of loans	3 said "Yes";16 said "No"
Innovations around the terms and conditions attached to loans	1 said "Yes"16 said "No"
Proportion of current personal loans used for the purchase of productive assets	0.6%
Proportion of lending arising from a debt consolidation process	14.6%(Maximum 29%, Minimum 0%)

Source: Feasibility NCR Survey 2011

* Measurment of % by weighting average share of total book at end 2010

5.3.4. Application channels, commissions and outlets

Figure 36: Personal loan application channels



Source: Feasibility NCR Survey 2011

The predominant channel used to receive personal loans applications remains branches or outlets of the credit providers. On a weighted basis, this accounts for 70% of total applications. At this stage the internet and appointed agents accommodate a reasonably small proportion of new applications. Other channels, which include, but are not limited to, applications at ATMs, account for around 23% of new applications.

The commissions payable to appointed agents typically take one of two forms – either a percentage of the value of the loan, or a fixed fee per application successfully processed. The weighted average percentage commission paid is only 0.19%, but this ranges from zero per cent in most cases to as much as 10% in respect of one provider. Of those that don't pay a percentage of the loan, some (but not all) provide a fixed fee ranging from R100 to R480.60 per application.

Weighted commissions on other channels range from 0.15% for in branch applications – although only two providers offer such commissions (one pays 4% and the other 7%) - to 0.05% for "other channels" and 0% for internet applications. "In-branch Applications" sometimes attract fixed commissions ranging from R75 to R124.

Collectively, the respondents to this survey currently have 5,044 sole branded branches or outlets and a further 648 co-branded or shared outlets through which they deal with potential customers. Three respondents noted the number of branches or outlets had increased over the past two years, while another three indicated their branch footprint had decreased.

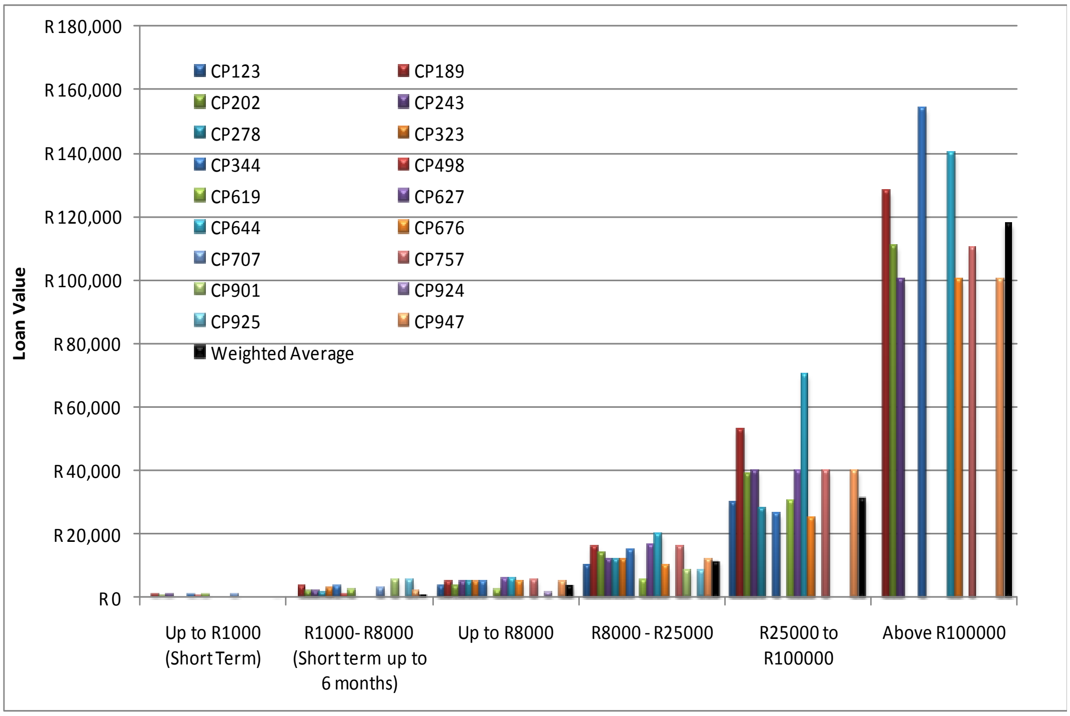
Eleven of the providers surveyed indicated that they plan to expand their branch network in coming years, while nine respondents expect no such expansion. In most cases, those respondents planning to increase their physical footprint did not provide details of the locations of any new planned outlets. Some indicated it would be in response to the general expansion of retail stores, or – in one case – a roll out of outlets within a furniture retail chain with which the loan provider is linked. A few indicated that expansion would occur across all provinces, but one provider singled out Gauteng, KZN, Eastern and Western Cape, North West and Limpopo as possible locations for expansion, and another indicated they would be focussing on the Western and Eastern Cape and Kwa-Zulu Natal.

5.3.5. Average loan values, required or realized incomes, and terms

Figure 37 indicates the typical (median) values of personal loans extended by each of the providers surveyed within each value category. Although the scale of the graph might make it difficult to observe for some of the lower loan values, there is a fair degree of variation in typical loan sizes amongst different providers. While there may be some aspect of variation in the risk of typical customers that each provider services, these differences may also be a function of limitations on the capital bases of different lenders, and historical practices and categorization of different maxima for different bands of loans. The weighted median average loan values granted within each value category are as follows:

Category of personal loan size	**Typical value**
Up to R1,000 (short term)	R 450
Between R1,000 & R8,000 (short term)	R 1,033
Between R1,000 & R8,000 (more than 6 months)	R 3,872
Between R8,000 and R25,000	R 11,629
Between R25,000 & R100,000	R 31,521
Above R100,000	R 117,831

Figure 37: Typical value of personal loans granted within each value range



Source: Feasibility NCR Survey 2011

As was noted in the discussion of the results of the survey of mortgage providers, income no longer provides a reliable proxy for affordability of individuals to take up different sizes and types of credit. Table 30 indicates the maximum, weighted average, and minimum monthly income that is either required, or was disclosed by successful applicants, for different loan sizes. The weighted average income rises from R5,844 for 1-month loans to R7,360 for loans with an average value of just over R31,000. The weighted average income achieved or required for a loan of around R118,000 is distorted because a number of respondents that have an active book value in this category did not indicate any required or average income. It is notable from the maxima and minima that the required or realized income is highly variable. So in the case of a loan of around R4,000, some providers indicated average incomes of as little as R2,000, while others recorded incomes of more than R8,000.

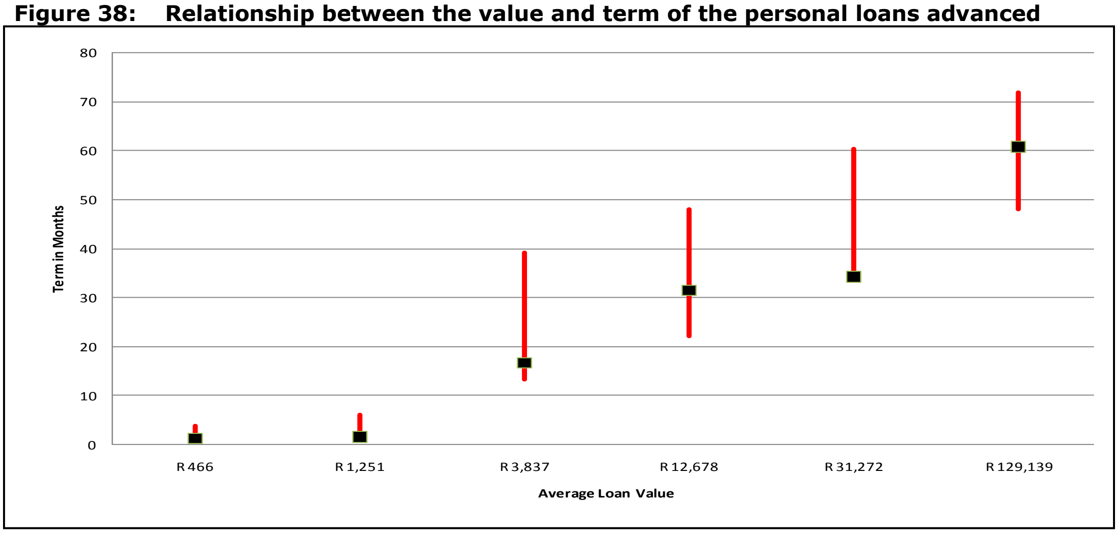
Table 30: Average personal loan sizes and actual or required incomes

	Up to R1000 (Short Term)	*R1000- R8000 (Short term up to 6 months)*	*Up to R8000*	*R8000 - R25000*	*R25000 to R100000*	*Above R100000*
Weighted average loan size	R 466	R 1,251	R 3,837	R 12,678	R 31,272	R 117,831
Income required to qualify for average loan size						
Minimum	R 1,200	R 1,200	R 2,000	R 2,000	R 8,000	R 15,000
Weighted average	**R 5,844**	**R 4,082**	**R 4,373**	**R 6,461**	**R 7,360**	**R 5,793**
Maximum	R 6,322	R 8,955	R 8,362	R 11,224	R 15,500	R 23,091

Source: Feasibility NCR Survey 2011

It was noted above that one of the areas of "innovation" identified by personal loan providers was in respect of the term of loans, with some – usually "good" – customers being granted higher value loans with their terms extended to make them affordable. Figure 38 indicates the maximum, weighted average, and minimum terms for loans with the average values indicated. The black square shows the weighted average term, while the lower and upper positions of the lines indicate the minima and maxima. It is apparent that there is a high degree of variability in term for different loan sizes. For example, a loan value of R12,687 carries a weighted average term of 32 months, but at least one provider is prepared to extend loans of this value for a term as low as 23 months, and another will provide terms of 48 months

Figure 38: Relationship between the value and term of the personal loans advanced



Source: Feasibility NCR Survey 2011

It was confirmed in the interviews with personal loan providers that many of their customers – particularly those with lower incomes - favour the certainty of fixed monthly repayments over agreements where monthly repayments vary in response to changes in interest rates. This is confirmed by the survey responses in relation to the proportion of loans with variable interest rates shown in Table 31. While there are some providers in every loan size category who only extend variable rate loans (even for very small loan amounts) they tend to be relatively insignificant in the overall market context – as is evidenced by the fact that the weighted average share of agreements with variable rates for loan sizes of around R450 and R1,250 is zero per cent. The proportion of loans advanced with variable rates for loan sizes ranging from closer to R4,000 to around R130,000 increases from as little as 0.7% of the total to almost 37%, in the case of larger loans.

Table 31: Share of personal loans with variable interest rates

	Average Loan values					
	R 466	R 1,251	R 3,837	R 12,678	R 31,272	R 129,139
Minimum	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Weighted average	**0.0%**	**0.0%**	**0.7%**	**13.3%**	**34.6%**	**36.8%**
Maximum	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Feasibility NCR Survey 2011

Of the providers surveyed, 12 indicated that it was a requirement of their loan extension that customers have credit life insurance, while six indicated that it was not. It emerged in the interviews that some providers insure their whole book, but do not charge the customer separately for this insurance. Of those providers requiring credit life insurance, nine have "in-house" policies, while the remaining three do not. The incentive to push an "in house" product is enhanced by the fact that the majority of loan divisions (seven of the nine) receive some form of commission for the credit life insurance placed with their sister company or division.

5.3.6. Pricing

The effective pricing of personal loans is dependent on a number of different cost elements, including the following:

i) Initiation fees
ii) Monthly service fees
iii) Interest costs
iv) Credit life insurance (where this is a condition of obtaining a loan)

Initiation fees for "unsecured credit transactions" – are limited as follows under the NCA:

(a) R150 per credit agreement, plus 10% of the amount of the agreement in excess of R1,000; and
(b) But never to exceed R1,000.

Since these limits exclude VAT, it implies a maximum initiation fee inclusive of VAT of R1,140. Table 32 indicates the initiation fees charged by different providers for each of the different loan values indicated. In those cases where there are no values inserted, it implies that the provider does not offer loans of that value. For the most part, providers appear to have elected to charge the maximum fee permissible under the NCA – but there are a few exceptions.

Table 32: Initiation fees charged on personal loans

Personal Loan Provider	*Loan Values*				
	R1,000.00	**R7,500.00**	**R15,000.00**	**R50,000.00**	**R100,000.00**
CP123		R 750.00	R 1,140.00		
CP189	R 100.00	R 638.40	R 798.00	R 608.00	R 608.00
CP202	R 151.24	R 912.00	R 1,140.00	R 1,140.00	R 1,140.00
CP243		R 912.00	R 1,140.00	R 1,140.00	R 1,140.00
CP278		R 912.00	R 1,140.00	R 1,140.00	
CP323		R 969.00	R 1,140.00		
CP344	R 114.00	R 855.00	R 1,140.00	R 1,140.00	R 1,140.00
CP498	R 150.00				
CP619	R 171.00		R 1,140.00	R 1,140.00	
CP627		R 285.00	R 450.00	R 675.00	R 675.00
CP644		R 912.00	R 1,140.00	R 1,140.00	R 1,140.00
CP676		R 483.00	R 775.00	R 681.00	R 590.00
CP707	R 171.00	R 456.00			
CP757		R 750.00	R 1,140.00	R 1,140.00	R 1,140.00
CP901		R 912.00	R 1,140.00		
CP924		R 848.81			
CP925		R 912.00	R 1,140.00		
CP947		R 800.00	R 1,026.00	R 1,026.00	R 1,026.00
Weighted Average	**R 136.76**	**R 629.07**	**R 964.11**	**R 878.47**	**R 590.26**

Source: Feasibility NCR Survey 2011. Values inclusive of VAT

The NCA allows personal loan providers to charge clients a maximum of R50 plus VAT as a monthly service fee. With the exception of providers of pay-day loans, most of those surveyed charge the limit, or – in some cases – a value close to the limit. In each value category there is at least one provider that chooses not to charge a monthly fee. Table 33 indicates the weighted average monthly fee for each loan value.

Table 33: Monthly service fees for personal loans

	Loan Values				
	R1,000.00	R7,500.00	R15,000.00	R50,000.00	R100,000.00
Weighted average	**R 3.34**	**R 34.08**	**R 49.10**	**R 52.73**	**R 53.68**

Source: Feasibility NCR Survey 2011

As has already been noted, there is a tendency for many personal loan providers to require that borrowers also take out credit life insurance in order to qualify for a loan. These fees can add significantly to the total costs of the loan. Table 34 shows the typical credit insurance premiums charged by providers on the loan values indicated. On a weighted basis, they range from nothing for R1,000 1-month loans to just over R265 per month for R100,000 loans.

Table 34: Credit life insurance charged on personal loans

Personal Loan Provider	*Loan Values*				
	R1,000.00	**R7,500.00**	**R15,000.00**	**R50,000.00**	**R100,000.00**
CP123		R 66.00	R 129.12		
CP189	R 0.00	R 22.13	R 44.25	R 147.50	R 296.79
CP202	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00
CP243		R 37.79	R 65.16	R 189.12	R 366.20
CP278		R 56.25	R 112.50	R 375.00	
CP323		R 31.67	R 60.80		
CP344	R 1.01	R 7.60	R 14.69	R 46.54	R 92.04
CP498	R 0.00				
CP619					
CP582	R 0.00	R 0.00	R 0.00	R 0.00	R 0.00
CP619	R 15.00		R 225.00	R 750.00	
CP627		R 31.88	R 63.75	R 212.50	R 425.00
CP644		R 0.00	R 0.00	R 0.00	R 0.00
CP676		R 35.00	R 75.00	R 250.00	R 500.00
CP757		R 50.00	R 83.00	R 232.00	R 445.00
CP901	R 0.00	R 0.00	R 60.00	R 0.00	R 0.00
CP925	R 0.00	R 0.00	R 60.00	R 0.00	R 0.00
CP947		R 71.25	R 66.00	R 147.50	R 295.00
Weighted Average	**R 0.00**	**R 5.69**	**R 51.20**	**R 168.76**	**R 265.47**

Source: Feasibility NCR Survey 2011

The combined impact of the initiation fees, monthly fees, credit life and interest charges on the costs of a R7,500 loan and a R50,000 loan are shown in Table **35** and Table 36. They indicate significant differences in total costs. In terms of responses from individual providers, the lowest total cost for a R7,500 loan is R2,793, while the highest cost provider would charge an effective R7,379 (see Table 35). Interest ranges from as little as 31% of the total cost to as much as 70%, while the share of fees in total costs varying from 30% to 65%. The contribution of credit life insurance can be as much as 25% of the total costs of a loan.

The total costs of a R50,000 loan range from R5,584 to R45,840. The breakdown of total costs is shown in Table 36. It indicates that interest costs range from just under R5,600 to close to R29,500 and can account for from 25% to 100% of the total loan costs. Fees range from nothing to the maximum permissible under the NCA (R3,192). Where it is levied, credit life insurance can amount to as much as R27,000 for a R50,000 loan with a 36 month term and contribute as much as 67% of the total costs.

Table 35: Breakdown of the total cost of a R7,500 personal loan

Personal Loan Provider	*Loan Value: R7,500*					
	Total Interest	**Interest as % of Total Costs**	**Total Fees**	**Fees as % of Total Costs**	**Total Credit Life Insurance**	**Credit Life as % of Total Costs**
CP123	R 1,771.86	37.4%	R 1,776.00	37.5%	R 1,188.00	25.1%
CP189	R 1,704.61	45.2%	R 1,664.40	44.2%	R 398.25	10.6%
CP202	R 1,823.95	48.5%	R 1,938.00	51.5%	R 0.00	0.0%
CP243	R 2,296.99	46.7%	R 1,938.00	39.4%	R 680.27	13.8%
CP278	R 2,296.99	43.8%	R 1,938.00	36.9%	R 1,012.50	19.3%
CP323	R 1,924.07	47.2%	R 1,584.60	38.9%	R 570.09	14.0%
CP344	R 886.02	30.5%	R 1,881.00	64.8%	R 136.80	4.7%
CP627	R 1,481.72	53.1%	R 1,311.00	46.9%	R 0.00	0.0%
CP676	R 2,207.88	52.1%	R 1,455.00	34.3%	R 573.75	13.5%
CP707	R 2,172.47	59.4%	R 1,482.00	40.6%	R 0.00	0.0%
CP757	R 1,254.00	34.3%	R 1,776.00	48.5%	R 630.00	17.2%
CP901	R 4,540.98	61.5%	R 1,938.00	26.3%	R 900.00	12.2%
CP924	R 2,279.65	67.1%	R 1,118.81	32.9%	R 0.00	0.0%
CP925	R 4,540.98	70.1%	R 1,938.00	29.9%	R 0.00	0.0%
CP947	R 2,486.50	45.2%	R 1,730.96	31.5%	R 1,282.50	23.3%

Source: Feasibility NCR Survey 2011

Table 36: Breakdown of the total cost of a R50,000 personal loan

Personal Loan Provider	*Loan Value: R50,000*					
	Total Interest	**Interest as % of Total Costs**	**Total Fees**	**Fees as % of Total Costs**	**Total Credit Life Insurance**	**Credit Life as % of Total Costs**
CP189	R 13,894.82	63.5%	R 2,660.00	12.2%	R 5,310.00	24.3%
CP202	R 22,179.63	87.4%	R 3,192.00	12.6%	R 0.00	0.0%
CP243	R 15,880.69	61.4%	R 3,192.00	12.3%	R 6,808.35	26.3%
CP278	R 29,147.62	63.6%	R 3,192.00	7.0%	R 13,500.00	29.5%
CP344	R 9,133.36	65.2%	R 3,192.00	22.8%	R 1,675.44	12.0%
CP582	R 5,584.00	100.0%	R 0.00	0.0%	R 0.00	0.0%
CP619	R 29,147.62	90.1%	R 3,192.00	9.9%	R 0.00	0.0%
CP627	R 18,261.12	87.0%	R 2,727.00	13.0%	R 0.00	0.0%
CP644	R 10,008.87	24.9%	R 3,138.00	7.8%	R 27,000.00	67.3%
CP676	R 29,429.80	75.2%	R 2,049.00	5.2%	R 7,650.00	19.6%
CP757	R 13,840.00	53.2%	R 3,192.00	12.3%	R 9,000.00	34.6%
CP947	R 19,147.72	69.9%	R 2,936.88	10.7%	R 5,310.00	19.4%
CP189	R 13,894.82	63.5%	R 2,660.00	12.2%	R 5,310.00	24.3%
CP202	R 22,179.63	87.4%	R 3,192.00	12.6%	R 0.00	0.0%
CP243	R 15,880.69	61.4%	R 3,192.00	12.3%	R 6,808.35	26.3%

Source: Feasibility NCR Survey 2011

Of the providers surveyed, 13 indicated that they had kept their fees the same in recent years, 6 reported an increase, and one respondent noted that their fees had decreased. Of the respondents that reported an increase in their fees, five indicated that this was in response to general administration cost increases, and one respondent noted that it was a means of compensating for a reduced interest margin.

Another way of looking at the costs of different loans is to compare the Annual Percentage Rate implicit in providers' offerings. Weighted average APRs for personal loans inclusive of credit life insurance range from 35.5% in the case of a R1,000 loan with a term of one month to 21% for a R7,500 with a 12 month term. The APRs of higher value loans with terms ranging from 24 to 60 months vary from 31.5% to just under 25%.

Table 37: APRs of personal loans inclusive of credit life insurance

Personal Loan Provider	*Loan Values*				
	R 1,000.00	**R 7,500.00**	**R 15,000.00**	**R 50,000.00**	**R 100,000.00**
CP123		54.3%	43.4%		
CP189	35.0%	44.1%	37.4%	24.4%	22.8%
CP202	38.2%	39.2%	33.3%	27.2%	25.7%
CP243		53.6%	35.0%	27.7%	26.3%
CP278		57.6%	51.4%	46.6%	
CP323		42.3%	38.3%		
CP344	25.7%	29.0%	22.2%	15.2%	13.9%
CP498	112.2%				
CP619	88.4%		38.8%	34.1%	
CP627		37.4%	30.1%	23.4%	19.3%
CP644			46.0%	41.5%	
CP676		53.0%	46.9%	41.3%	39.0%
CP707		45.9%			
CP757		40.7%	36.1%	27.9%	27.1%
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%**	

Source: Feasibility NCR Survey 2008, 2011

When credit life insurance is excluded from the calculations, the weighted average APR drops by 100 basis points to 34.5% for a R1,000 loan with a 1-month term. The increasing importance of credit life insurance as a contributor to effective cost is illustrated by the fact that the difference between credit life inclusive APRs and credit life exclusive APRs increases with loan size. So, whereas the difference in APRs for a R15,000 loan is 410 basis points, this increases to 690 basis points for a R50,000 loan and then drops marginally to 570 basis points for a R100,000 loan.

Both Table 37 and Table 38 show the comparative APRs for 2008, based on the same loan sizes, except for the largest size of loan, which is a recent phenomenon. Most notable is the apparent reduction in the APRs for the R1000 loan, which is categorised as a short-term loan (less than R8 000 in value and for less than 6 months). The surveyed APR fell from 92.7% inclusive in 2008 to 35.5% in 2010. This 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. For all the other categories, there was better coverage and the survey respondents the dominant players. Moreover, these categories of loans are also subject to the change in repo rate and the NCA interest rate maxima. Most personal loan providers do not typically charge credit life insurance, as a flat monthly rate is the norm. However, as the term and value of the loan increases, credit life insurance is typically explicitly (or implicitly) charged. 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.

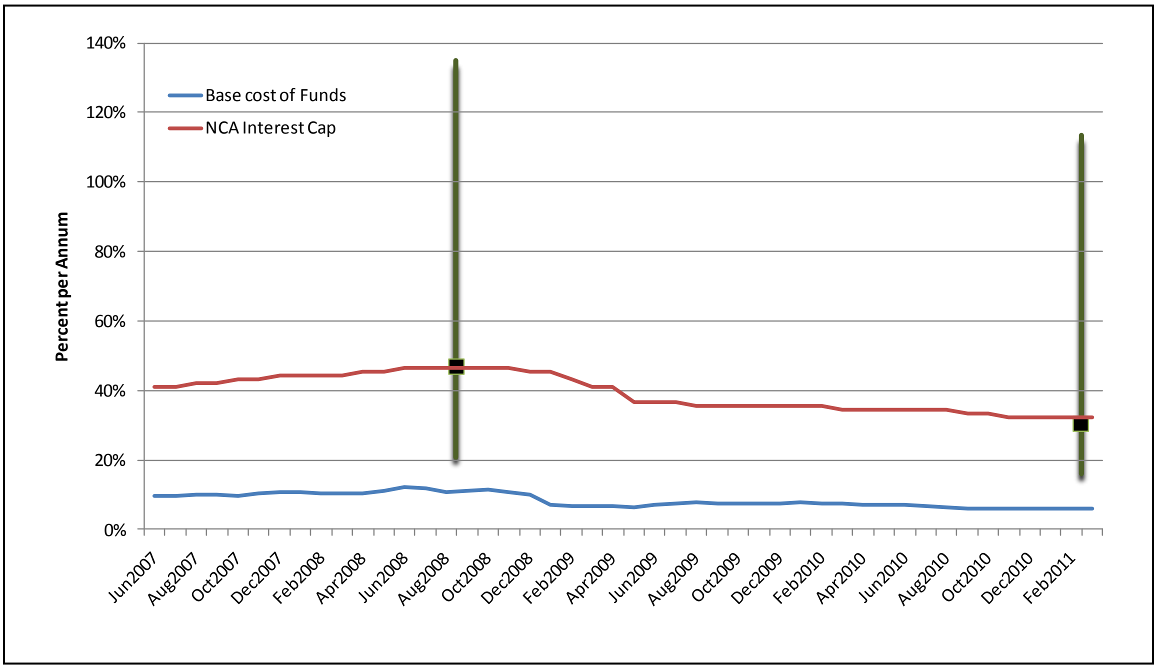
Table 38: APRs of personal loans excluding credit life insurance

Personal Loan Provider	*Loan Values*				
	R 1,000.00	**R 7,500.00**	**R 15,000.00**	**R 50,000.00**	**R 100,000.00**
CP123		42.7%	30.4%		
CP189	35.0%	40.5%	31.7%	17.1%	16.7%
CP202	38.2%	45.3%	35.2%	25.9%	24.8%
CP243		50.9%	29.4%	19.7%	19.3%
CP278		50.9%	40.3%	32.4%	
CP323		41.8%	32.9%		
CP344	24.6%	33.0%	22.8%	12.6%	11.7%
CP498	112.2%				
CP619	88.4%		40.3%	32.4%	
CP627		33.3%	27.7%	21.6%	18.4%
CP644			21.7%	13.5%	
CP676		44.0%	38.6%	31.6%	30.9%
CP707		44.0%			
CP757		36.3%	29.3%	17.6%	17.8%
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 NCR Survey 2008, 2011

Figure 39 compares the APRs charged by those providers surveyed in 2011 with the responses obtained in 2008. It indicates the level and variation in the maximum and minimum rates charged on personal loans (the green lines), the average rate charged by providers (the black square), the interest cap for unsecured loans under the NCA, and a proxy for the base cost of funds. Since none of the providers are (or were) exceeding the interest cap, the potential for fees and credit life insurance to dramatically add to the costs of unsecured lending is clear. These elements clearly afford credit providers significant latitude in pricing, and can raise the effective APRs by an order of magnitude above the NCA interest caps. Unfortunately, the inclusion of such elements comes at the expense of transparency and simplicity (from the perspective of credit consumers).

Figure 39: Pricing of personal loans



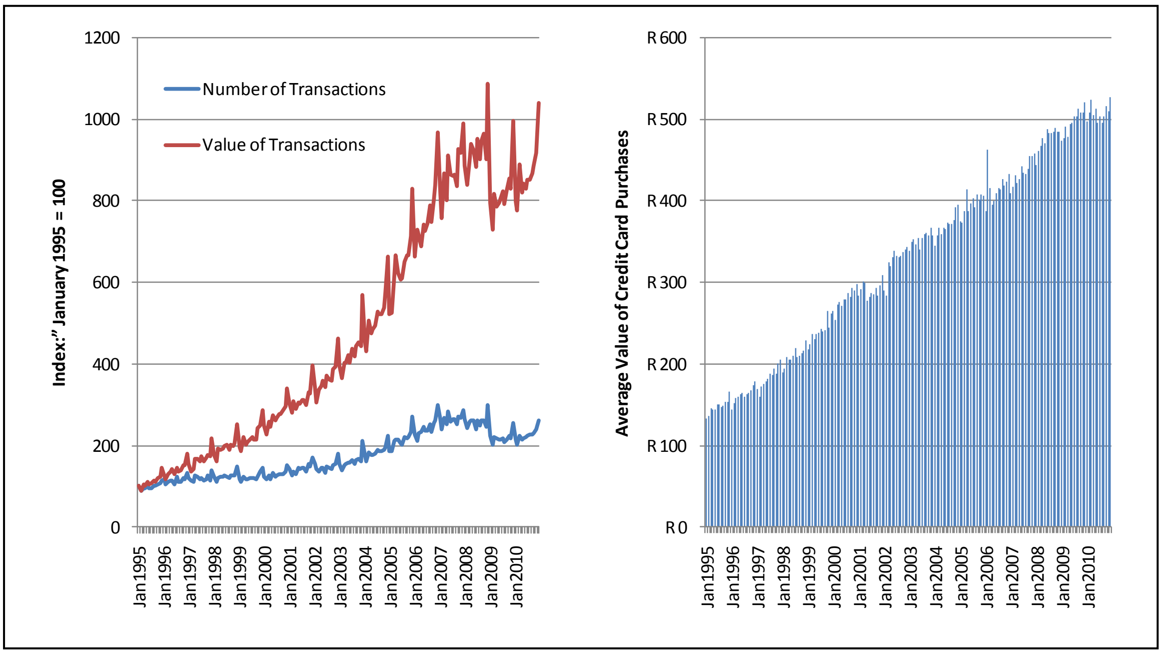
Source: Feasibility NCR Survey 2008, Feasibility NCR Survey 2011, SARB Quarterly Bulletin, NCA

5.4. Credit cards and store cards

Credit cards and store cards are variations of revolving credit facilities – rather than discrete loans. In each case, a maximum facility value is granted to the consumer by the credit or store card provider. The consumer can continue to utilize the unused balance between the credit limit granted and the net balance of the credit used (gross purchases less repayments) for as long as the prevailing credit limit continues to be offered by the provider. Unlike the case with personal loans, where risk management is usually a function of variations in both the value and the term of the credit provided, the credit provider's main instrument for managing risk is to vary the value of the facility granted. The term is generally open-ended. Although clients are usually required to repay a set minimum (typically between 5% and 7.5%) of the outstanding balance each month, this is usually set at such a low level that the outstanding balance and accumulated interest would never be repaid if only the minimum required repayment was to be made. High risk clients are generally offered a lower value facility, while customers with perceived lower risk (which is often determined more by the past behaviour of the card user than by pure affordability criteria) are granted higher value facilities.

Figure 40 indicates relative trends in the monthly value and volume of credit card purchases (the graph on the left) and the average value of individual credit card purchases (the graph on the right) for all credit card transactions (including those of the corporate sector) since 1995. The graph on the left indicates a ten-fold increase in the nominal value of aggregate credit card purchases between January 1995 and December 2008, followed by a sharp drop in early 2009 and subsequent recovery. However, the aggregate value of purchases at the end of 2010 was still lower than at the end of 2008.

Figure 40: Aggregate value, number & average value of credit card transactions



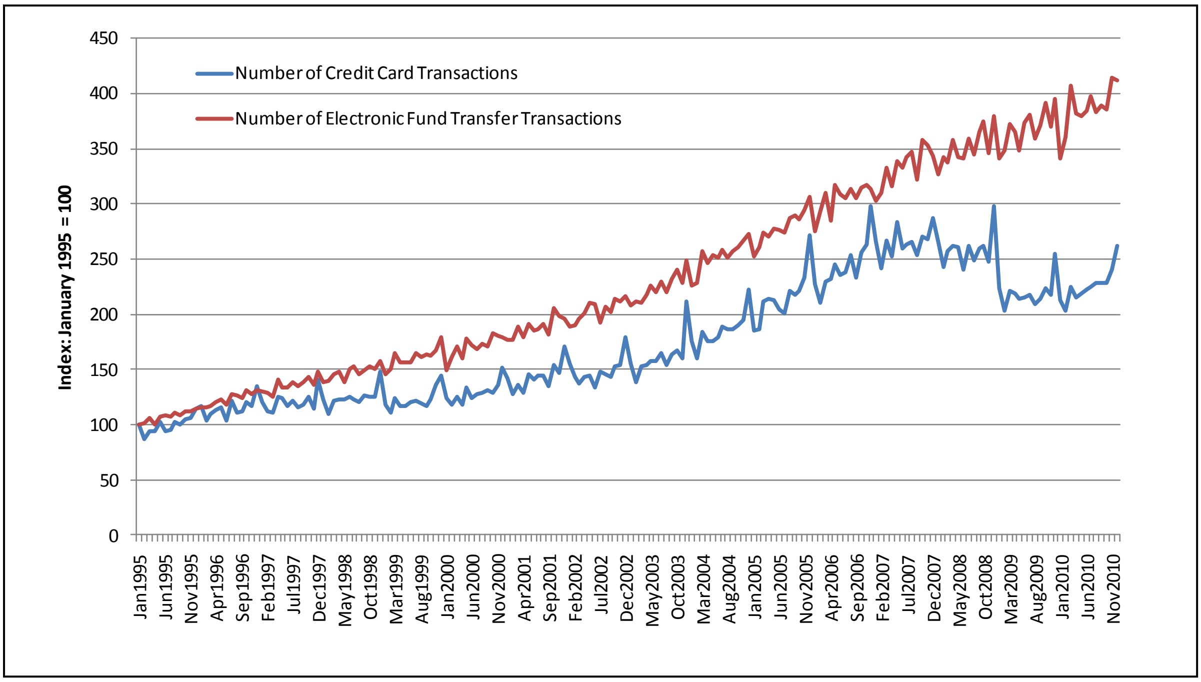
Source: SARB Quarterly Bulletin(via Quantec*)*

The number of credit card transactions shows a more pedestrian increase, rising by almost 190% between January 1995 and the end of 2007 before declining and then showing some recovery during 2010. The difference in the rate of increase in the aggregate value of credit card transactions and the total number of transactions is partly explained by increases in the average value of transactions

– which is shown in the graph on the right. This shows a steadily-rising trend since 1995, increasing from R133 per transaction at the beginning of 1995 to R527 at the end of 2010. While most of this increase can be ascribed to inflationary adjustments to the prices of the goods and services being purchased, there have been a few occasions when average transaction values have either levelled off, or fallen for a brief period – notably during 2001 and the end of 2008. There was also a reduction in the average value of credit card purchases in mid-2010.

Although the growth in the value of credit card transactions has been substantial, the evolution of alternative methods of paying for transactions - ranging from EFTS (electronic funds transfer) transactions using debit cards to the use of internet payment channels – may be another factor that has contributed to the comparatively slower growth in the number of credit card transactions.

Figure 41: Trends in the volume of credit card &EFT transactions



Source: SARB Quarterly Bulletin(via Quantec)

Figure 41 indicates the relative growth in the number of credit card transactions and electronic fund transfer transactions since 1995. The latter has increased at a consistently faster rate – growing by 312% between the beginning of 1995 and the end of 2010, compared with 162% for credit cards. The corresponding growth in the aggregate value of the transactions is similar for both cards and electronic fund transfers – suggesting that electronic fund transfers are increasingly used for smaller value transactions. For many consumers, they are a lower cost means of transacting.

Although store cards operate on much the same basis as credit card facilities, they can generally only be used in stores owned or operated by the card issuer. As a rule, their primary aim is to increase turnover within the issuing group's stores. The ability of the credit operation to generate a separate and in some cases sizeable, revenue stream has added to the motivation of providers to offer such facilities.

5.4.1. Trends in credit card and store card facilities

Table 39 indicates the net credit extended by the survey respondents at various dates, as well as the proportion of our survey respondents' combined book of the values recorded by the Reserve Bank in the BA900 returns. The coverage of the Survey is high – ranging from 97% of the Reserve Bank total in mid-2008 to 108% by the end of December 2010. It is not clear why the combined book values of survey respondents have been higher than that recorded by the Reserve Bank over the past eighteen months or so. There may be slight variances in the definitions of households used, or the difference could reflect the value of card facilities extended to small businesses and juristic persons falling within the ambit of the NCA (which are incorporated into the survey responses, but excluded from the household data of the Reserve Bank). The aggregate value of credit extended using credit cards has been relatively flat over the period shown– increasing from R52 billion in mid-2008 to close to R54 billion at the end of 2010. This represents a slower rate of growth than many other forms of consumer credit and suggests that other transaction payment mechanisms may represent better value, or be more readily available. In interviews, providers stressed that credit card facilities were typically available only to lower risk consumers.

Table 39: Value of outstanding credit card book

Outstanding Book as at:	*Aggregate Book Summary - R Billion*					*Total Outstanding Book According to BA900 Analysis*	*Survey Response as % of SARB Total*
	Facilities up to R3000	Facilities between R3000 and R8000	Facilities between R8000 and R20000	Facilities above R20000	Total Book		
30 June 2008	2.5	5.7	13.6	30.4	52.1	53.7	97%
31 December 2008	2.8	5.7	13.4	30.5	52.4	53.4	98%
30 June 2009	3.1	5.8	13.2	30.4	52.5	52.0	101%
31 December 2009	2.9	5.8	13.0	30.3	52.0	49.7	105%
30 June 2010	2.8	6.0	13.1	30.6	52.5	49.9	105%
31 December 2010	2.6	6.1	13.7	31.5	53.9	49.8	108%

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

Table 40 indicates the combined value of outstanding store card debt reflected by survey respondents. Although the aggregate values are substantially lower than those of credit cards shown in Table 39, the figures have shown more significant growth over the period – rising from R19.7 billion to R24.5 billion (or by almost 25%) between June 2008 and December 2010. The corresponding growth in the value of the credit card book was only 3.4%

Table 40: Value of outstanding store card book

Outstanding Book as at:	*Aggregate Book Summary - R Billion*				
	Facilities up to R1500	**Facilities between R1500 & R3000**	**Facilities between R3000 &R8000**	**Facilities above R8000**	**Total Book**
30 June 2008	1.5	3.4	8.4	6.4	19.7
31 December 2008	1.6	3.8	9.4	7.3	22.1
30 June 2009	1.6	3.7	9.4	7.6	22.3
31 December 2009	1.6	3.6	9.8	8.2	23.1
30 June 2010	1.5	3.4	9.6	8.4	23.0
31 December 2010	1.5	3.5	10.2	9.4	24.5

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

Table 41 and Table 42 indicate the number of active credit card and store card accounts of survey respondents disaggregated by facility size. It indicates a general decline in the total number of credit card facilities. They dropped by almost 323,000 between mid-2008 and the end of 2010. All facility size categories with the exception of those between R3,000 and R8,000 experienced some contraction in the number of accounts – ranging from 7.6% (a loss of 157,000 accounts) in the case of facilities between R8,000 and R20,000 to 4%

(equivalent to a loss of 80,000 accounts) for facilities above R20,000.. If it is assumed that no person has more than one credit card account, then about 14% of South Africa's population has credit cards. Many individuals do have more than one card, so the suggested coverage is likely to be much lower.

Table 41: Number of credit card facilities & household coverage

Outstanding Book as at:	***Aggregate Book - Total Number of Credit Card Facilities***						
	Facilities up to R3000	Facilities between R3000 & R8000	Facilities between R8000 & R20000	Facilities above R20000	Total Book	***Estimated Population of South Africa***	***Estimated % with a Credit Card***
30 June 2008	1,638,420	1,568,355	2,046,920	1,969,237	7,222,931	48,911,245	14.8%
31 December 2008	1,623,868	1,547,015	1,854,357	1,889,693	6,914,933		
30 June 2009	1,687,192	1,538,773	1,883,197	1,913,314	7,022,475	49,463,775	14.2%
31 December 2009	1,623,868	1,547,015	1,854,357	1,889,693	6,914,933		
30 June 2010	1,558,514	1,572,729	1,848,581	1,881,406	6,861,229	49,991,472	13.7%
31 December 2010	1,533,688	1,586,435	1,890,343	1,889,581	6,900,046		
% Change between June 2008 and December 2010	-6.4%	1.2%	-7.6%	-4.0%	-4.5%		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

In the case of store cards, the total number of accounts is larger than it is for credit cards, and it is also increasing. The number of active store card accounts rose by 6.3% from 10.6 million to 11.3 million between June 2008 and the end of 2010. The growth was confined to higher value facilities, with those valued at between R3,000 and R8,000 increasing by 305,000 accounts, and those valued above R8,000 increasing by 24% (465,000 accounts). The number of account facilities with value limits of less than R3,000 (which would generally constitute an entry level for someone with a lower income, or a first time credit user) declined by more than 101,000 accounts.

Table 42: Number of store card facilities and household coverage

Outstanding Book as at:	*Aggregate Book - Total Number of Store Card Facilities*						
	Facilities up to R1500	Facilities between R1500 and R3000	Facilities between R3000 and R8000	Facilities above R8000	Total Book	***Estimated Population of South Africa***	***Estimated % with a Storecard***
30 June 2008	2,173,327	2,408,756	4,079,557	1,947,844	10,609,484	48,911,245	21.7%
31 December 2008	2,271,731	2,372,108	4,270,747	2,181,599	11,096,185		
30 June 2009	2,359,264	2,472,606	4,184,544	2,082,347	11,098,761	49,463,775	22.4%
31 December 2009	2,271,731	2,372,108	4,270,747	2,181,599	11,096,185		
30 June 2010	2,227,301	2,284,938	4,267,080	2,237,651	11,016,971	49,991,472	22.0%
31 December 2010	2,206,270	2,274,450	4,384,440	2,413,234	11,278,394		
%Increase between June 2008 &December 2010	**1.5%**	**-5.6%**	**7.5%**	**23.9%**	**6.3%**		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

5.4.2. Credit and store card facilities in arrears

Table 43 and Table 44 indicate the value of accounts in arrears for credit cards and store cards respectively. In the case of credit cards, total arrears increased by around R500 million between June 2008 and June 2009, but then decreased by R1.5 billion between mid-2009 and December 2010. The reduction in arrears was not uniform across the spectrum. In the case of facilities up to R3,000, arrears increased over the period shown by 23% - even though it too decreased between June 2009 and December 2010. Arrears in respect of facilities between R8,000 and R20,000 showed a general improvement over the full period shown, declining by more than 29% (or R700 million).

Table 43: Value of credit card facilities in arrears

Outstanding Book as at:	*Aggregate Book –Value of Credit Card Facilities in Arrears (R Billions)*				
	Facilities up to R3000	Facilities between R3000 and R8000	Facilities between R8000 and R20000	Facilities above R20000	Total Book
30 June 2008	1.4	1.2	2.4	3.0	7.9
31 December 2008	1.6	1.0	1.9	2.7	7.3
30 June 2009	1.9	1.2	2.2	3.1	8.4
31 December 2009	1.8	1.1	2.0	2.8	7.6
30 June 2010	1.8	1.1	2.0	2.9	7.9
31 December 2010	1.7	1.0	1.7	2.4	6.9
% Change between June 2008 and December 2010	**23.0%**	**-12.7%**	**-29.4%**	**-17.8%**	**-13.4%**

Source: Feasibility NCR Survey 2011

The general pattern of store card arrears was similar, with the arrears increasing between June 2008 and June 2009 and then declining somewhat. The combined arrears value of store cards was still some R500 million higher at the end of 2010 than in mid-2008. And whereas arrears on low value facilities had grown substantially in the case of credit cards, the reverse was true for store cards: facilities with values up to R1,500 recorded an almost 35% decline, and those valued at between R1,500 and R3,000 were down almost 10%. By contrast, the higher value credit card facilities saw fairly significant declines in the aggregate value of arrears, the arrears in higher value store card facilities (greater than R8,000) increased by more than 46% for the period shown in Table 44. Overall, store card arrears increased by nine per cent between June 2008 and December 2010.

Table 44: Value of store card facilities in arrears

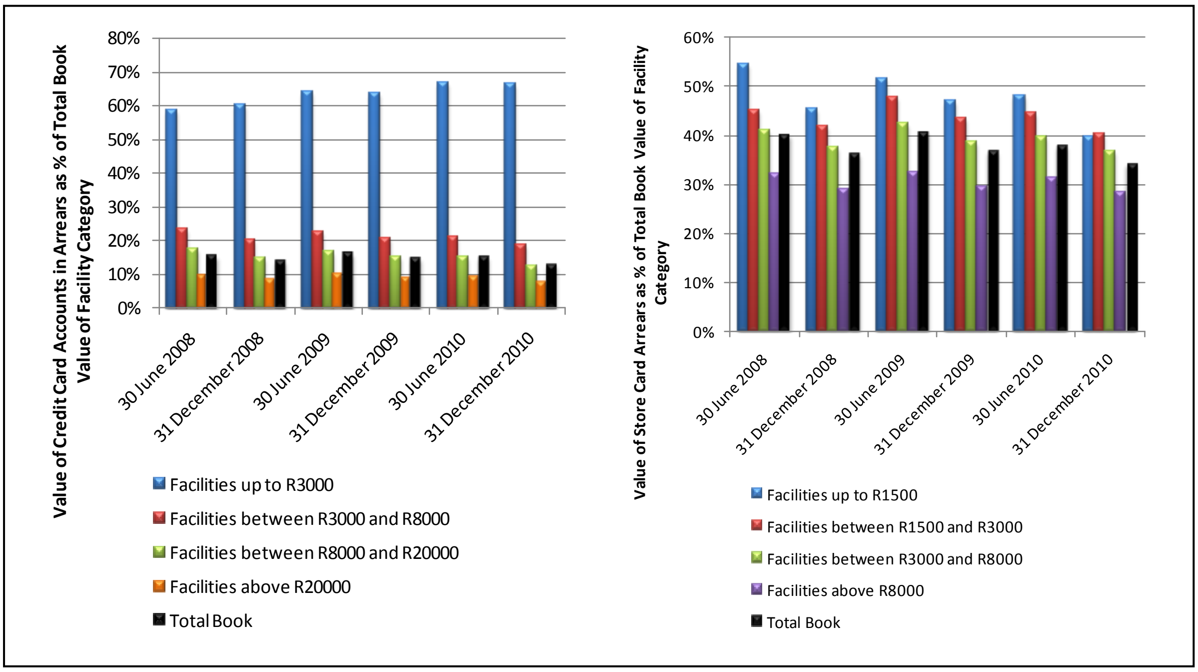
Outstanding Book as at:	*Aggregate Book –Value of Store Card Facilities in Arrears (R Billions)*				
	Facilities up to R1500	Facilities between R1500 &R3000	Facilities between R3000 & R8000	Facilities above R8000	Total Book
30 June 2008	0.6	1.0	2.6	1.3	5.5
31 December 2008	0.5	1.1	2.7	1.4	5.7
30 June 2009	0.6	1.2	2.9	1.7	6.4
31 December 2009	0.5	1.1	2.8	1.7	6.0
30 June 2010	0.5	1.0	2.8	1.8	6.1
31 December 2010	0.4	0.9	2.8	1.9	6.0
% Change between June 2008 and December 2010	**-34.6%**	**-9.9%**	**7.0%**	**46.2%**	**9.0%**

Source: Feasibility NCR Survey 2011

Figure 42 indicates the value of both credit card arrears (the graph on the left) and store card arrears (the graph on the right) as a percentage of their respective aggregate book values for different facility size categories. Arrear rates are inversely correlated with value – dropping as the facility value increases. Credit card arrears are very high (in the 60% to 70% range) for facilities less than R3,000 – which may partly explain the reduction in the number of such facilities shown in Table 44. This group may have been more susceptible to the negative effects of the recession and more prone to employment loss.

The ratio of store card arrears to the outstanding book is generally high for all facility sizes – averaging between 34% and 41% over the period shown. This compares with average credit card arrear rates of between 12% and 17% over the same period.

Figure 42: Value and share of credit and store card facilities in arrears



Source: Feasibility NCR Survey 2011

5.4.3. Current lending patterns

According to respondents a weighted average of 5.6% of total current credit card facility extension is to small businesses. This share has not changed over the past two years. By contrast, the providers surveyed estimated that, on a weighted basis, around 13% of their recent credit card facility extension has been to juristic persons, and they note that this share has also remained stable in recent years.

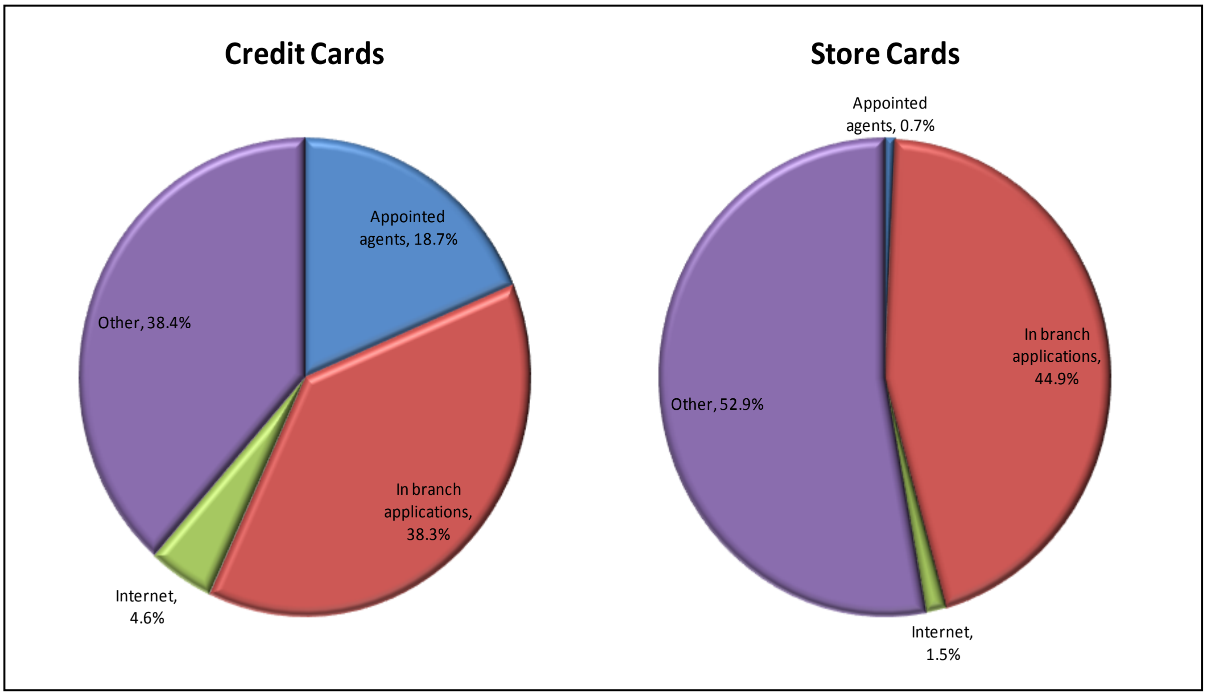
It is usual practice for both credit card and store card providers to operate more than one brand of card. In the case of store cards, this is usually aligned with the branding of different stores within the groups (such as Edgars, Jet, Boardmans, Prato, Temptations, Legit and CNA in the case of Edcon). Credit cards are typically branded for particular companies or organizations, such as British Airways, Bluebean, Access Living, Bank of Athens, Budget Card, Daimler Chrysler, Medicard, One to one, Private Label, Round Table, Saica, Kaizer Chiefs and Orlando Pirates in the case of one provider. Of the credit and store card providers surveyed only one had a single brand offering.

As has been the case in a number of other types of consumer credit, there has been almost no product innovation in the card facility realm over the past few years. One store card provider noted that it had reduced its card limits by an average of 9% across its category offerings, but apart from that there were no material changes to the general characteristics of card offerings. The minimum required monthly repayments as a percentage of the outstanding balance has not changed, apart from the fact that one provider now includes fees and charges within the required repayment. The terms and conditions relating to the use of the facilities have not changed either.

5.4.4. Application channels, commissions and outlets

Although many of the other characteristics of the credit and store card markets are similar, there are some notable differences in the application channels used. Although both rely on in branch applications and "other" channels (which are typically telemarketing channels), credit cards also utilize appointed agents (18.7% versus 0.7%) and internet channels (4.6% compared with 1.5%) to a greater extent than store cards.

Figure 43: Credit and store card application channels



Source: Feasibility NCR Survey 2011

There are two cases (one relating to appointed agents and another to in branch applications) where a fixed fee is paid for successful recruitment of new credit card customers. Apart from this there are no commissions payable to any of the channels used by the respondents surveyed. One store card provider pays a

R45.00 commission to staff that process in-branch applications, but apart from that there are no commissions payable to any of the channels. It would therefore seem that the choice of application channels is not influenced by the commission payable. Other factors – such as the desire to encourage foot traffic through stores in the case of store cards, or to utilize existing branch infrastructure in the case of credit cards – are likely to dominate. In the interviews and consumer focus groups, loyalty towards particular store brands emerged as a powerful motivator of consumer behaviour. The application channels appear to be structured to encourage and promote this.

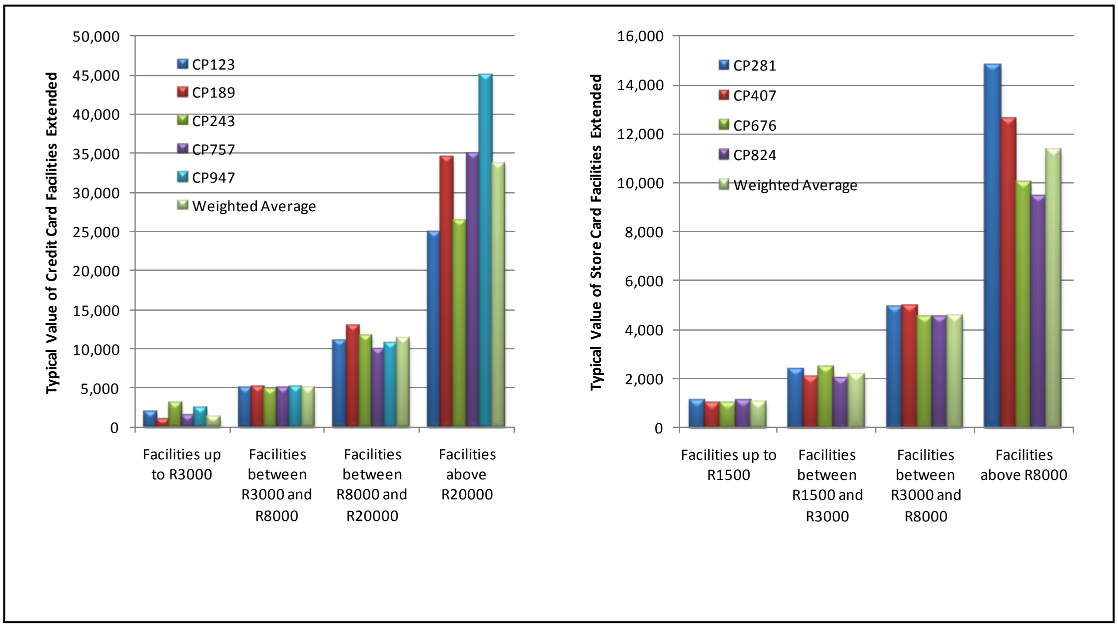
Collectively, the credit and store card providers surveyed lay claim to more than 7,200 "own branded" stores or branches through which they can interact directly with clients and potential clients. These are split almost equally between credit card providers and store card providers (3,500 versus 3,700). The credit card providers surveyed also have a further 590 co-branded or shared branches through which to interact with clients. While branches allow facility providers to interface directly with existing customers, the telemarketing channel is largely geared towards recruiting new clients.

Of the credit and store card providers surveyed, 8 expect to increase their physical branch network in coming years, while 3 anticipate no change in the number of branches/outlets. Expansion of the footprint of store card providers would occur in line with the associated retail outlets. No specific details were provided as to which provinces or locations would be afforded priority in this process. The expansion of the physical footprint of credit card providers is also likely to be spread across provinces, in line with a broader retail distribution strategy.

5.4.5. Average loan values, required or realized incomes, and terms

For the providers of both credit and store cards there is convergence around the typical value of facility extended within each of the value ranges selected. Figure 44 indicates these median values for both types of card-based facilities (credit cards on left and store cards on right). Not surprisingly, the biggest variation in facility value is in the upper, open-ended range (above R20,000 in the case of credit cards and above R8,000 in the case of store cards). R5,000 appears to be a something of a benchmark facility size for both credit cards and store cards.

Figure 44: Value of credit & store card facilities granted within each value range



Source: Feasibility NCR Survey 2011

Table 45 and Table 46 indicate the weighted average facility size for credit cards and store cards respectively, as well as the required, or typically achieved gross monthly incomes of successful facility recipients.

The weighted average incomes of successful store card facility applicants for facilities up to R3,000 and between R3,000 and R8,000 are higher than those required or achieved by credit card applicants. This is not the case for the smallest facilities: while applicants with gross monthly income as low as R2,000 could obtain a credit card (if we assume other aspects of the credit evaluation are considered acceptable by the provider) with a facility of around R1,400, a store card applicant may get a facility valued at around R1,000 with a gross monthly income equivalent to something approximating a state pension (R1,080). For facilities above R3, 000, the lower average income required or achieved by credit card providers may have something to do with their more extensive knowledge of the client and his or her existing debt commitments. Credit card offerings are frequently tied to the person having a bank account with the same institution. The survey respondents indicated that between 13% and 60% of credit card holders bank with their institution.

Table 45: Average credit card facility sizes and actual or required incomes

	Facilities up to R3000	*Facilities between R3000 & R8000*	*Facilities between R8000 & R20000*	*Facilities above R20000*
Weighted average credit card facility size	R 1,358	R 5,312	R 12,677	R 38,740
Income required to qualify for average facility size				
Minimum	R 2,000	R 3,000	R 4,000	R 10,000
Weighted average	**R 2,509**	**R 5,442**	**R 9,365**	**R 21,808**
Maximum	R 4,891	R 7,586	R 14,084	R 30,000

Source: Feasibility NCR Survey 2011

In the case of both credit and store cards, there is a growing gap between the minimum and maximum incomes required or achieved as the size of the average facility increases. Some store card providers will grant facilities of more than R8,000 to people with gross monthly incomes of as little as R2,000, while other providers either require or achieve incomes of close to R18,500 for similar sized facilities. These ranges reflect the different market segments targeted by different providers and consumers' aggregate credit exposure. From the perspective of the R2,000 income earner, such a facility may represent his or her only form of credit, while the person earning more than R18,000 is likely to have access to a broader range of credit products.

Table 46: Average store card facility sizes and actual or required incomes

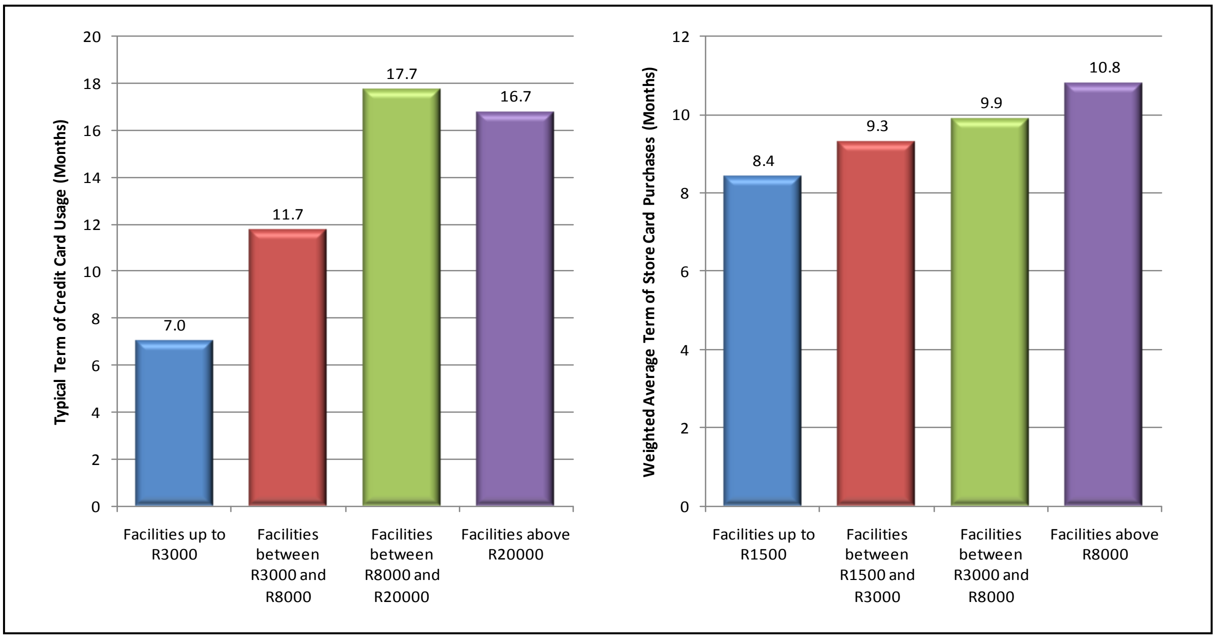
	Facilities up to R1500	*Facilities between R1500 and R3000*	*Facilities between R3000 and R8000*	*Facilities above R8000*
Weighted average store card facility size	R 1,008	R 2,316	R 4,951	R 12,483
Income required to qualify for average facility size				
Minimum	R 1,080	R 1,070	R 1,100	R 2,000
Weighted average	**R 3,157**	**R 3,809**	**R 8,675**	**R 11,528**
Maximum	R 4,060	R 5,498	R 13,010	R 18,481

Source: Feasibility NCR Survey 2011

Both credit and store card providers are quick to point out that their facilities have an open-ended term, and that the customer will usually continue to have access to the facility as long as it is regularly used and serviced. The time taken by an average cardholder to repay particular debts arising from their use of their card will have an impact on the cost associated with such credit. Given the interest rates and fees charged (which are discussed below), if only the minimum required monthly repayments were to be made (ranging from 3% to 10% of the outstanding balance but averaging 5%), the debt would never be repaid and the ability to continue to transact on the facility would be correspondingly curtailed.

Most people typically pay more than the minimum required. The weighted effective term for different sized facilities is as shown in Figure 45. This ranges from 7 to 17 months in the case of credit card purchases (the graph on the left) and from around 8 to 11 months for store cards (the graph on the right).

Figure 45: Average term for credit and store card purchases by size of facility



Source: Feasibility NCR Survey 2011

Of the card providers only one credit card provider and one store card provider require credit life insurance. In both cases they offer the required cover in house. Where such cover is a requirement, providers do allow customers to obtain the insurance from independent insurers and in each case where it is charged by the card provider, the premium is debited on a monthly basis.

5.4.6. Pricing

The effective pricing of card facilities is dependent on a number of different cost elements, including the following:

- (i) Initiation fees
- (ii) Monthly service fees
- (iii) Interest costs
- (iv) Credit insurance (where this is a condition of obtaining a loan)

Initiation fees for credit facilities are limited to a maximum of R1,000 (exclusive of VAT) under the NCA, but – as with other types of credit agreements - the limits depend on the value of the facility. The credit card facility providers surveyed generally charge substantially less than is permitted under the NCA, while 3 of the 4 store card providers surveyed do not levy an initiation fee. The one that does charges around R30 on lower value facilities and nothing for facilities of R15,000.

The initiation fees charged by credit card providers are shown in Table 47. They range from nothing in the case of facilities worth R20,000 or more of one provider to a standard R171 for all facility sizes in the case of another provider. The weighted average initiation fee ranges from about R115 to R136.

Table 47: Initiation fees charged on credit card facilities

Credit Card Provider	*Fees (inclusive of VAT) for various facility sizes*			
	R 3,000.00	**R 8,000.00**	**R 20,000.00**	**R 40,000.00**
CP123	R 108.00	R 108.00	R 108.00	R 108.00
CP189	R 171.00	R 171.00	R 171.00	R 171.00
CP243	R 88.00	R 67.00	R 0.00	R 0.00
CP757	R 18.00	R 142.00	R 144.00	R 144.00
CP947	R 120.00	R 120.00	R 120.00	R 120.00
Weighted Average	**R 135.67**	**R 117.60**	**R 114.64**	**R 132.54**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

The NCA allows card facility providers to charge clients a maximum of R50 plus VAT as a monthly service fee. In each value category there is at least one provider that chooses not to charge a monthly fee.

Table 48 indicates the weighted average monthly fee for each facility value – ranging from just over R10 to an ostensibly illegal R60 in the case of one provider. The weighted average monthly service fees are typically less than half of what is permitted under the NCA.

Only one store card provider charges a monthly service fee, and then only on facilities of R8,000 and less. However, the R75/month charged is clearly above the prescribed maximum and – if the survey response accurately reflects current practice – the provider is in contravention of the Act.

Table 48: Monthly service fees charged on credit card facilities

Credit Card Provider	*Facility Values*			
	R 3,000.00	**R 8,000.00**	**R 20,000.00**	**R 40,000.00**
CP123	R 40.00	R 14.33	R 25.21	R 42.92
CP189	R 17.00	R 17.00	R 17.00	R 17.00
CP243	R 57.00	R 60.00	R 50.00	R 50.00
CP757	R 10.18	R 13.88	R 15.91	R 15.91
CP947	R 28.06	R 28.06	R 28.06	R 28.06
Weighted Average	**R 22.48**	**R 27.75**	**R 25.72**	**R 28.48**

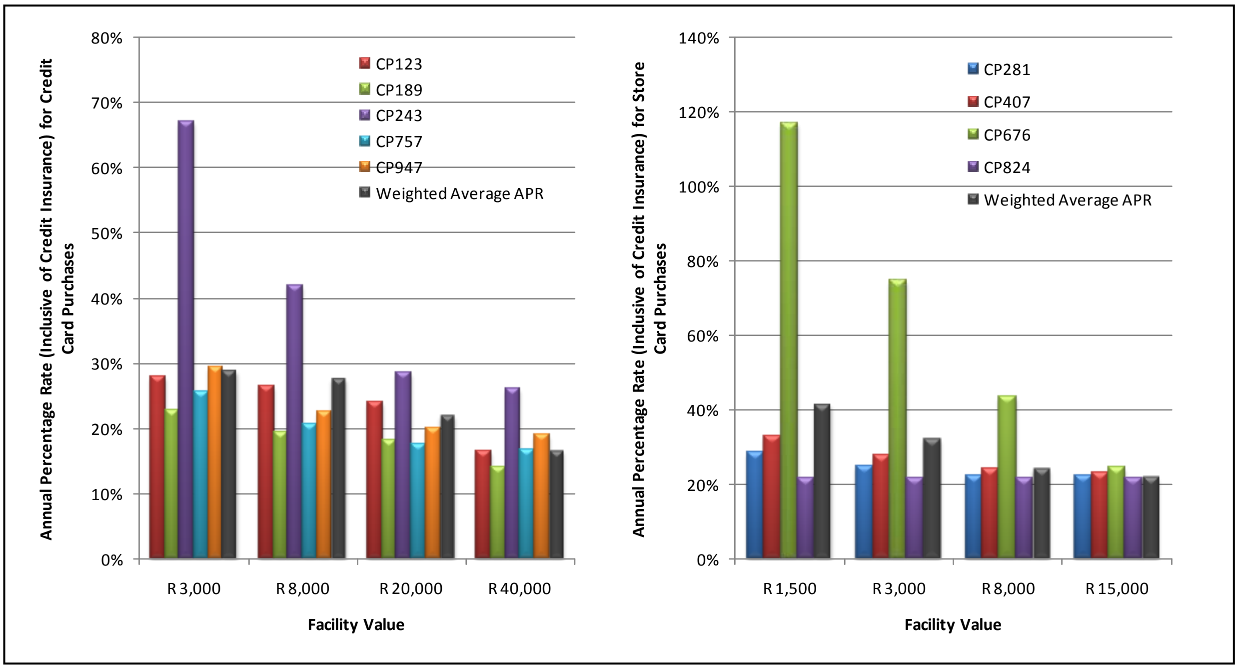
Source: Feasibility NCR Survey 2011 Values inclusive of VAT

Only two credit card providers require credit insurance as a precondition for clients to obtain a card facility. The monthly premiums for such insurance typically range from R14.41 for a facility of R3,000 to R142.80 for a R40,000 facility and – within each value band – are similar for both providers. Likewise, two of the store card providers indicated credit insurance costs ranging from a standard R8 per month (irrespective of the value of the facility) to between R6 and R18 in the case of the other provider.

Of the credit and store card providers surveyed, 6 (4 credit card, 2 store card) indicated that they had increased their fees in recent years. In almost all cases, this was ascribed to general inflationary increases impacting on administration and other costs. One provider ascribed the increase in fees to the adoption of a "risk policy" applicable to new clients.

The combination of the interest charged, the monthly service fee and the credit insurance (where this is levied) gives rise to an effective (APR) as shown in Figure 46. In the case of credit cards (the graph on the left) there is one outlier, whose APRs are substantially higher than other providers, at 67% for a R3,000 facility to 26% for a R40,000 facility. The effective rates charged by the other credit card providers are fairly similar. Store cards too have an outlier, whose APRs are substantially higher than the other respondents, ranging from 117% to more than 24%.

Figure 46: APRs for credit and store cards by provider

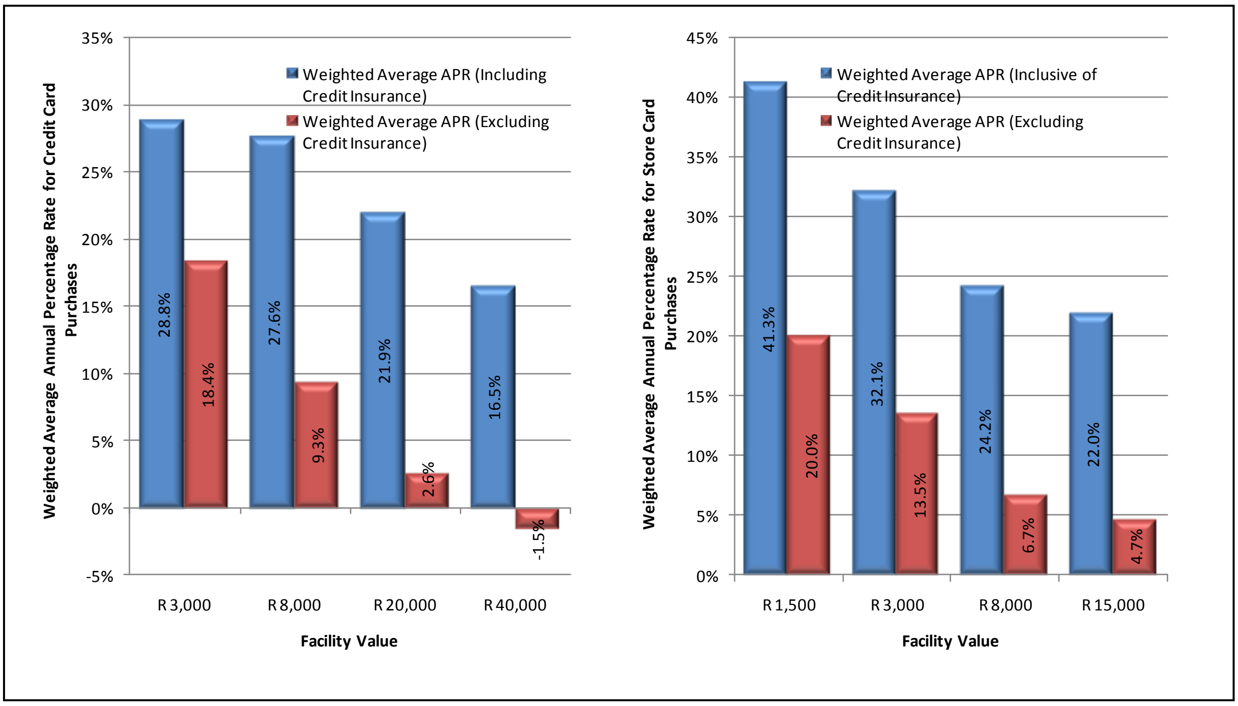


Source: Feasibility NCR Survey 2011

The impact of credit insurance on the effective price of different card facilities is illustrated in Figure 47, which shows the weighted average APRs – both including and excluding credit insurance - for different sized credit card (the graph on the left) and store card facilities (the graph on the right). In the case of credit card facilities the exclusion of credit insurance has the effect of reducing the average APRs by almost 1,000 basis points in the case of facilities of R3,000 and by an even greater amount for higher value facilities. In the case of a facility of R40,000, the responses indicate that, were it not for the insurance charged, the weighted APRs would be negative.

The impact of credit insurance on the weighted average APRs of store card purchases is generally more pronounced – amounting to more than 2,000 basis points in the case of a facility of R1,500 - but also more consistent across different facility values.

Figure 47: APRs for credit and store cards by loan category



Source: Feasibility NCR Survey 2011

Table 49: APRs of credit cards and store cards, 2008 and 2011

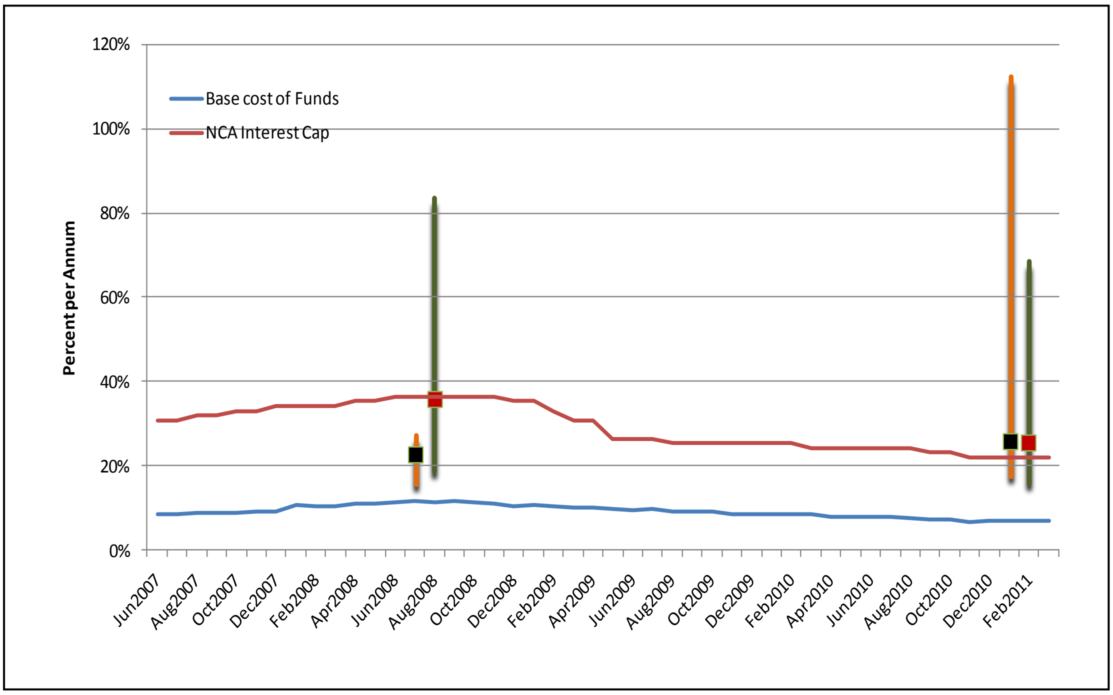
Facility value	*Credit cards* R 3,000	R 8,000	R 20,000	R 40,000	*Store cards* R 1,500	R 3,000	R 8,000	R 15,000
	Inclusive of credit life insurance							
Weighted Average APR - 2011	28.6%	25.2%	19.4%	12.5%	33.7%	16.1%	10.3%	11.8%
Weighted Average APR - 2008	45.0%	33.6%	**30.6%**	**25.8%**	27.0%	26.9%	26.6%	26.1%
	Exclusive of credit life insurance							
Weighted Average APR - 2011	27.0%	21.5%	15.5%	9.8%	31.9%	15.2%	9.9%	11.5%
Weighted Average APR - 2008	41.2%	30.3%	**27.3%**	**23.1%**	27.0%	26.9%	26.6%	26.1%

Source: Feasibility NCR Survey 2008, 2011

The data in Table 49 shows the comparison APRs for store and credit cards for 2008. 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. However, even at these lower rates, the credit card offering for a R3 000 facility is still more expensive than a comparable store card facility. This is consistent with the 2008 data. 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 6.7%. All other facilities cost much less than the 2008 prices (between 10.3% and 14.6% less). 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.

Figure 48 indicates the maximum and minimum APRs (inclusive of credit insurance) charged in the 2008 survey and the 2011 survey for credit card purchases (the green lines) and for store card purchases (the orange lines) as well as the average APRs (the squares). These are shown in relation to the NCA interest cap for credit facilities (the red line) and a proxy for the base cost of funds (the blue line). When account is taken of the effect of credit insurance, the relevant APRs are above the prevailing interest cap. The variation in store card credit costs has widened and, in absolute terms and relative to the cap, the average APR charged has increased.

Figure 48: Pricing of credit and store card facilities



Source: Feasibility NCR Survey 2008, Feasibility NCR Survey 2011, SARB Quarterly Bulletin, NCA

In interviews, a number of card facility providers indicated that there was something of a credit squeeze in this market, and that they were unable to extend card facilities to higher risk segments of the market to the extent that they felt was justified. While there may be some indications of this in Figure 48, the fact that providers are not charging anywhere near the various fee caps suggests that the squeeze is somewhat of their own making. The very high default rates applicable to lower value credit card facilities in particular suggests that providers should be wary of extending credit to this segment.

5.5. Furniture loans

Furniture loans are term loans extended by retail furniture stores that are specifically used to fund the purchase of household furniture and appliances. Along with other types of store credit, furniture loans once represented one of the few forms of formal credit that could be accessed by the large portion of the population that was unbanked (and typically had low incomes). As access to other forms of credit has improved, the rationale for the continued use this form of (relatively expensive) credit has been questioned, but there are clearly still people who have limited credit alternatives and who choose to finance their furniture and appliance needs with furniture loans. In interviews, it was frequently noted that there is a high degree of customer loyalty to particular furniture stores (and their credit offerings) – especially in smaller cities and towns.

Whereas the primary motive of the providers of store card credit facilities is to increase turnover within stores, rather than to secure a revenue stream from their credit extension activity, providers of furniture loans are perceived to derive greater profit margins from their lending activities than from the sale of stocked items. To quote from a recent article[3]:

> *It may sound like an anomaly, but many furniture retailers do not make money from selling furniture. Their profits accrue from the interest they are able to charge on credit provided to their customers.*

The furniture loan market has undergone substantial structural change in recent years. There has been some rationalization of the number of major furniture groups, although this has had limited impact on the range of stores in high streets and malls. The market also saw the acquisition of the Ellerines Group

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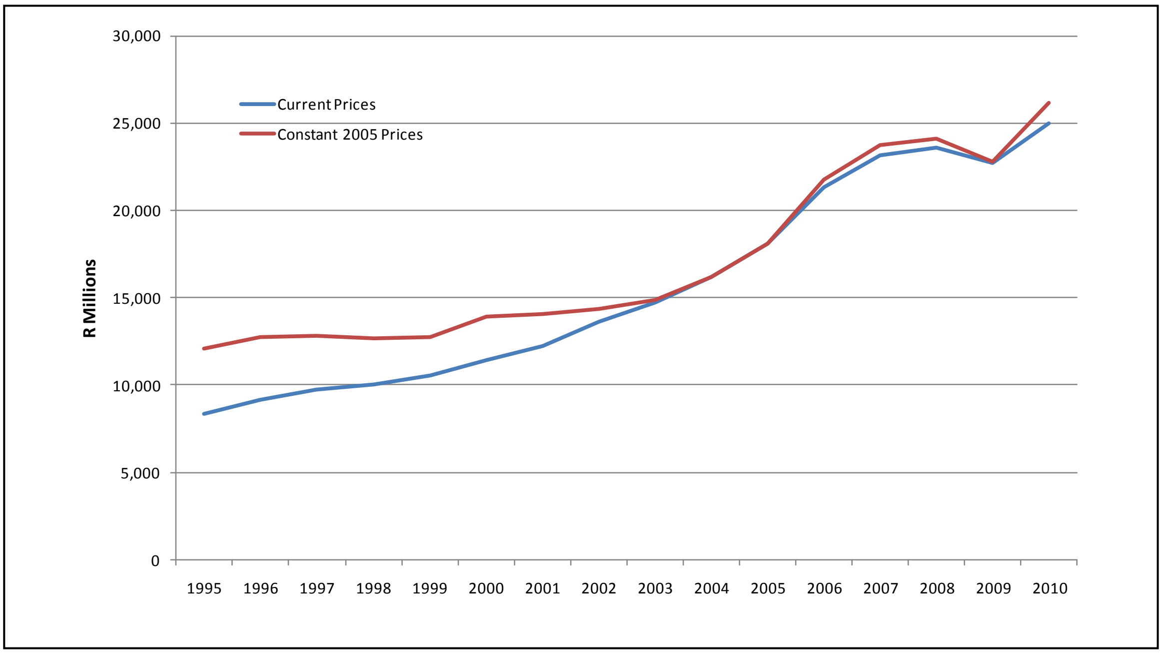
[3]"Will 2011 provide the answer to the Ellerines question?" by Patrick Cairnes, 14 January 2011 as published on Moneyweb.

(which incorporates the Ellerines, Town Talk, Furncity and SavellsFairdeal store brands)by African Bank Limited – which supports the notion that the nature of Ellerines' activities had more in common with banking than traditional retail. These changes have impacted on the survey, as some respondents have only reported on the books of their groups as currently structured. This means that some historical comparisons of the accumulated book are not possible – particularly in respect of 2008.

Figure 49 indicates the value of household spending on furniture and household appliances in both current and constant 2005 price terms from 1995 onwards. The nominal value of such spending increased from around R8 billion in 1995 to R25 billion. It is worth noting that since 2003 there has been little price inflation of these commodity items. In a number of years prices actually fell (reflected in the graph by periods after 2005 when the value of spending at constant prices (the red line) was above the value of current price spending (the blue line). These market characteristics - in which supplying stores would risk losing market share if they tried to increase product prices against market trends – may explain the increasing reliance of furniture stores on the income stream generated by their credit extension activities.

Figure 49: Value of household spending on furniture & in current & constant 2005 prices



Source: SARB Quarterly Bulletin(via Quantec)

5.5.1. Trends in the accumulated net book value of furniture loans

The combined book value of loans still outstanding of those furniture loan providers surveyed is shown in Table 50. It indicates that the net value of credit extended through furniture loans almost doubled between mid-2009 and December 2010, rising from R7.3 billion to R14.1 billion. The most significant area of growth was in respect of loans valued at more than R15,000, which increased by 306%. By contrast loans of up to R2,500 only increased by just over 0.5%.

Table 50: Value of outstanding furniture loan book

Outstanding Book as at:	*Aggregate Book Summary - R Million*				
	Up to R2500	**Between R2500 & R8000**	**Between R8000 & R15000**	**Above R15000**	**Total Book**
30 June 2009	355.1	4564.8	1848.0	556.7	7324.6
31 December 2009	295.4	5097.4	2204.5	661.2	8258.5
30 June 2010	328.4	6263.5	2907.6	897.1	10396.6
31 December 2010	356.8	7163.0	4361.8	2261.0	14142.5
% increase between June 2009 and December 2010	0.5%	56.9%	136.0%	306.1%	93.1%

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)
NOTE: Book values prior to 2009 were not included because they are not comparable with the subsequent data

Table 51 indicates the number of active furniture loans on the books of survey respondents. These rose from 1.8 million in June 2009 to more than 2.8 million at the end of 2010 – an increase of almost 55%. If it is assumed that furniture loan holders each only have one active loan at any given time, then it implies that around 4.6% of the population had a loan from the furniture stores surveyed at the end of 2010 – up from 3.2% in mid-2009. The fact that the number of active accounts increased at a slower rate than the value of the accumulated book is due to the strong growth in higher value loans. Linked to this could also be a trend towards extending term for higher value loans, thereby keeping them on the provider’s books for longer. Given the implications of Figure 49 for the pricing of furniture and appliances, the decline in the number of lower value loans (less than R2,500) is more likely to be due to a combination of increased access to alternative types of credit (such as credit cards or personal loans) and an unwillingness of providers to extend loans of such low value, than to the effects of inflation on individual product purchases.

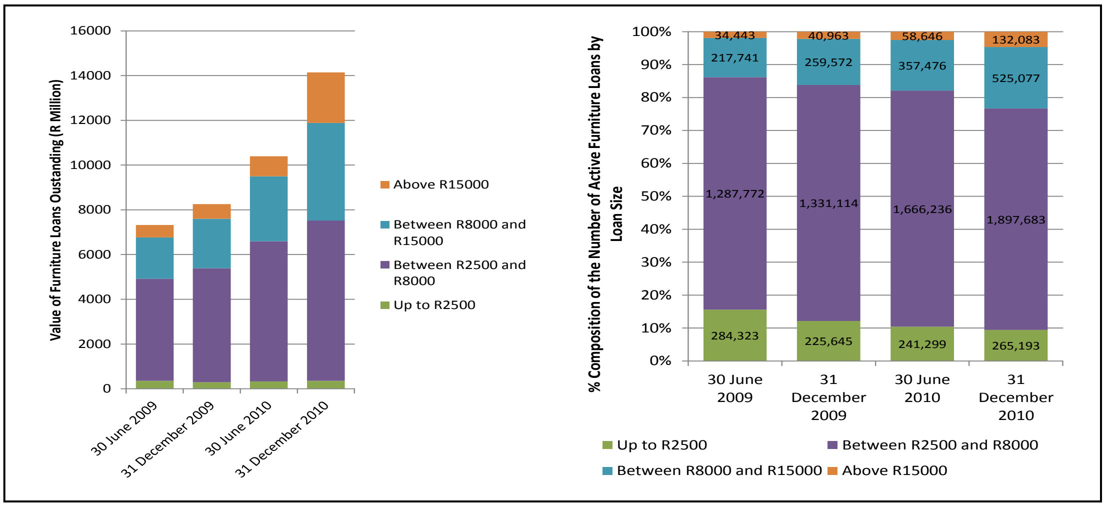
Table 51: Number of active furniture loans

Outstanding Book as at:	***Aggregate Book - Total Number of Furniture Loans***						
	Up to R2500	Between R2500 & R8000	Between R8000 &R15000	Above R15000	Total Book	***Estimated Population of South Africa***	***Estimated % with a Furniture Loan***
30 June 2009	284,323	1,287,772	217,741	34,443	1,824,279	49,463,775	3.7%
31 December 2009	225,645	1,331,114	259,572	40,963	1,857,294		
30 June 2010	241,299	1,666,236	357,476	58,646	2,323,657	49,991,472	4.6%
31 December 2010	265,193	1,897,683	525,077	132,083	2,820,036		
% change between June 2009 and December 2010	-6.7%	47.4%	141.1%	283.5%	54.6%		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

Figure 50 summarises the information shown in Table 50 and Table 51 above, showing trends in the value of the furniture loan book of respondents (the graph on the left) as well as the composition of the number of active loans by original loan size (the graph on the right). The strong growth in the aggregate book – particularly of higher value loans - is clearly evident. The three value categories above R2,500 all showed substantial value growth. The graph on the right indicates the declining number of low value loans, and strong growth in the number of loans in the other value categories. More than half of all loans advanced are for values of between R2,500 and R8,000.

Figure 50: Value of active furniture loans by loan size



Source: Feasibility NCR Survey 2011

5.5.2. Furniture loans in arrears

Table 52 indicates an increase in the value of loans in arrears between December 2009 and June 2010, with the combined value of loan arrears more than doubling during this period, from around R0.9 billion to more than R2 billion. Arrears continued to increase quite strongly during the latter half of 2010 and by December they were almost 160% higher than eighteen months earlier. The most dramatic rise in arrears was in respect of loans above R15,000 – the same category that also recorded the largest percentage increase in both value and number of new loans. Arrears in this category were up more than 400% over its levels of mid-2009.

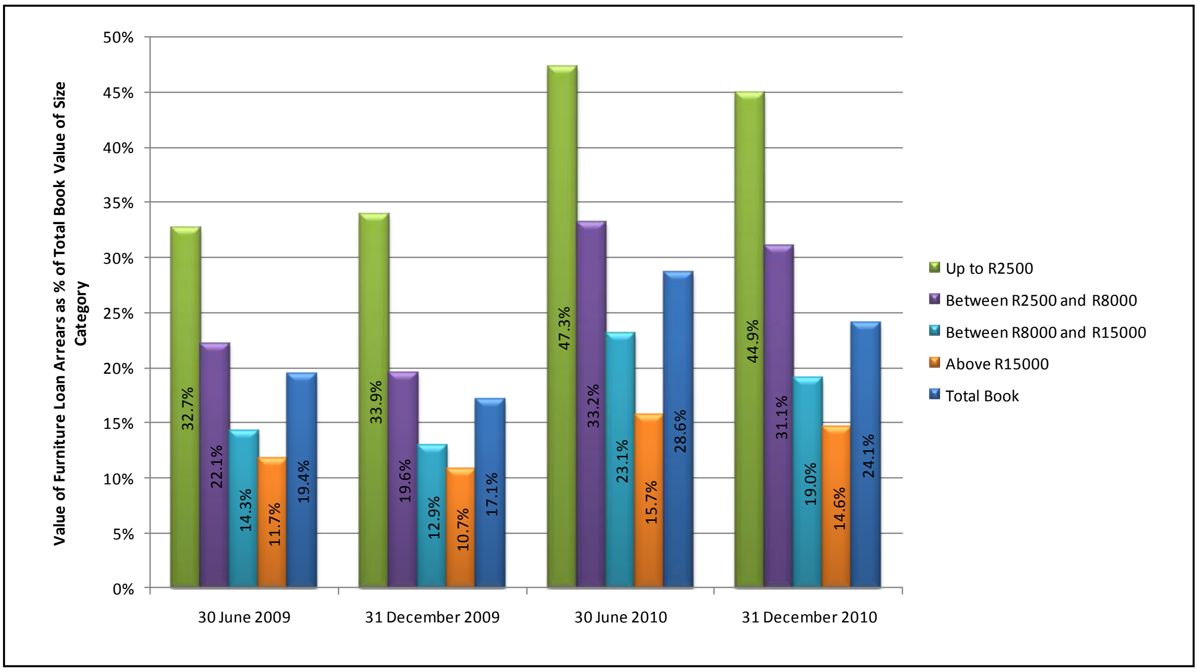
Table 52: Value of furniture loans in arrears

Outstanding Book as at:	*Aggregate Book –Value of Furniture Loans in Arrears (R Millions)*				
	Up to R2500	Between R2500 & R8000	Between R8000 & R15000	Above R15000	Total Book
30 June 2009	88.2	607.2	194.3	60.7	950.4
31 December 2009	70.8	553.8	199.1	64.6	888.3
30 June 2010	116.7	1292.5	502.2	129.4	2040.8
31 December 2010	125.0	1400.7	634.7	305.7	2466.1
% change between June 2009 and December 2010	41.8%	130.7%	226.7%	403.5%	159.5%

Source: Feasibility NCR Survey 2011

Despite this increase in arrears in respect of higher value loans, the category with the largest proportion of book value in default is the one for loans valued at R2,500 or less. The arrears ratio for this category increased from almost 33% in June 2009 to more than 47% a year later, before declining to just under 45% by December 2010. Arrears on the total book of respondents rose from 17.1% at the end of 2009 to 28.6% by mid-2010, before falling back to just over 24% at the end of 2010.

Figure 51: Furniture loan arrears by loan size as % of the outstanding book



Source: Feasibility NCR Survey 2011

The number of furniture loans in arrears increased from 440,000 in June 2009 to almost 700,000 a year later, before dropping back to around 678,000 at the end on 2010.

5.5.3. Current lending patterns

Two out of three respondents indicated that there had been an extension of the typical term of their loans, with a stated rationale of improving the affordability of monthly repayments in order to assist turnover. In the case of one provider, the maximum term was increased from 36 to 60 months. Other areas of innovation include the introduction of cash top-up loans, which – as the name implies – extend a small cash loan to the borrower on top of the furniture loan that they applied for. Moreover, furniture loans have also been treated as unsecured loans, rather than loans secured by the value of the furniture and appliances purchased. The latter approach is probably due in part to a recognition that the furniture and appliances that are financed generally don't keep their value and are comparatively expensive to repossess in the event of default. However, it may also have been prompted by the fact that the prevailing interest cap on unsecured loans is higher [(Repo rate x 2.2) + 20%] than that applicable to other credit agreements (of which secured furniture loans would traditionally have been a part) where the interest rate cap is set at Repo rate x 2.2 + 10%.

5.5.4. Application channels commissions and outlets

Two of the three furniture loan providers surveyed channels all loan applications through their stores. The third provider also makes limited use of a contact centre to receive faxed applications, but 90% of their applications are still submitted in their branches. Collectively, the survey respondents have more than 1,900 stores and branches through which they can receive loan applications.

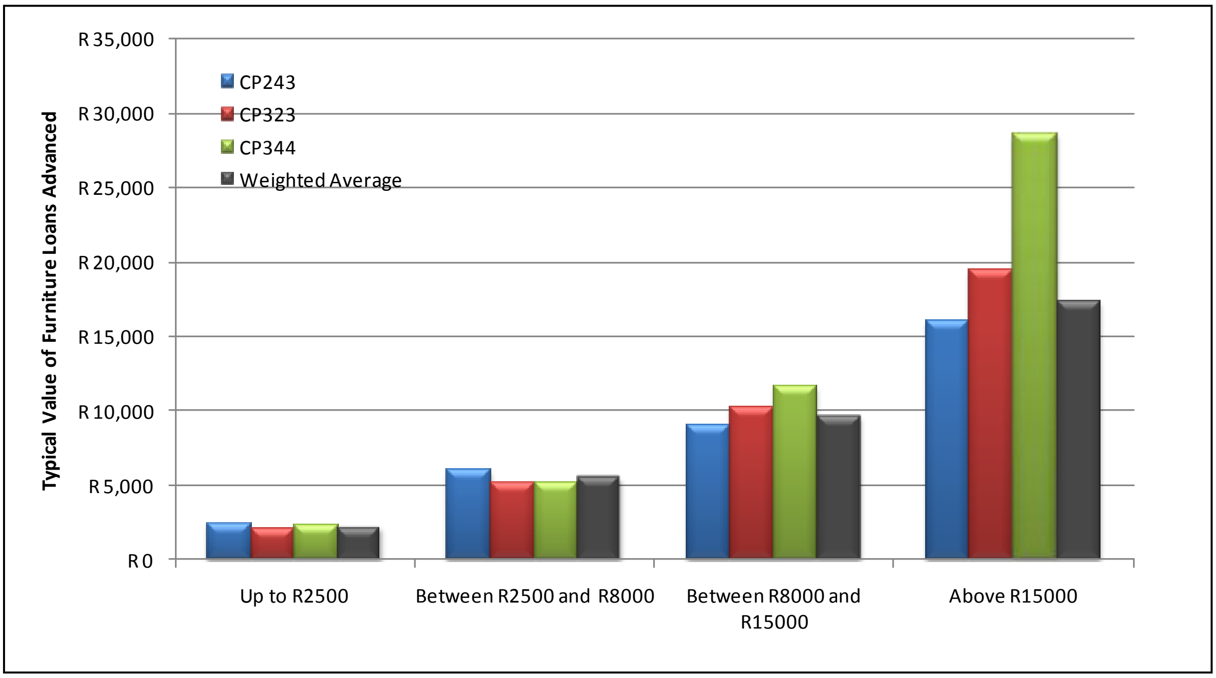
Although one of the providers operates an incentive scheme for staff that incorporates, as one of its elements, the number and value of loan applications they process, none of those surveyed pay any explicit commissions on individual loans.

Two of the furniture loan providers surveyed indicated that they expect to expand the number of outlets in coming years. In one case they plan to focus on “rural areas”, and in the other they noted specific expansion plans in the Western and Eastern Cape and in KZN.

5.5.5. Average loan values, required or realized incomes, and term

The typical or median value of furniture loans advanced by those providers surveyed tend to be similar for the lower value categories, but diverge considerably in the case of loans above R15,000, where one provider typically advances loans of around R16,000 and another (a niche provider) has a median loan value of closer to R29,000. This variation is probably largely the result of differences in the store profile of the providers, and the resulting market segments and income groups that they focus on.

Figure 52: Typical value of furniture loans advanced within each value range



Source: Feasibility NCR Survey 2011

Table 53 indicates the average loan size within each value category as well as the gross income that would either typically be required by the provider (if income is part of their scoring system) or the average of what recently successful applicants for the loans sizes indicated actually declared. So, for a loan of around R1,900 a gross monthly income of close to R3,000 would be usual. In the case of loans of around R23,000, the typical income of successful applicants would be closer to R12,800 per month. The variations across providers surveyed in the income typically required or achieved within each loan value category is relatively small.

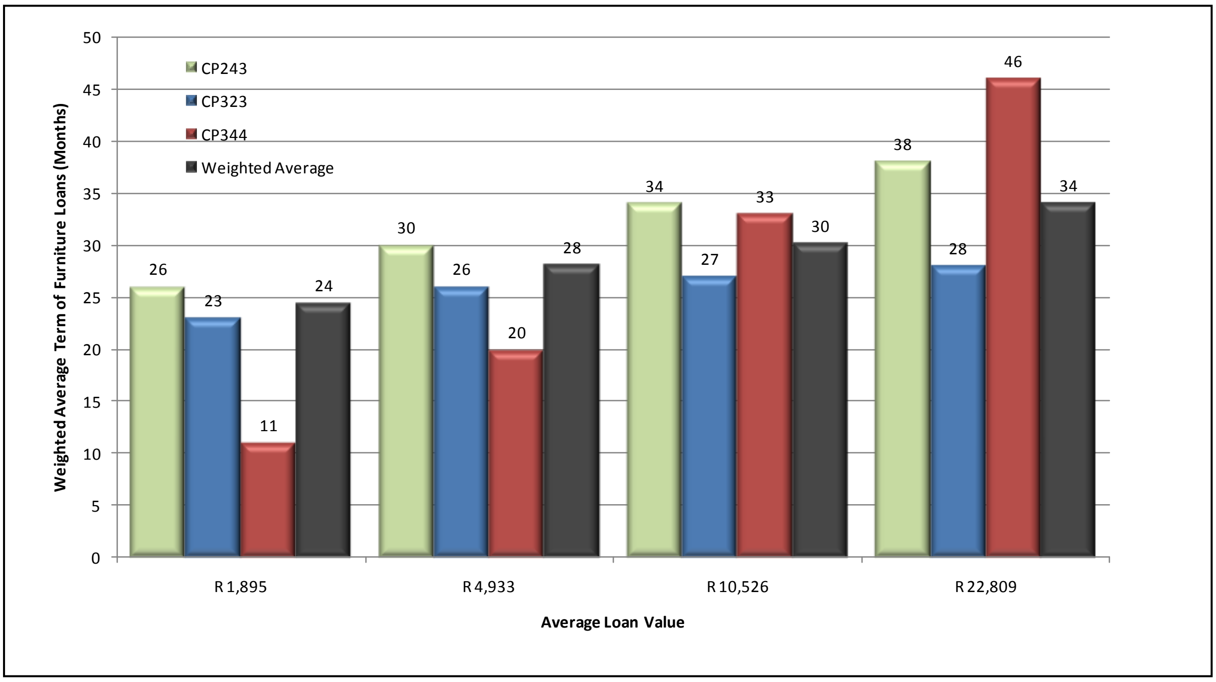
Table 53: Average furniture loan sizes and actual or required incomes

	Up to R2500	*Between R2500 and R8000*	*Between R8000 and R15000*	*Above R15000*
Weighted average loan size	R 1,895	R 4,933	R 10,526	R 22,809
	Income required to qualify for average loan size			
Minimum	R 2,476	R 3,093	R 5,887	R 12,693
Weighted average	R 2,949	R 3,627	R 6,630	R 12,757
Maximum	R 3,377	R 4,218	R 7,232	R 12,809

Source: Feasibility NCR Survey 2011

Credit providers usually vary either the value of the credit extended or the term (or both) in order to manage their risk. In order to obtain more standardized responses, the survey asked providers to indicate what their average term (in months) was for the average loan size they grant within each value category. In this instance, the differences in term across different furniture loan providers provide insights as to how they tend to use variations in the term of the loans they grant to manage their risk. So, while one provider will allow a customer to repay a loan of around R1,900 over 26 months, another will tend to be repaid a loan of a similar amount in 11 months. For loans of this size, the weighted average term of respondents is around 24 months. In the case of a furniture loan of around R23,000, the term ranges from 28 months to 46 months, with a weighted average of 34 months.

Figure 53: The typical term of different sized furniture loans



Source: Feasibility NCR Survey 2011

Another tool for managing risk is a deposit requirement. Table 54 indicates the maximum, weighted average and minimum deposit required by the different providers surveyed. These range from 5.6% to 10%. The weighted average deposit required initially decreases with loan size, but then increases in the case of a loan of around R23,000 to 9%.

Table 54: Typical deposits required in respect of different loan sizes

	Typical Deposit Required			
Average loan value	R 1,895	R 4,933	R 10,526	R 22,809
Minimum	6.9%	5.7%	5.6%	7.5%
Weighted average	**8.4%**	**8.0%**	**7.6%**	**9.0%**
Maximum	10.0%	10.0%	10.0%	10.0%

Source: Feasibility NCR Survey 2011

Only one of the providers surveyed requires that product insurance is taken out as a condition of the loan being granted. This is offered from within the group, and the furniture loan activity receives some form of intra group commission for the value of the insurance underwritten.

All the providers stipulate that credit life insurance is a prerequisite of loans being granted, and each offers the required insurance from within the group. Two of the respondents receive some form of intra-group commission, while the third does not. The systems of two of the providers are able to cater for (probably rare) situations where a customer chooses to obtain the required credit insurance from a third party, but the third provider has an arrangement with an underwriter and its system does not allow borrowers to obtain insurance elsewhere.

5.5.6. Pricing

The pricing of a furniture loan is affected by a number of factors. These include: the initiation fee charged; the interest levied on the outstanding balance; the nature and extent of monthly service charges; and whether product and credit insurance are a requirement and, if so, the pricing of that insurance.

Initiation fees for credit facilities are limited to a maximum of R1,000 (exclusive of VAT) under the NCA, but – as with other types of credit agreements - the limits vary based on the value of the facility. The credit card facility providers surveyed generally charge substantially less than is permitted under the NCA, while 3 of the 4 store card providers surveyed do not levy an initiation fee, and the one that does only charges around R30 on lower value facilities and nothing for facilities of R15,000.

In terms of the NCA, initiation fees are set at a maximum of R1,000 plus VAT, and are governed by the formula R150 + 10% of the loan value in excess of R1,000. The initiation fees levied by the furniture loan providers surveyed for different loan sizes are shown in Table 55. They range from R231.20 in the case of a R2,000 loan to the maximum permitted in the case of loans of R20,000 and more. The weighted average initiation fee increases from almost R257 to R960 for loans above R20,000.

Table 55: Initiation fees charged on furniture loans

Furniture Loan Provider	*Furniture Loan Values*				
	R 2,000.00	**R 5,000.00**	**R 10,000.00**	**R 20,000.00**	**R 25,000.00**
CP243	R 285.00	R 480.00	R 800.00	R 1,140.00	R 1,140.00
CP323	R 231.20	R 441.20	R 684.00	R 684.00	R 684.00
CP344	R 299.99	R 749.99	R 1,140.00	R 1,140.00	R 1,140.00
Weighted Average	**R 256.75**	**R 461.58**	**R 735.89**	**R 959.78**	**R 959.78**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

Two of the furniture loan providers surveyed charge the maximum monthly service fee permitted by the NCA (R50 plus VAT) for all loans except – in one instance – loans of R2,000 or less. The third provider charges a flat fee of R34.20 per month. The weighted average monthly fee charged ranges from just over R30 for a R2,000 loan to R48 per month for loans of R20,000 or more.

Table 56: Monthly service fees charged on furniture loans

Furniture Loan Provider	*Furniture Loan Values*				
	R 2,000.00	**R 5,000.00**	**R 10,000.00**	**R 20,000.00**	**R 25,000.00**
CP243	R 25.50	R 57.00	R 57.00	R 57.00	R 57.00
CP323	R 34.20	R 34.20	R 34.20	R 34.20	R 34.20
CP344	R 57.00	R 57.00	R 57.00	R 57.00	R 57.00
Weighted Average	**R 30.07**	**R 46.18**	**R 44.40**	**R 47.99**	**R 47.99**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

Since all of the providers surveyed require some form of credit life insurance, it is instructive to examine the rates applicable. These are shown in Table 57. The rates charged by two of the providers are similar, but the third is somewhat of an outlier, charging much lower rates across all loan values. In the case of a R2,000 loan the credit insurance rates vary from as little as R1.79 to R16.09, with a weighted average of almost R12 per month. In the case of a R25,000 furniture loan, credit insurance can add as much as R100 to monthly repayments, or as little as around R20. Unfortunately it is unclear what types of cover these insurance premiums buy.

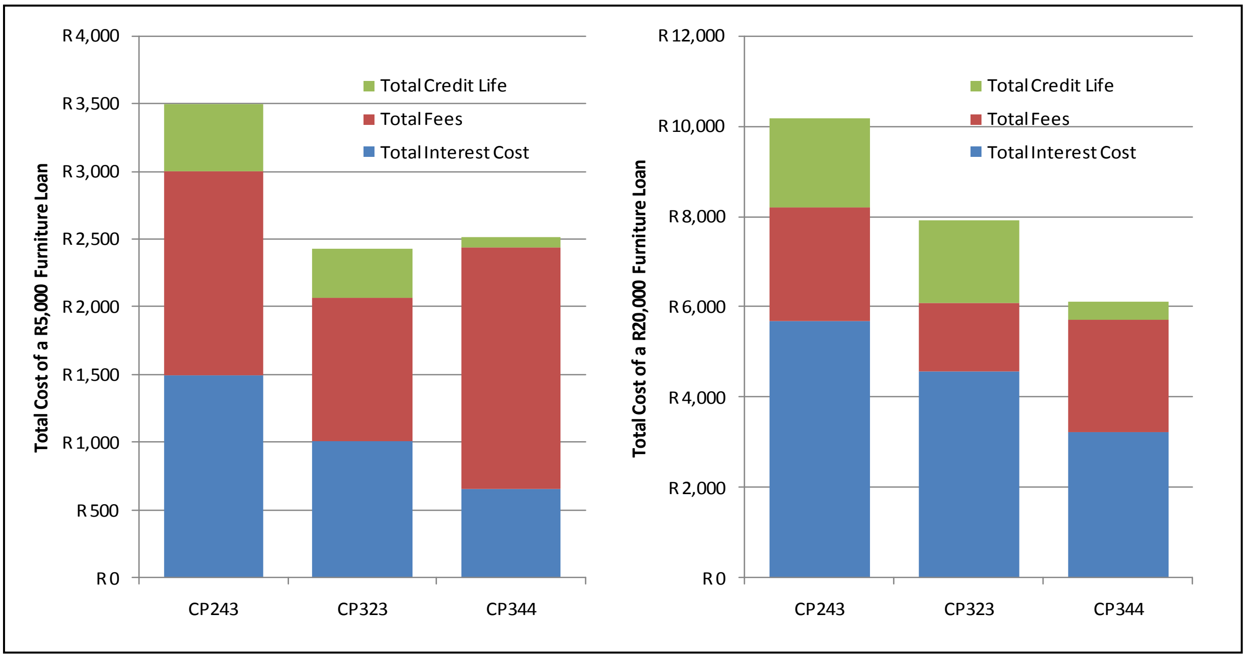
Table 57: Credit insurance charged on furniture loans

Furniture Loan Provider	*Furniture Loan Values*				
	R 2,000.00	**R 5,000.00**	**R 10,000.00**	**R 20,000.00**	**R 25,000.00**
CP243	R 16.09	R 27.41	R 46.25	R 82.87	R 100.58
CP323	R 8.26	R 20.14	R 39.70	R 76.36	R 94.35
CP344	R 1.79	R 4.48	R 8.69	R 16.49	R 20.39
Weighted Average	**R 11.98**	**R 23.96**	**R 42.63**	**R 80.26**	**R 98.08**

Source: Feasibility NCR Survey 2011

The effect of the various cost elements listed above on the total cost of a loan of R5,000 (the graph on the left) and R20,000 (the graph on the right) is as shown in Figure 54. It indicates that the total cost of a R5,000 loan with an 18 month term can vary from R3,500 inclusive of credit insurance to just over R2,400. There is considerable variation in the contribution that the various cost elements (interest, fees and insurance) make to the total cost of these loans. One of the providers (CP 344) charges substantially higher fees, but lower interest and almost no credit insurance. The most expensive provider (CP 243) has the highest interest and insurance costs, and the second highest fee component. In the case of a R20,000 loan, the total costs range from more than R10,000 to just over R6,000.

Figure 54: Total cost of furniture loans by provider

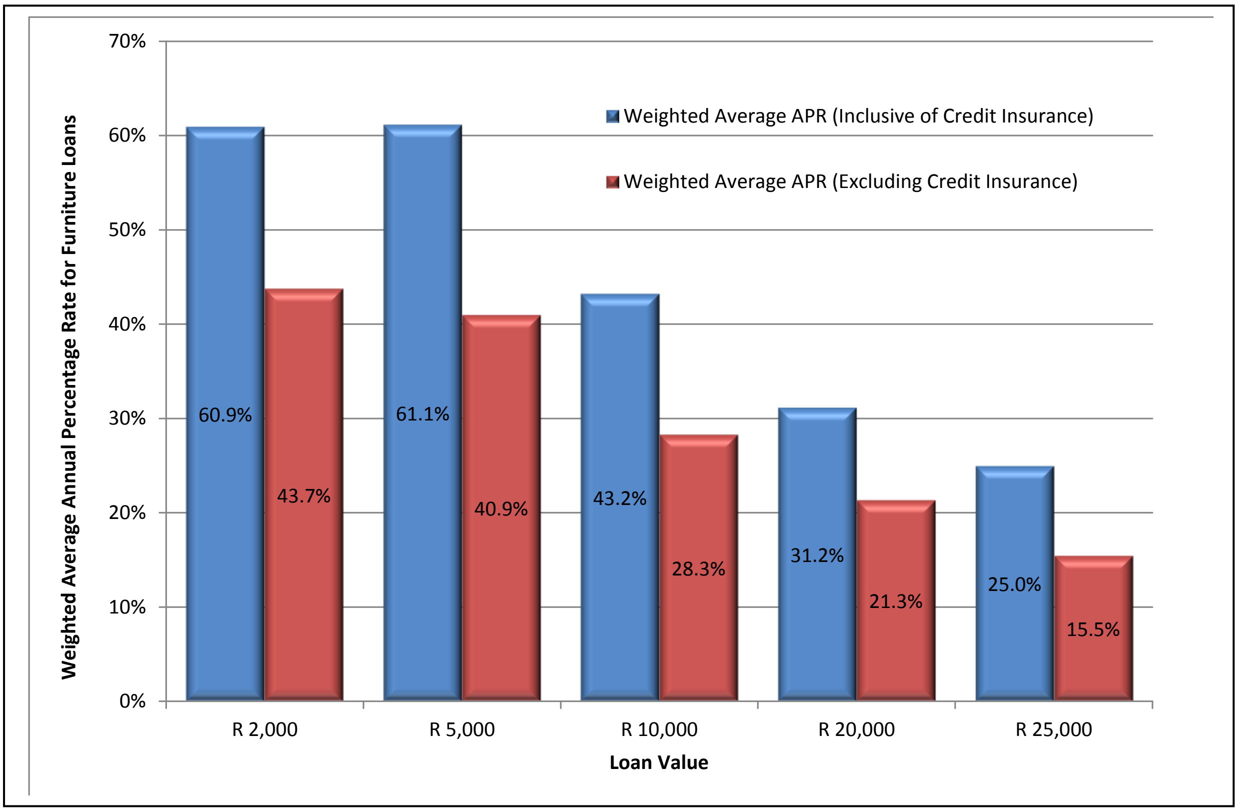


Source: Feasibility NCR Survey 2011

Only one of the furniture loan providers surveyed indicated that they had increased their fees in recent years. This was ascribed to general inflation impacts on administration and other costs. The other three providers noted that their fees had unchanged.

The effect of these different costs is reflected in the APRs charged. Figure 55indicates the weighted average APRs (including and excluding credit insurance) of the providers surveyed for five different loan values. These follow a consistent pattern and become progressively lower as the loan value increases. A loan of R2,000 and a term of 18 months carries a weighted average APR of 60.9% inclusive of credit insurance, and 43.7% when the insurance is excluded. By contrast a loan of R25,000 with a term of 36 months sees the average APR drop to 25% including credit insurance, and just over 15.5% when the insurance is excluded.

Figure 55: APRs for furniture loansby loan size



Source: Feasibility NCR Survey 2011

The change in pricing from 2008 is set out in Table 58. For the smallest loan sizesof R2 000 and R5 000, prices in 2010 are moderately more expensive than for comparable loan sizes in 2008. Moreover, the exclusive rate for a R2 000 loan is 650 basis pointsmore expensive than the exclusive rate in 2008. This is inspite of the fact that repo has fallen by 14.3% over this period.For higher value loans sizes, the weighted average APRs charged in 2010 are lower than corresponding rates in 2008 – suggesting increased competition in this market segment from either other furniture loan providers, or (more likely) from other types of credit products that people eligible for such sized loans are likely to have access. There is still a sense that for small loans there is a more captive client base. Regarding credit life insurance, whereas the differential between inclusive and exclusive prices was in excess of 2000 basis points in 2008, regardless of the loan size, the differential is smaller in 2010, ranging from around 1,700 basis points for lower value loans to just over 1000 basis points for higher value loans.

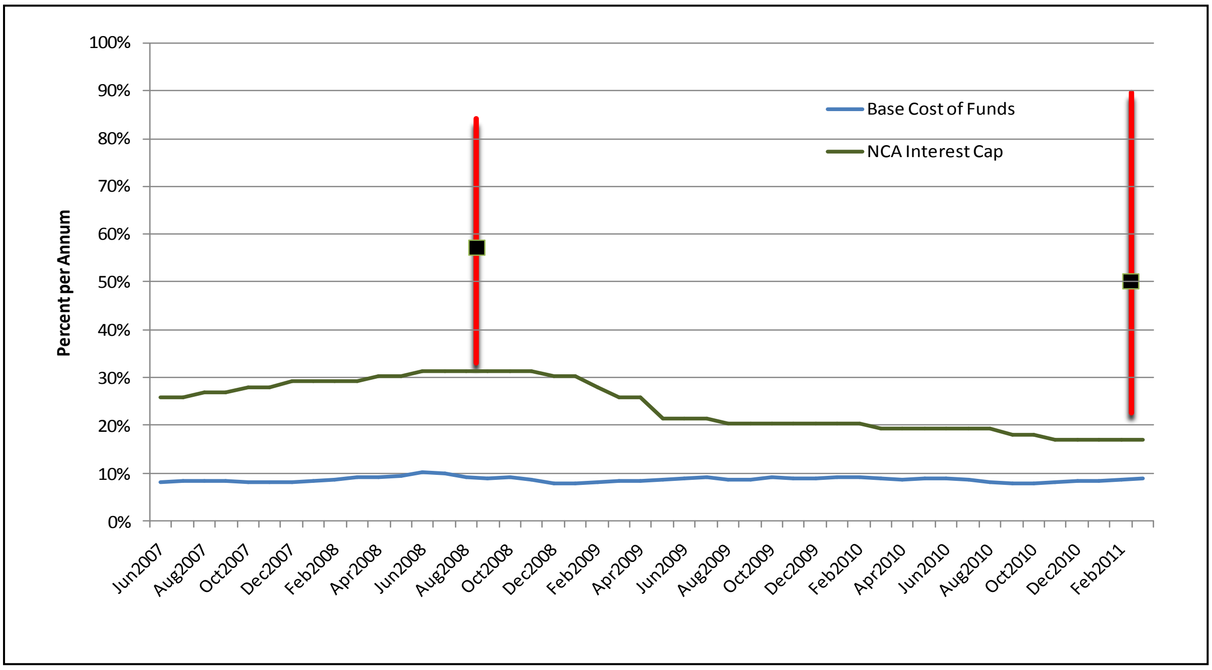
Table 58: APRs of furniture loans, 2008 and 2010

	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 NCR Survey 2008, 2011

Figure 56 indicates the maximum, minimum (the red lines) and weighted average (the black squares) APRs for furniture loans (including credit insurance) in both the 2008 survey and the current one in relation to the prevailing interest cap for other credit agreements (the green line). It also indicates a proxy for the cost of funds of furniture loan providers based on the yield on government bonds with a term of three years. There has been a considerable squeeze on interest margins (if borrowed funds are used), and the effective APRs are much higher than the interest cap. It is easy to see why some providers may prefer to classify their loans as unsecured, since the interest cap for such loans is a 1000 basis points higher than for secured loans classified under other credit agreements. Nevertheless, it is also clear that the ability to charge fees and the addition of credit life insurance as a requirement of loans effectively renders the interest cap somewhat redundant.

Figure 56: Pricing of furniture loans



Source: Feasibility NCR Survey 2008, Feasibility NCR Survey 2011, SARB Quarterly Bulletin, NCA

5.6. Overdrafts and revolving credit plans

Like credit cards and store cards, overdrafts and revolving credit plans (RCPs) are both types of credit facilities in which the customer is afforded the right by the credit provider to draw on a credit facility up to a certain agreed maximum amount (the overdraft or RCP limit). Respondents to these sections of the survey were registered banks (in the case of the provision of overdrafts) and banks and co-operatives (in the case of RCPs).

Overdrafts are distinguished from other credit facilities because they are linked directly to a current or transmission account and become seamlessly available when the customer has exhausted all the available credit balances within his or her account. Usually, overdraft facilities tend to be offered to customers that are perceived to be relatively lower risk borrowers. By definition, they need an existing account with the credit provider and although the term of the facility is open-ended (subject to the review of the provider), the facility is either fully or partially repaid each time the holder receives a payment into their account. The prime overdraft rate represents the rate levied on the overdraft facilities of the provider's prime (best or lowest risk) clients. In practice it is set at Repo rate plus 350 basis points although there is no legal reason for this to be the case.

RCPs generally have more structured repayment terms than overdrafts, and the conditions under which credit balances can be accessed are more limited. Our research suggests that the typical qualification criteria include that the applicant must be formally employed, or be a member of a co-operative, and earn an income of at least R6,000 per month.

5.6.1. Trends in the overdraft and RCP book

The combined book value of outstanding overdraft and RCP balances of the providers surveyed is shown in Table 59. It indicates that the credit extended via overdrafts rose from R12.4 billion to R17.1 billion between June 2008 and June 2009, and then oscillated within the R15 to R17 billion range for the next 18 months. The book value of RCPs increased consistently over the period, from just under R8 billion to over R10 billion. This may reflect the effects of both debt consolidation and an attempt on the part of providers to switch customers to a more structured form of debt.

When the balances of RCPs and overdrafts are combined and expressed as a percentage of the overdrafts extended to households (as recorded by the Reserve Bank), the survey coverage rises from just under 80% in mid-2008 to 109% in 2010. It is assumed that the more than complete coverage is the result of the inclusion of the overdraft facilities of small businesses by some respondents.

Table 59: Value of outstanding overdraft and RCP books

Outstanding Book as at:	*Aggregate Book Summary - R Billion*					*Total Outstanding Book According to BA900 Analysis*	*Survey Response as % of SARB Total*
	Up to R5000	Between R5000 and R10000	Between R10000 and R25000	Above R25000	Total Book		
Overdraft facilities							
30 June 2008	0.9	1.0	2.2	8.3	12.4	25.7	48%
31 December 2008	0.9	0.9	2.0	8.7	12.5	25.7	49%
30 June 2009	1.3	1.0	2.2	12.6	17.1	26.5	65%
31 December 2009	1.2	0.9	2.0	11.9	15.9	23.6	67%
30 June 2010	1.3	0.9	2.2	12.5	16.9	24.2	70%
31 December 2010	1.4	0.9	1.9	11.1	15.2	23.3	65%
Revolving Credit Plans							
30 June 2008	0.1	0.3	2.6	4.9	7.9	25.7	31%
31 December 2008	0.1	0.3	2.6	5.3	8.3	25.7	32%
30 June 2009	0.1	0.3	2.5	5.5	8.3	26.5	32%
31 December 2009	0.1	0.3	2.6	6.1	9.0	23.6	38%
30 June 2010	0.1	0.3	2.5	6.7	9.5	24.2	40%
31 December 2010	0.1	0.3	2.5	7.4	10.2	23.3	44%
Overdrafts and Revolving Credit Plans Combined							
30 June 2008	1.0	1.3	4.8	13.2	20.3	25.7	79%
31 December 2008	1.0	1.2	4.6	14.0	20.8	25.7	81%
30 June 2009	1.3	1.3	4.7	18.1	25.4	26.5	96%
31 December 2009	1.3	1.2	4.5	18.0	24.9	23.6	106%
30 June 2010	1.3	1.2	4.7	19.2	26.4	24.2	109%
31 December 2010	1.4	1.2	4.4	18.4	25.4	23.3	109%

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

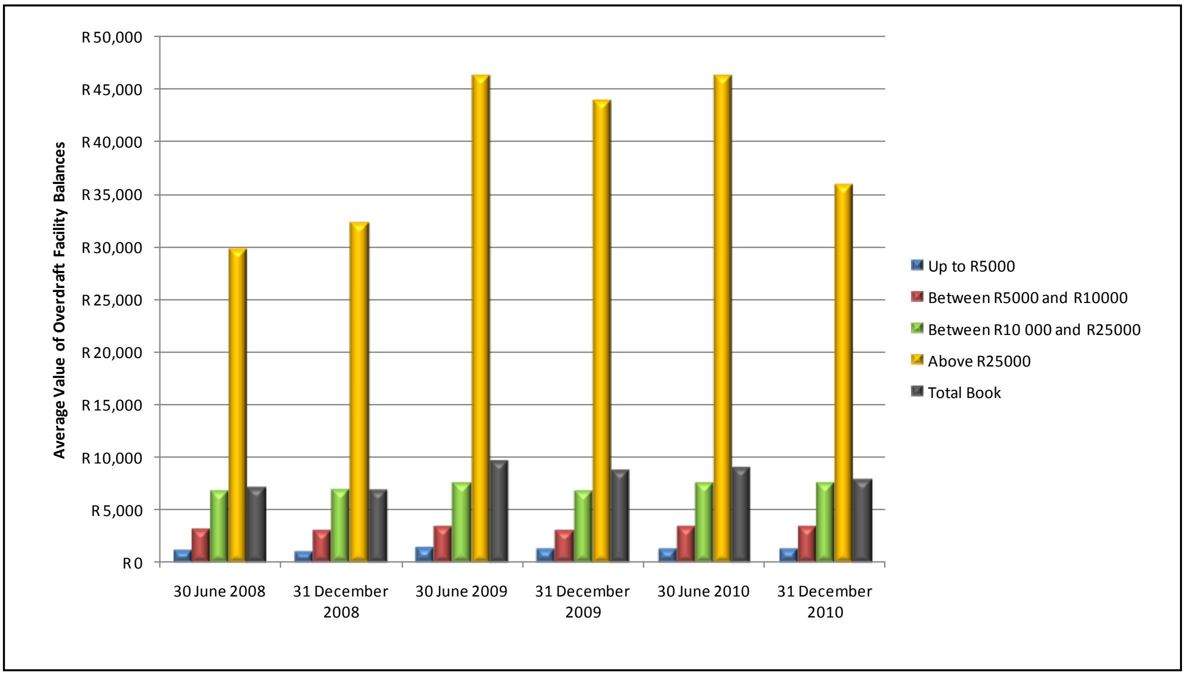
Table 60: Number of overdraft and RCP facilities and household coverage

Outstanding Book as at:	*Aggregate Book Summary – Number of Accounts*					*Estimated % with an Overdraft/RCP*
	Up to R5000	Between R5000 and R10000	Between R10000 and R25000	Above R25000	Total Book	
Overdraft facilities						
30 June 2008	843,497	307,606	321,943	277,920	1,750,966	3.6%
31 December 2008	982,727	290,599	293,385	269,838	1,836,549	
30 June 2009	920,158	296,853	296,488	273,157	1,786,656	3.6%
31 December 2009	982,727	290,599	293,385	269,838	1,836,549	
30 June 2010	1,052,630	285,371	291,991	270,074	1,900,066	3.8%
31 December 2010	1,122,805	262,759	261,664	307,891	1,955,119	
Revolving Credit Plans						
30 June 2008	29,829	47,673	174,160	131,328	382,990	0.8%
31 December 2008	29,080	41,696	170,145	161,561	402,482	
30 June 2009	28,736	42,842	165,948	143,834	381,360	0.8%
31 December 2009	29,080	41,696	170,145	161,561	402,482	
30 June 2010	26,626	40,878	166,576	173,543	407,623	0.8%
31 December 2010	24,956	42,872	166,966	187,532	422,326	
Overdrafts and Revolving Credit Plans Combined						
30 June 2008	873,326	355,279	496,103	409,248	2,133,956	4.4%
31 December 2008	1,011,807	332,295	463,530	431,399	2,239,031	
30 June 2009	948,894	339,695	462,436	416,991	2,168,016	4.4%
31 December 2009	1,011,807	332,295	463,530	431,399	2,239,031	
30 June 2010	1,079,256	326,249	458,567	443,617	2,307,689	4.6%
31 December 2010	1,147,761	305,631	428,630	495,423	2,377,445	

Source: Feasibility NCR Survey 2011, SARB BA 900 Returns (via Quantec)

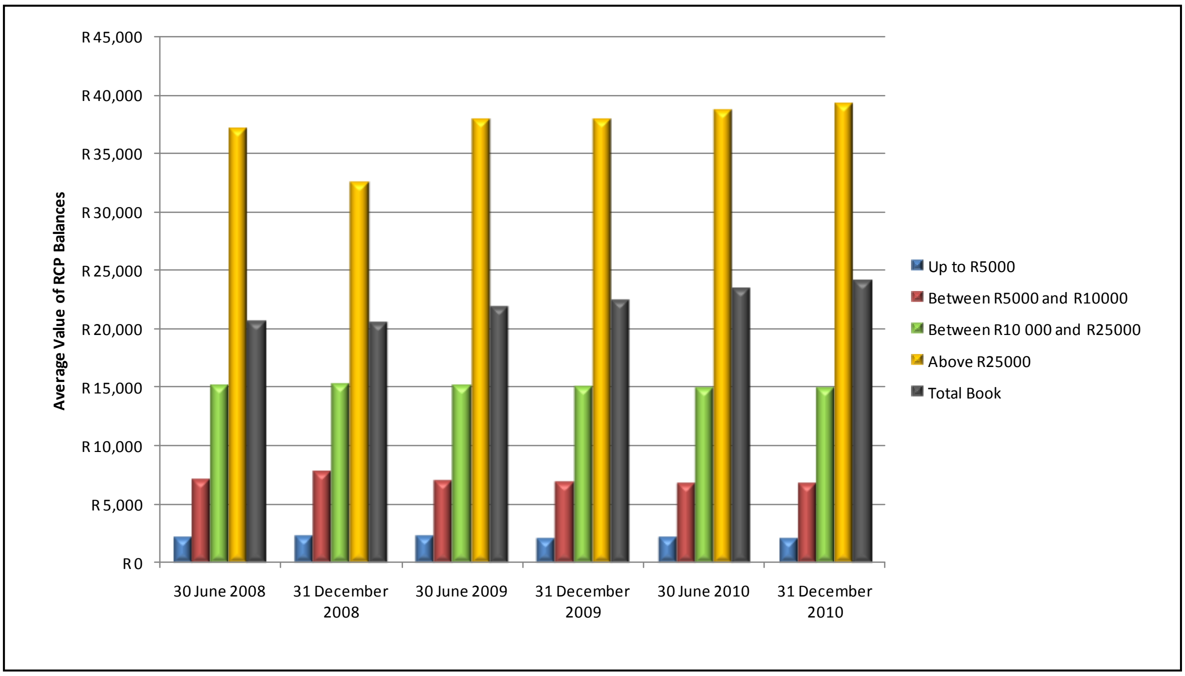
Figure 57 and Figure 58 indicate trends in the average outstanding value of overdraft facilities and RCPs within each value category, and overall. The average balance of outstanding overdrafts (calculated by dividing the value of the outstanding book by the number of active facilities) rose from around R7,000 to R9,500 between June 2008 and June 2009 before declining back to R7,800 by the end of 2010. For facilities with limits above R25,000, the average value increased from R30,000 to more than R45,000, and then back to around R36,000 over the period surveyed.

Figure 57: Average value of overdraft balances within each value category



Source: Feasibility NCR Survey 2011

Figure 58: Average value of RCP balances within each value category



Source: Feasibility NCR Survey 2011

Average utilized values of RCPs increased steadily over the period shown - from just over R20,000 to around R24,000. Utilised values in the lower value categories remained very stable, so the main source of variability in the overall average is due to changes in the average value of facilities above R25,000 as well as to growth in the number of RCPs with relatively higher values.

At the end of December 2010, the respondents reported some 1,95 million current accounts and 422,000 RCPs. Since the end of 2009, this represents a growth of just under 3% in the case of current accounts and just over 3% in the case of RCPs.

5.6.2. Overdraft and RCP facilities in arrears

Table 61 indicates the value of accounts in arrears for overdrafts and RCPs in each of the value categories, as well as the combined figures. The value of overdraft arrears in the up to R3,000 category more than doubled between June 2008 and December 2010 – but there was a decline in the value of arrears for facilities between R3,000 and R20,000. By contrast, there was a fourfold increase in arrears above R20,000 in the year from June 2008. Although the value of these arrears almost halved in the subsequent 18 months, at the end of 2010 they were still substantially higher than in mid-2008. In total, overdraft arrears rose from around R1.3 billion to almost R3.6 billion, and then improved to R2.4 billion.

Table 61: Value of overdraft and RCP in arrears

Outstanding Book as at:	*Aggregate Book – Value of Overdraft Facilities in Arrears (R Millions)*				
	Facilities up to R3000	Facilities between R3000 and R8000	Facilities between R8000 and R20000	Facilities above R20000	Total Book
Overdrafts					
30 June 2008	431.5	137.5	228.8	462.2	1,259.9
31 December 2008	480.5	137.6	244.5	515.9	1,378.6
30 June 2009	724.9	147.9	265.6	2,315.1	3,453.5
31 December 2009	699.4	105.5	208.9	2,079.4	3,093.3
30 June 2010	744.6	101.7	204.0	1,744.0	2,794.3
31 December 2010	900.9	63.2	119.8	1,284.8	2,368.6
Revolving Credit Plans					
30 June 2008	7.5	28.6	186.2	259.8	482.0
31 December 2008	8.5	31.3	172.0	301.9	513.7
30 June 2009	7.8	29.8	191.5	390.1	619.1
31 December 2009	9.7	30.6	216.2	477.2	733.7
30 June 2010	10.1	31.1	223.6	548.6	813.4
31 December 2010	12.3	31.5	219.0	583.7	846.4
Overdrafts and Revolving Credit Plans Combined					
30 June 2008	439.0	166.0	415.0	722.0	1,741.9
31 December 2008	489.0	168.9	416.5	817.8	1,892.3
30 June 2009	732.7	177.7	457.1	2,705.2	4,072.6
31 December 2009	709.1	136.0	425.1	2,556.6	3,826.9
30 June 2010	754.7	132.8	427.5	2,292.6	3,607.8
31 December 2010	913.2	94.6	338.8	1,868.5	3,215.1

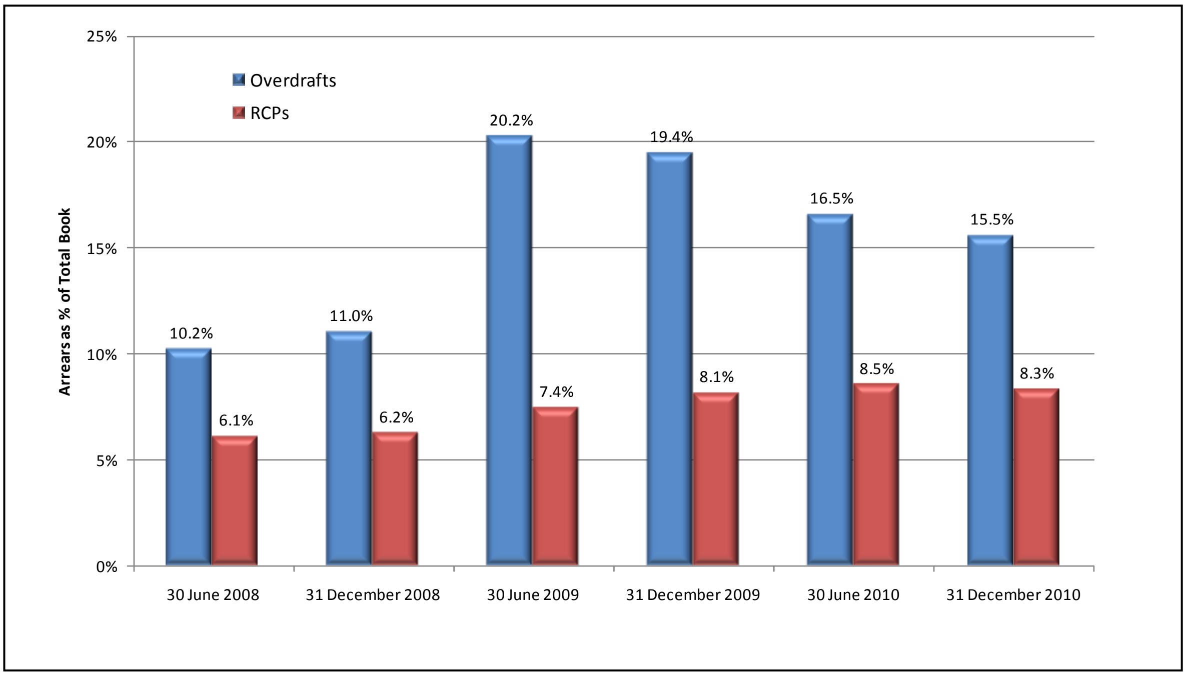
Source: Feasibility NCR Survey 2011

The value of RCP arrears increased– rising by 64% in the up to R5,000 value category, by 125% in the above R20,000 category, and by 76% overall between mid-2008 and the end of 2010. In total, RCP arrears increased from around R480 million to close to R850 million over the period. Whereas the pattern of increase in overdraft arrears appeared to show a much more direct response to the Global Economic Crisis and the ensuing recession locally – rising dramatically between June 2008 and June 2009, and then starting to decline – the growth in RCP arrears has been sustained across the full period of the analysis. The differences may be ascribed to the fact that overdraft facility holders are more likely to have experienced more immediate income loss due to falls in commission or profit shares, whereas RCP customers were probably affected to a greater extent by the job losses that arose as the effects of the Crisis spread from the export sectors to the rest of the economy.

Figure 59 indicates the aggregate value of arrears for each facility type shown in Table 62 as a percentage of the aggregate book shown in Table 59. It confirms the sharp increase in the proportion of overdraft facility value in arrears between

June 2008 and June 2009, and the subsequent improvement, as well as the steady increase in RCP arrears. At the end of December 2010, some 15.5% of the value of overdrafts was in arrears and 8.3% of the value of the RCP book.

Figure 59: Overdraft and RCP arrears as a percent of the book values



Source: Feasibility NCR Survey 2011

When the analysis shifts from the value of accounts in arrears to the number of accounts, the trends are quite different. Table 62 indicates the percentage of accounts in arrears for each value category for both overdrafts and RCPs between June 2008 and December 2010. Whereas the value of overdrafts in arrears increased in the below R3,000 and above R20,000 value categories, the number of accounts in arrears fell across all categories, and in total by almost 32%, so that by the end of December 2010, only 4% of the accounts are in arrears. This suggests that the criteria attached to the granting and extension of the availability of overdraft facilities have become stricter. The growth in arrears values in the lower and upper value categories and simultaneous decline in the middle categories (R3,000 to R20,000) suggests that there may have been some re-rating of accounts and adjustments of facility limits. A proportion of people with overdraft limits in the R3,000 to R8,000 range may have had their limits reduced to less than R3,000, while some of those customers with facility limits in the R8,000 to R20,000 may have managed to negotiate an extension of their facility values.

The situation in respect of RCP arrears shows that all value categories recorded a simultaneous increase in both the number and value of account arrears. The increase in value was higher than the increase in the number of affected accounts. By the end of 2010, some 7.6% of all surveyed RCP accounts were in arrears.

Table 62: Percent change in the number of overdraft and RCP accounts in arrears

	Overdrafts - Number of Arrears as % of Outstanding Book				
	Up to R5000	Between R5000 and R10000	Between R10000 and R25000	Above R25000	Total Book
30 June 2008	9.2%	5.5%	4.0%	2.8%	6.6%
31 December 2008	7.8%	5.8%	4.7%	3.2%	6.3%
30 June 2009	10.5%	5.7%	4.8%	3.7%	7.7%
31 December 2009	5.4%	3.6%	3.5%	3.1%	4.5%
30 June 2010	5.4%	3.3%	3.3%	2.9%	4.4%
31 December 2010	5.3%	2.5%	2.4%	1.9%	4.0%
	Revolving Credit Plans - Number of Arrears as % of Outstanding Book				
	Up to R5000	Between R5000 and R10000	Between R10 000 and R25000	Above R25000	Total Book
30 June 2008	9.1%	7.5%	7.3%	5.2%	6.8%
31 December 2008	8.8%	9.1%	6.7%	4.5%	6.2%
30 June 2009	8.0%	8.6%	7.6%	6.4%	7.3%
31 December 2009	9.4%	8.7%	8.0%	6.7%	7.7%
30 June 2010	9.8%	9.0%	8.2%	7.0%	7.9%
31 December 2010	9.9%	8.6%	7.8%	6.8%	7.6%

Source: Feasibility NCR Survey 2011

5.6.3. Current lending patterns

On a weighted basis, respondents indicated that around 24% of their credit extension through overdrafts was to small business (as defined within their organization). Because of the different definitions and treatment of small business within the credit providers surveyed, this is not necessarily an accurate reflection of small business lending. Some noted difficulties brought about by large variations in business turnover that make it difficult to classify such a business on a consistent basis. Others indicated that all business lending is done through their Business Banking divisions and that they are unable to disaggregate these responses. One provider classifies a business as small if its annual turnover is less than R200,000, while another uses a turnover range of between R500,000 and R7.5 million. In spite of these definitional problems, not much seems to have changed in the treatment of small businesses as far as the proportion of credit extended through overdrafts is concerned. All respondents indicated that their lending patterns in this regard had not changed over the past two years.

The extension of overdraft facilities to juristic persons that fall within the ambit of the NCA is also hard to assess. On a weighted basis, respondents indicated that around 18% of current lending is to such juristic persons, but there is huge variation in the responses, with the majority indicating that none of their overdraft extension is to such institutions, and a few claiming that a fairly significant proportion is to juristic persons. Despite follow up queries, it is not certain that the turnover limits contained in the NCA were consistently applied by all respondents.

RCPs are not offered to either small businesses or juristic persons.

Respondents indicated little change in the average value of either overdraft facilities or RCPs over the past two years. One respondent noted that adjustments to their scoring model for overdrafts offered to small businesses had resulted in an increase in the maximum limit from R200,000 to R500,000. Another indicated that it had changed its interest rate pricing to make it easier for the customer to understand. Apart from these shifts, there does appear to have been any innovation around the monthly repayments or terms and conditions attached to overdraft facilities. In relation to RCPs, one respondent noted that it had increased its required minimum monthly repayment for high risk customers (although they did not indicate what factors would determine whether the customer was classified as high risk). Apart from this, no changes were noted in lending practice.

5.6.4. Application channels, commissions and outlets

Applications submitted in branches remains the most significant channel for overdraft facilities to be received and assessed. On a weighted basis, this accounts for more than 81% of all applications. For four of the respondents this is the only channel used. Electronic applications submitted over the internet now account for around 16% of applications on a weighted basis, and other (undisclosed) channels account for the balance of applications (around 3%).

In-branch applications are also the dominant channel for RCPs, accounting for around 93% of applications processed on a weighted basis. Applications submitted electronically through the internet account for more than 6% of those processed, while one respondent also makes use of other (undisclosed) channels to receive applications.

None of the overdraft or RCP channels used to receive applications for facilities earn any commissions.

In total, the respondents surveyed have 4,205 branches through which to interface with overdraft clients and to receive queries and applications. One respondent has a further 464 shared/co-branded outlets through which to interact with clients. By contrast, survey respondents have 1,512 of their own branches which to deal with RCP customers.

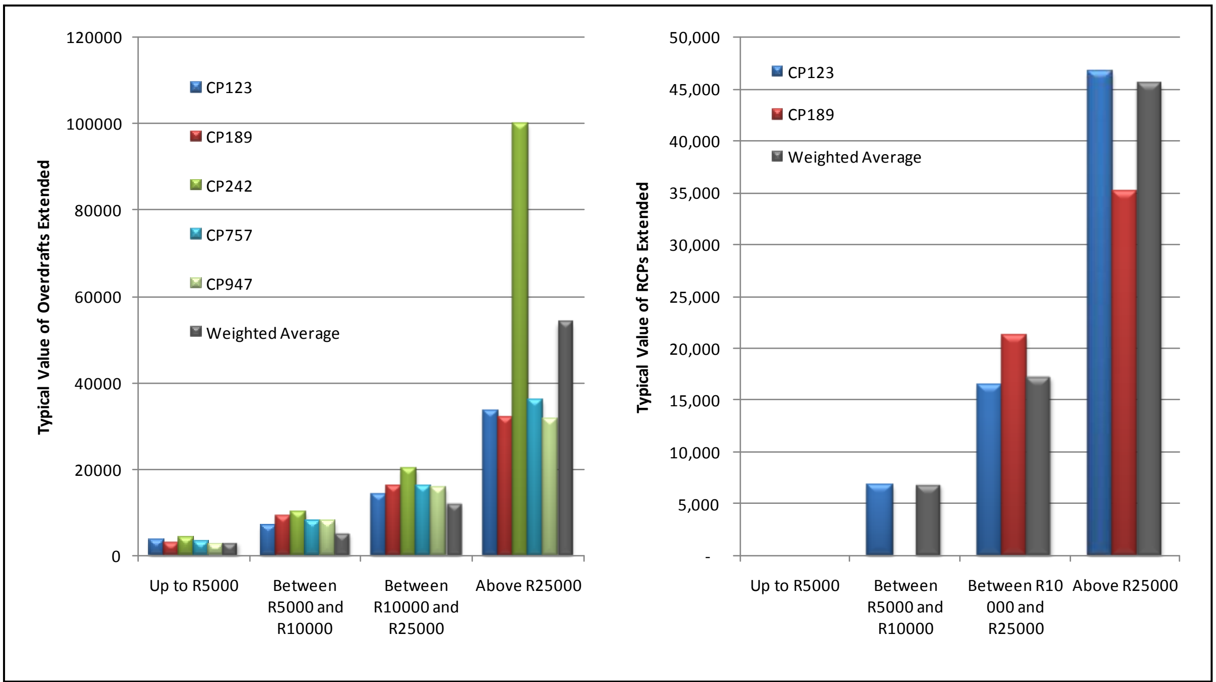
All of the providers surveyed plan to increase their physical presence in some parts of the country, but trends in the number of branches over the past two years vary. Two respondents had reduced their number of branches, two had kept them the same, and two had increased them. The planned increases in the physical footprint of providers are likely to be concentrated in Gauteng – with four providers indicating that they plan to increase the number of branches in that province. Two other providers anticipate that branch expansions will be spread throughout the country. One provider is planning an international expansion of their footprint.

5.6.5. Average loan values, required or realized incomes, and terms

On a weighted basis, the typical value of overdrafts extended within each value category range from just over R3,000 to almost R53,000. However, these averages do not indicate the variances that exist amongst providers within each category. In the category up to R5,000, the typical value of overdrafts extended by the providers surveyed range from R2,450 to R4,000, while in the over R25,000 value category providers can extend values ranging from under R32,000 up to R100,000. The latter value is something of an outlier, as can be seen on the right hand side of Figure 60.

In the case of revolving credit plans, none of the providers surveyed is currently prepared to extend plans for under R5,000 and one of the respondents will not even cater for values of under R10,000. On a weighted basis, typical RCP values vary from R6,840 to more than R45,000. Figure 60 indicates the median values of overdrafts (the graph on the left) and RCPs (the graph on the right) within each value category.

Figure 60: Typical value of overdraft and RCP facilities granted within each value range



Source: Feasibility NCR Survey 2011

It has been noted elsewhere in this document that following the introduction of the NCA and its provisions relating to reckless lending, gross income provides a poor proxy for the ability of credit users to afford different types of credit. This is well illustrated by responses of survey respondents to a question requesting that they indicate the minimum required gross monthly income for the average overdraft extended within each value category (if gross income is an element of their credit scoring system), or the typical estimated average gross monthly income of successful applicants for these average value facilities (if affordability is the only/primary consideration). The huge variances in responses are shown in Table 63.

Some providers stipulate that applicants must earn a minimum of R2,000 per month to be considered for an overdraft facility. Thereafter the value of the facility that can be extended is largely a function of affordability (when other debt commitments and necessary expenditures are taken into account). Other providers said that the average gross monthly incomes of recently-successful applicants range from R40,000 for an overdraft of around R3,000 to R1 million for a facility of around R100,000. An overdraft facility of about R6,600 can require an income of anywhere between R2,000 and R100,000 – depending of what other debt commitments and expenses the applicants have.

Table 63: Average overdraft values and actual or required incomes

	Up to R5000	*Between R5000 & R10000*	*Between R10000 & R25000*	*Above R25000*
Weighted average overdraft size	R 2,908	R 5,070	R 12,737	R 92,966
Income required to qualify for average overdraft size				
Minimum	R 2,000	R 2,000	R 2,000	R 2,000
Weighted average	**R 6,974**	**R 6,641**	**R 17,732**	**R 390,904**
Maximum	R 40,000	R 100,000	R 200,000	R 1,000,000

Source: Feasibility NCR Survey 2011

In the case of RCPs, one respondent has a minimum required monthly income of R6,000, but applicants for plans valued at just over R6,800 have average gross incomes of over R10,000. A facility of around R17,200 will require incomes ranging from R8,000 per month to more than R11,000, while an RCP of around R45,000 has applicants whose incomes typically range from about R11,700 a month to almost R20,800. The relationship between average RCP value and gross incomes is shown in Table 64.

Table 64: Average RCP facility sizes and actual or required incomes

	Up to R5000	*Between R5000 & R10000*	*Between R10000 & R25000*	*Above R25000*
Weighted average store card facility size	N/A	R 6,840	R 17,219	R 45,514
Income required to qualify for average facility size				
Minimum		R 10,138	R 8,000	R 11,715
Weighted average		**R 10,138**	**R 10,632**	**R 19,835**
Maximum		R 10,138	R 11,144	R 20,773

Source: Feasibility NCR Survey 2011

Neither overdrafts nor RCPs have explicit terms. Usually overdraft facilities are reviewed by the provider annually, and because they essentially form part of a current or transmission account they may be fully or partly repaid within a month or less (once a salary is deposited or income is received) and then accessed again before the end of the following month. One respondent noted that his or her clients typically repay their overdrafts within a month and no longer need to re-access them within two months.

RCPs are separated from an underlying current or transmission account and require more explicit repayment. One respondent notes that his or her customers typically take around 51 months to repay their RCPs after they have been accessed for the first time – but this is not a discrete loan, and the facility may be re-accessed repeatedly (provided a certain proportion of the outstanding debt has been repaid).

Only one of the overdraft providers surveyed requires that successful applicants take out credit life insurance in order to access an overdraft facility. In this instance, the required insurance is offered from within the group and the credit extending activity receives an intra-group commission for the insurance underwritten. None of the RCP providers require any form of insurance as a prerequisite for the extension of an RCP.

5.6.6. Pricing

The full cost of accessing and using an overdraft facility depends on initiation and monthly service fees, the interest rate charged and any insurance that is required. In terms of the NCA the initiation fee charged on an overdraft varies according to the value of the facility and may not exceed R1,000 (exclusive of VAT).

On a weighted basis, the initiation fee charged by overdraft providers are substantially lower than is allowed by the NCA, ranging from around R108 for a facility of R7,500 to just over R680 for overdrafts of R25,000. But around these averages there is much variation. One provider does not charge any initiation fee, while two others charge the maximum allowed by the NCA. The weighted average initiation fee charged on facilities of R3,000 (around R154) is higher than for either the R7,500 facility, or the one valued at R15,000.

Initiation fees for RCPs range from nothing to as much as R608 for facilities of R15,000 and more. The weighted average fee levied by those surveyed varies from R0 for a RCP of R3,000 to almost R332 for a R25,000 facility.

Table 65: Initiation fees charged on overdrafts and RCPs

Credit Card Provider	***Facility Values***			
	R 3,000.00	**R 7,500.00**	**R 15,000.00**	**R 25,000.00**
		Overdrafts		
CP123	R 180.00	R 180.00	R 180.00	R 300.00
CP189	R 0.00	R 0.00	R 0.00	R 0.00
CP242	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP311				R 1,140.00
CP757	R 150.00	R 150.00	R 150.00	R 250.00
Weighted Average	**R 153.78**	**R 108.45**	**R 149.49**	**R 681.43**
		Revolving Credit Plans		
CP123		R 180.00	R 180.00	R 300.00
CP189			R 608.00	R 608.00
CP344	R 0.00	R 0.00	R 0.00	R 0.00
Weighted Average	**R 0.00**	**R 179.68**	**R 249.69**	**R 331.88**

Source: Feasibility NCR Survey 2011 Values inclusive of VAT

The monthly service fees charged by overdraft and RCP providers are shown in Table 66. In the case of overdraft facilities, these fees range from nothing to R37.50 per month, while for RCPs they vary from R20 to R25. The weighted average fees are around half of the NCA-permitted maximum.

Table 66: Monthly service fees charged on overdrafts and RCPs

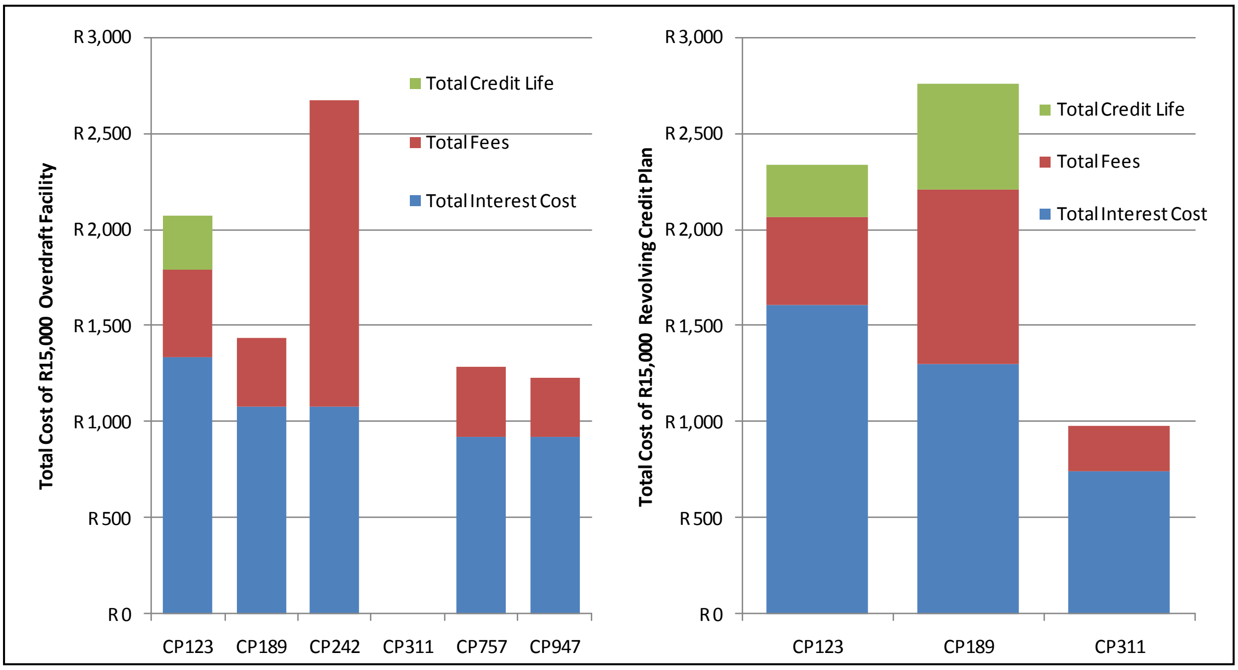
Credit Card Provider	*Facility Values*			
	R 3,000.00	**R 7,500.00**	**R 15,000.00**	**R 25,000.00**
Overdrafts				
CP123	R 23.00	R 23.00	R 23.00	R 23.00
CP189	R 30.00	R 30.00	R 30.00	R 30.00
CP242	R 37.50	R 37.50	R 37.50	R 37.50
CP311				R 0.00
CP757	R 6.00	R 12.00	R 18.00	R 18.00
Weighted Average	**R 20.29**	**R 15.04**	**R 19.27**	**R 25.26**
Revolving Credit Plans				
CP123		R 23.00	R 23.00	R 23.00
CP189			R 25.00	R 25.00
CP344	R 20.00	R 20.00	R 20.00	R 20.00
Weighted Average	**R 20.00**	**R 22.99**	**R 23.33**	**R 23.21**

Source: Feasibility NCR Survey 2011Values inclusive of VAT

As noted above, only one provider actually requires credit insurance as a prerequisite for an applicant obtaining an overdraft, and credit insurance is not a requirement of RCPs. Nevertheless, respondents were asked to include credit insurance costs if the majority of applicants took up the offer. The rates charged on credit insurance for overdraft facilities range from R4.59 a month for a R3,000 facility to R38.25 for a R25,000 overdraft. In the case of RCPs, credit insurance ranges from R11 per month for a R7,500 facility to R76 for a R25,000 RCP.

Figure 61 shows the total costs (inclusive of credit insurance) for a R15,000 overdraft facility (the graph on the left) and an RCP with the same value (the graph on the right). The costs are split between interest, fees and insurance. For the sake of comparison, it has been assumed that the term of the loan was 12 months. The total costs of a R7,500 overdraft range from R1,225 to R2,670, with a portion of the variance coming from differing fee structures. Total fees make up more than 50% of the total cost of the facility in the case of one provider (CP 242), but smaller shares of costs in the case of other providers. Only one provider requires credit life insurance, which accounts for 13% of the total costs. The comparable costs for an RCP with a similar value range from just under R1,000 in one case, to more than R2,750 in another. Two of the providers indicated that quite a few successful applicants take out credit life insurance. This can account for between 12% and 13% of the total cost of an RCP.

Figure 61: Total costs of a R15,000 overdraft and RCP facility



Source: Feasibility NCR Survey 2011

Of the overdraft providers surveyed, two noted that their fees for this product had increased in recent years, two reported a decrease in fees, and one said that fees had unchanged. Both of the providers that reported an increase in fees ascribed this to inflationary pressures on general administration costs. Similar trends were reported in respect of RCPs, but given the overlap in the providers surveyed, this was to be expected.

The effect of these different charges on the APRs of overdrafts and RCPs are shown in Table 67.

In the case of overdrafts, the APRs are significantly higher for the smallest facility canvassed(R3,000) than they are for R7,500 facilities. Indeed the weighted inclusive average for a R3 000 facility in 2010 is only 0.5% cheaper than for a comparable facility in 2008. However, once the facility size increases to a value of R7 500 and beyond, there is a marked price differential compared to 2008, with the inclusive APR for a facility of R7 500 only half the price of a similar facility in 2008. While the largest overdraft facility is typically cheapest for each provider, the 2010 APR for the R25 000 facility shows a 100 basis point premium on the R7 500 facility. The lowest APR (11.9%) for R25 000 reflects a niche provider that does not charge either initiation fees or credit insurance, and that does not offer facilities below R25,000APRs for revolving credit plans range from a weighted

28% for a R7,500 facility to under 23% for a R25,000 plan. One provider charges as little as 10.7% for a R25,000 facility, while the two other respondents both charge above 22%. If credit insurance is paid, it can add between 1.2% and 2.3% to the APRs of overdrafts, and between 3.1% and 3.6% to that of RCPs.

Table 67: APRs charged on overdrafts and RCPs 2008 and 2011

Credit Provider	*Facility Values*			
	R 3,000	**R 7,500**	**R 15,000**	**R 25,000**
Overdrafts				
CP123	35.7%	26.4%	22.2%	20.9%
CP189	33.7%	21.4%	17.2%	15.5%
CP242	31.9%	21.7%	17.1%	14.8%
CP311				11.9%
CP757	15.1%	14.3%	13.5%	12.5%
Weighted AverageAPRs 2010 Inclusive	**31.0%**	**15.3%**	**15.5%**	**16.3%**
Weighted Average APRs 2008 Inclusive	30.5%	24.1%	21.5%	18.5%
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%
Revolving Credit Plans				
CP123		28.1%	25.3%	22.6%
CP189			24.5%	23.2%
CP344	23.1%	14.7%	11.9%	10.7%
Weighted Average APR	**23.1%**	**28.1%**	**25.2%**	**22.6%**

Source: Feasibility NCR Survey 2008, 2011

5.7. Pension- and Policy-backed lending

Pension-and policy-backed lending refer, as the names imply, to loans that are extended to individuals that are wholly secured by either a member's share of an existing pension fund, or by a policyholder's long-term investments. Often, the institutions offering the loans are either the same ones managing the pension funds or policies, or they are related parties (companies in the same group, or with established financial relationships). This generally means that they have full, and quite liquid, security for the loans they offer. In principle, this absence of risk on the part of providers should mean that the rates that are charged are lower than for most other types of consumer credit. However, many providers argue that they have a fiduciary duty to protect the underlying fund value for the longer term benefit of both the borrower (and his or her dependents) and the other fund members. For this reason, the interest charged may be higher than would otherwise be anticipated. The same rationale is used to justify the widespread need for borrowers to take out credit insurance for the value of the debt – so that if the holder were to die or become incapacitated before they were able to repay their loan, their fund value or savings would be protected for them or their dependents.

5.7.1. Trends in the pension- and policy-backed loans book

Table 68 indicates the book value of outstanding pension- and policy-backed loans, in aggregate terms as well as within certain value categories. The value of the combined total book of survey respondents increased at a steady pace between June 2008 and December 2009 – from R4.5 billion to R5.2 billion – but the rate of growth accelerated sharply during 2010 so that by the end of that year it was R2.6 billion higher than 12 months earlier. The lower value categories with loans up to R25,000 account for a small proportion of the total book and were stable throughout the period shown. Loans between R25,000 and R200,000 account for by far the bulk of the book and increased by 90% between mid-2008 and the end of 2010. Loans above R200,000 – accounted for 12% of the aggregate book in December 2010, but had shown the fastest growth over the period, rising by 136%. It is unclear what prompted this very rapid growth in the high loan value category. The apparent reticence of mortgage providers to extend mortgage loans may have been a factor. It may also have been an attempt on the part of higher net worth individuals to consolidate their debt – substituting higher cost credit card and personal loan debt with comparatively lower cost pension- and policy-backed loans.

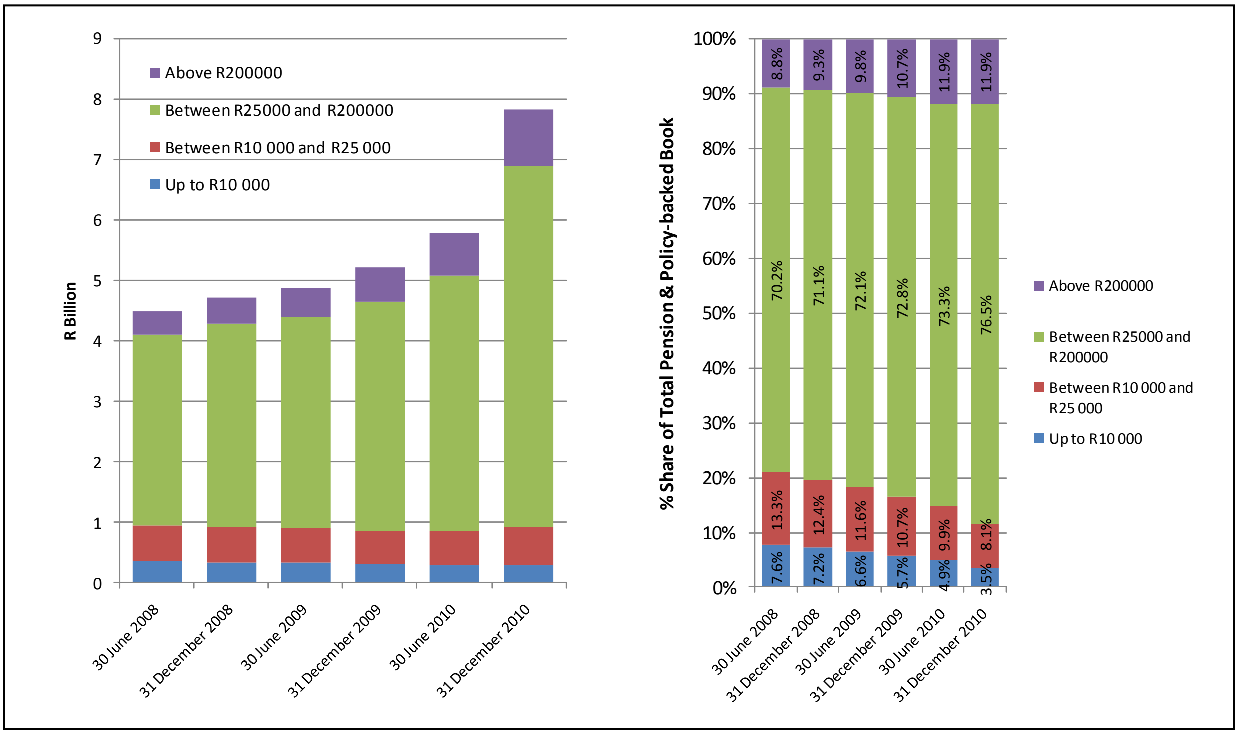
Table 68: Value of book of pension- and policy-backed loans

OutstandingBook as at:	*Aggregate Book Summary - R Billion*				
	Up to R10 000	Between R10 000 and R25 000	Between R25000 and R200000	Above R200000	Total Book
30 June 2008	0.3	0.6	3.2	0.4	4.5
31 December 2008	0.3	0.6	3.4	0.4	4.7
30 June 2009	0.3	0.6	3.5	0.5	4.9
31 December 2009	0.3	0.6	3.8	0.6	5.2
30 June 2010	0.3	0.6	4.2	0.7	5.8
31 December 2010	0.3	0.6	6.0	0.9	7.8

Source: Feasibility NCR Survey 2011

Trends in the combined book value of respondents (the graph of the left) and the composition of the book (the graph on the right) – both differentiated by loan size – are shown in Figure 62. The rapid growth in the aggregate value of loans above R25,000 during 2010, and the stability of the book value of lower value loans, is clearly evident in the graph on the left. The graph on the right shows the declining importance of lower value loans in the overall book. Collectively loans for less than R25,000 decreased their share of the total book from almost 21% in June 2008 to less than 12% by the end of 2010. Over the same period, the share of loans valued at between R25,000 and R200,000 increased from just over 70% to 76.5%, and the share of loans above R200,000 rose from just under 9% to almost 12%.

Figure 62: Value and size compositional changes in pension- and policy-backed loans



Source: Feasibility NCR Survey 2011

The total number of pension- and policy-backed loans still on the books of the providers surveyed is shown in Table 69. In total, the number of these loans advanced rose by more than 31% from over 179,000 in June 2008 to close to 236,000 in December 2010. While there was an almost 19% contraction in the number of loans valued at less than R10,000, the number of loans in the higher value categories increased by between 28% and 130%. In total, the number of loans advanced by survey respondents increased by more than 31% between mid-2008 and the end of 2010. When the number of pension- and policy-backed loans advanced is expressed as a percentage of the estimated population, it comes out at a relatively stable figure of 0.4%.

Table 69: Number of pension- and policy-backed loans and household coverage

Outstanding Book as at:	*Aggregate Book - Total Number of Loans Outstanding*					*Population size*	*%with Pension- or Policy-backed Loan*
	Up to R10000	Between R10000 and R25000	Between R25000 and R200000	Above R200000	Total Book		
30 June 2008	59,633	51,754	66,553	1,460	179,400	48,911,245	0.4%
31 December 2008	48,930	53,865	78,140	2,061	182,996		
30 June 2009	51,551	52,028	73,584	1,764	178,927	49,463,775	0.4%
31 December 2009	48,930	53,865	78,140	2,061	182,996		
30 June 2010	48,793	57,535	84,400	2,514	193,242	49,991,472	0.4%
31 December 2010	48,616	66,137	117,567	3,359	235,679		
% Change (June 2008 to December 2010)	**-18.5%**	**27.8%**	**76.7%**	**130.1%**	**31.4%**		

Source: Feasibility NCR Survey 2011, Statistics South Africa (via Quantec)

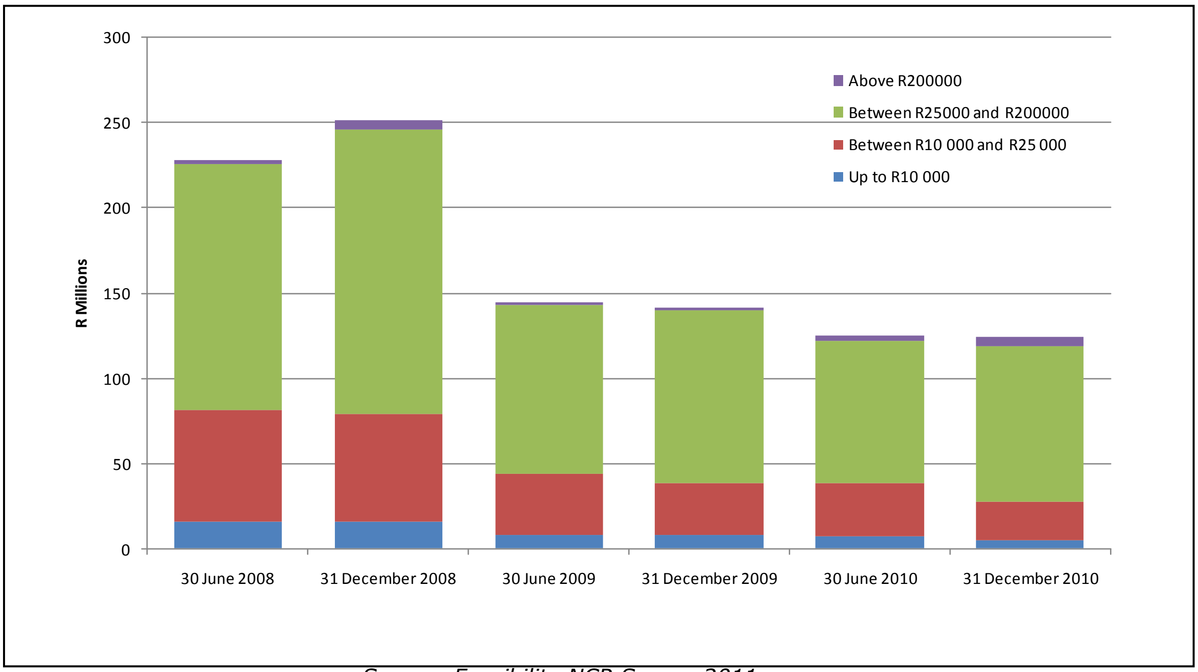
5.7.2. Pension- and policy-backed loans in arrears

Given the nature of the underlying security, and the fact that the extent of potential borrowing is usually limited to between 60% and 80% of the borrowers' fund or policy equity, there is little risk to the lender of loss arising from repayment default. Nevertheless, arrears reflect an inability on the part of the borrower to repay amounts in accordance with an agreed repayment schedule. An ongoing failure to repay could lead to the reduction of the pension or policy value and have serious implications for the borrower's financial security in retirement.

Figure 63 indicates the value of pension- and policy-backed loans in arrears within each value category between mid-2008 and December 2010. Total arrears of the respondents surveyed increased from R228 million to R252 million between June 2008 and December 2008, but then declined sharply to R124 million by the end of 2010. In value terms, the category with the largest arrears is for loans between R25,000 and R200,000. These rose from R144 million to R167 million between the middle and end of 2008, but then dropped to just over R91 million by December 2010.

Table 70 indicates the value of arrears shown in Figure 63 expressed as a percentage of the value of the outstanding book within each loan size category. All loan size categories have shown a reduction in arrears ratios over the period covered by the study. In aggregate terms, the arrears ratio declined from 5.3% in December 2008 to 1.6% at the end of 2010. The loan size category with the highest arrears ratio is loans valued at between R10,000 and R25,000. This stood at 3.5% at the end of 2010 – substantially lower than the almost 11% of June 2008.

Figure 63: Value of pension- and policy-backed loans in arrears by loan size



Source: Feasibility NCR Survey 2011

Table 70: Value of pension- and policy-backed loans in arrears

Outstanding Book as at:	*Aggregate Book Summary - R Billion*				
	Up to R10 000	Between R10 000 and R25 000	Between R25000 and R200000	Above R200000	Total Book
30 June 2008	4.7%	10.9%	4.6%	0.7%	5.1%
31 December 2008	4.7%	10.8%	5.0%	1.2%	5.3%
30 June 2009	2.5%	6.3%	2.8%	0.4%	3.0%
31 December 2009	2.6%	5.5%	2.7%	0.4%	2.7%
30 June 2010	2.7%	5.5%	2.0%	0.4%	2.2%
31 December 2010	1.9%	3.5%	1.5%	0.5%	1.6%

Source: Feasibility NCR Survey 2011

5.7.3. Current lending patterns

As has been the case with most of the other types of consumer credit products, there has been limited product innovation in respect of pension- and policy-backed loans. Table 71 summarises the responses of those providers surveyed to questions relating to changes in product characteristics and current lending patterns. There is little indication in the responses that much has changed over the past two years. However, there are some signs that providers plan to expand the physical presence around the country, and that the Eastern Cape will enjoy a relatively high priority amongst the areas surveyed. This is probably more a reflection of limited coverage of this province in the past than of expectations of significant growth in the Eastern Cape market.

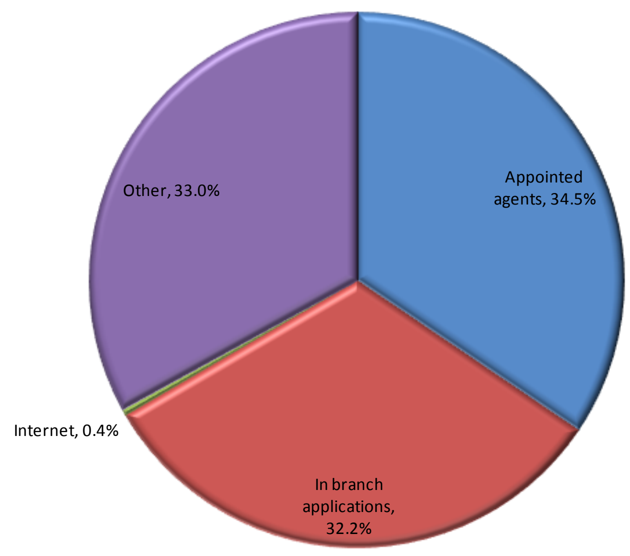
Table 71: Recent lending patterns in pension- and policy-backed loans

Lending Pattern over past two years	*Response/Value*
Trends in relation to typical loan term	2 noted a decrease;5 remained unchanged
Significant innovations around loan values	All 7 indicated "None"
Significant changes or innovations to loan conditions	All 7 indicated "None"
Changes in the number of shared outlets?	2 indicated it had increased;5 said it was unchanged
Plans to expand their physical presence?.	5 indicated "Yes" (Eastern Cape was specifically identified by 3 respondents; 2 said "None"

Source: Feasibility NCR Survey 2011

5.7.4. Application channels, commissions and outlets

Figure 64: Pension- and policy-backed loan application channels



Source: Feasibility NCR Survey 2011

Figure 64 indicates the weighted average responses to the channels used by providers to receive loan applications. These are almost evenly split between appointed agents at fund managers or employers, in branch applications, and other channels (typically call or contact centres or internal loan originators). Each accounts for close to a third of all applications received. Only one respondent currently uses the internet to receive a portion of its applications electronically directly from the applicant.

With the exception of one provider that pays a fixed fee of R124 per deal, respondents do not pay commissions to any of the channels.

In total, the respondents surveyed have 2,422 sole-branded branches through which to interact with clients and potential clients. Two respondents also have a total of 468 shared or co-branded outlets through which they can also market products and service customers.

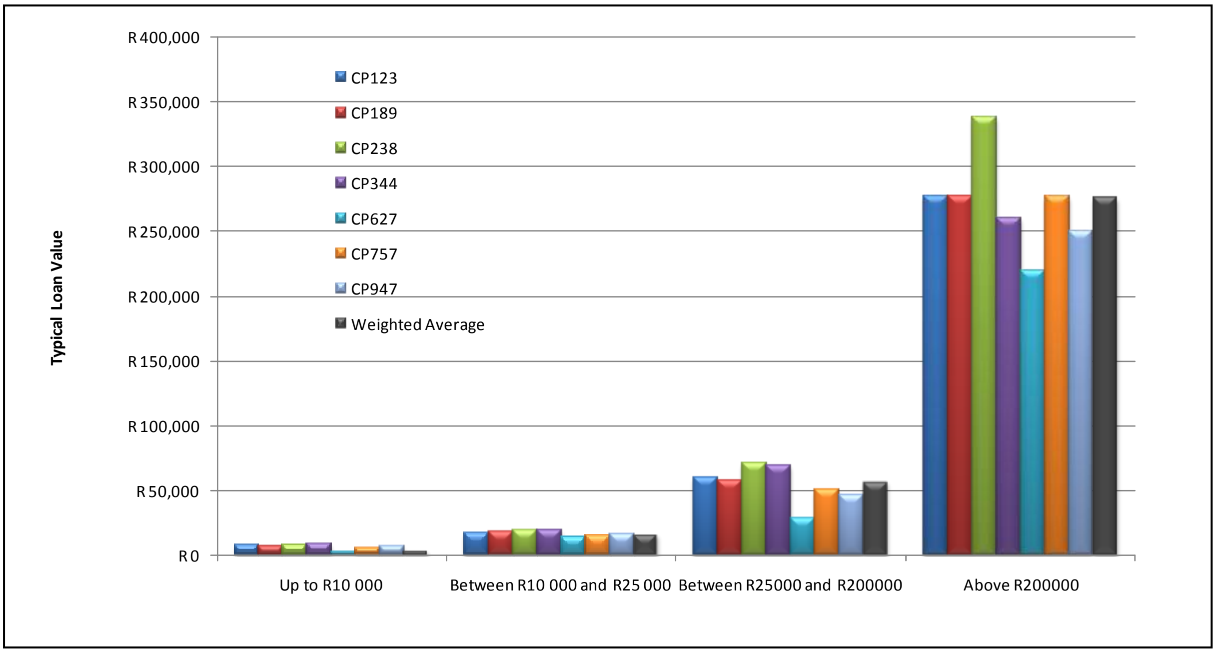
Of the providers surveyed, six expect to increase their physical "footprint" in coming years. Three respondents anticipate a general expansion in the number of branches/outlets in line with the broader distribution strategy of their companies. Two respondents have specific expansion planned for the Eastern and Western Cape, and one plans to construct a regional head office in the Eastern Cape.

5.7.5. Average loan values, required or realized incomes, and terms

The typical sizes of loans advanced within each loan value category are indicated below. These range from around R3,725 to close to R276,000. The typical loan size for each of the providers surveyed, and within each value category, is shown in Figure 65. These are fairly consistent in the two lower value categories (partly because the potential value range is more limited), but show increased divergence for loans above R25,000. In the case of loans valued at between R25,000 and R200,000, one provider's median loan value is just above the R25,000 lower threshold, while other providers generally grant loans of between R50,000 and R70,000. In the category of loans above R200,000, typical values range from R220,000 to R338,000.

Category of pension – and policy-backed loan	**Typical value**
Up to R10 000	R 3,726
Between R10 000 and R25 000	R 16,106
Between R25000 and R200000	R 57,180
Above R200000	R 275,876

Figure 65: Typical size of pension- and policy-backed loans granted



Source: Feasibility NCR Survey 2011

Unlike many other types of consumer credit which are accessed precisely because borrowers have no accumulated savings or other safety nets, pension- and policy-backed borrowers must, by definition, have accumulated long term savings instruments that can serve as security for their borrowing. In the case of pension-backed loans, the fund trustees typically determine the circumstance under which members can borrow against their accumulated fund value. The higher the value of the member's share, the larger the loan value may be. This tends to have implications for the average income of loan applicants, which are shown in Table 72. In the case of loans of close to R5,000, the typical gross incomes of applicants range from close to R3,600 to R8,600 – with an average of R6,000. In the case of a loan of around R65,000, applicant's gross monthly incomes vary from around R6,800 to R13,100.

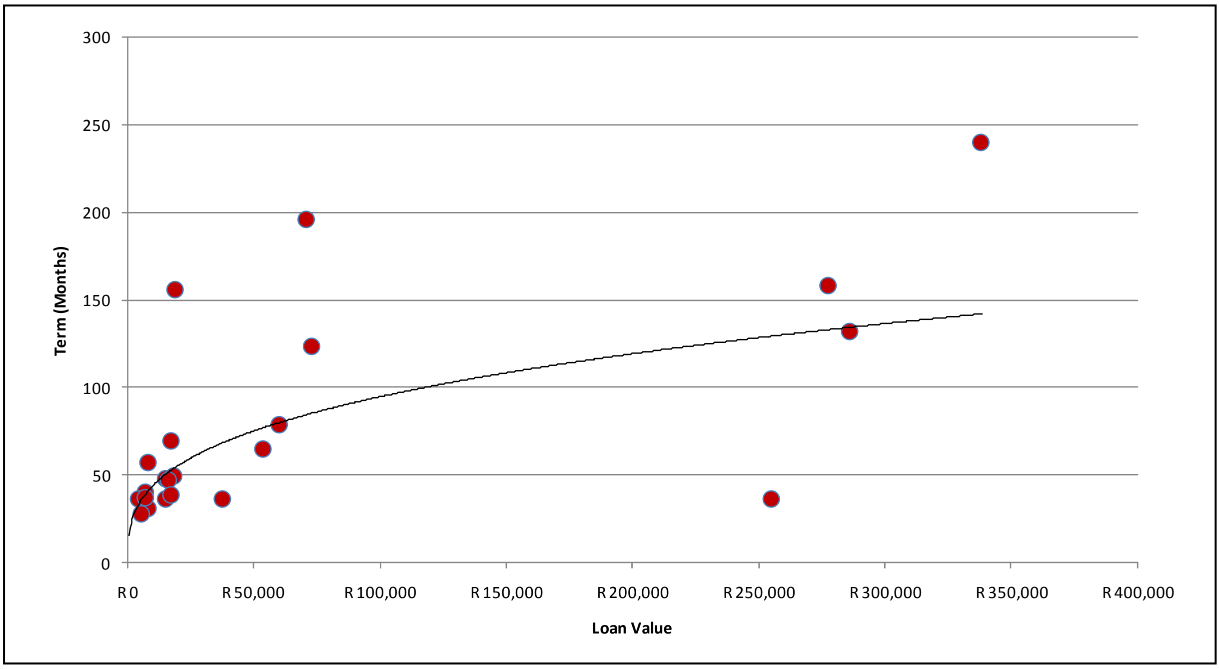
Table 72: Loan sizes and required incomes forpension- and policy-backed loans

	Up to R10000	*Between R10000 & R25000*	*Between R25000 & R200000*	*Above R200000*
Weighted average loan size	R 4,898	R 16,311	R 65,407	R 298,353
Income required to qualify for average loan size				
Minimum	R 3,585	R 4,675	R 6,756	R 15,000
Average	**R 6,002**	**R 7,220**	**R 10,758**	**R 20,899**
Maximum	R 8,641	R 9,653	R 13,117	R 27,646

Source: Feasibility NCR Survey 2011

The typical term (in months) of pension- and policy-backed loans varies widely and there is not always a clear correlation between loan value and term. Figure 66 shows the relationship between different loan value observations and the corresponding term of those loans. For smaller value loans of between R5,000 and R25,000 the term can range from around 30 to 70 months, but there is one outlier that indicates a term of more than 150 months. Loans of between R250,000 and R300,000 have terms that may range from around 40 months to 158 months.

Figure 66: Value and term of pension- & policy-backed loans advanced



Source: Feasibility NCR Survey 2011

Table 73 shows the minimum, weighted average, and maximum share of their fund or policy value that can be accessed by borrowers. These range between 60% and 80%, with a weighted average of between 69% and almost 75%. These figures do not capture differences in the base against which these percentages may be applied. For example, policy-backed lenders may define the policy value differently.

Table 73: Share of fund value accessible by pension- and policy-backed borrowers

	Up to R10000	*Between R10000 and R25000*	*Between R25000 and R200000*	*Above R200000*
Minimum	60.0%	60.0%	60.0%	60.0%
Weighted average	**74.7%**	**69.2%**	**69.2%**	**69.0%**
Maximum	80.0%	80.0%	80.0%	80.0%

Source: Feasibility NCR Survey 2011

All of the pension- and policy-backed loans advanced by the providers surveyed are subject to variable interest rates and will tend to rise and fall in response to changes in the Repo rate.

5.7.6. Pricing

The effective pricing of pension- and policy-backed loans are influenced by the value of initiation fees charged, the monthly service fee levied, the interest rate charged on the outstanding balance and the cost of any insurance that borrowers are required to take out.

Initiation fees for "other credit agreements" – which includes pension- and policy-backed lending - are capped under the NCA at a maximum of R1,000 excluding VAT. The initiation fees actually charged by survey respondents, together with the weighted average fee in each value category are shown in Table 74.

Table 74: Initiation fees charged on pension- and policy-backed loans

Loan Provider	*Pension- or Policy-backed Loan Value*			
	R 8,000.00	**R 20,000.00**	**R 75,000.00**	**R 150,000.00**
CP123	R 450.00	R 450.00	R 450.00	R 450.00
CP189	R 176.00	R 176.00	R 176.00	R 176.00
CP238	R 300.00	R 300.00	R 300.00	R 300.00
CP344	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP627	R 0.00	R 0.00	R 0.00	R 0.00
CP757	R 800.00	R 1,140.00	R 1,140.00	R 1,140.00
CP947	R 250.00	R 250.00	R 250.00	R 250.00
Weighted Average	**R 84.21**	**R 361.89**	**R 438.29**	**R 578.04**
Simple Average of Responses	R 445.14	R 493.71	R 493.71	R 493.71

Source: Feasibility NCR Survey 2011Values inclusive of VAT

Only one of the providers surveyed does not charge an initiation fee. However, it also happens to be the dominant provider of lower value loans of this type, which is one of the reasons why the weighted average fee for a loan of R8,000 (R84.21) is much lower than a simple average of the responses (R445.14). There is much variation in the fees that various providers have elected to charge, but they generally remain the same for all loan value categories. Only one provider charges a lower initiation fee for lower value loans of R8,000, while only two of the institutions surveyed have elected to charge the maximum fee permitted under the NCA. The weighted average fee increases from around R84 for an R8,000 loan to R578 for a R150,000 loan. However the increases are almost exclusively due to changes in the weights of respondents within each value category – rather than to changes in the fees actually charged.

The monthly service fee charged also varies greatly across different providers. The same providers that charge the maximum permitted initiation fee also charge the NCA maximum monthly service fee (R57 including VAT), while the provider that does not charge an initiation fee also does not charge a monthly service fee. On a weighted basis, the average monthly service fee ranges from under R4 to close to R29 per month.

As noted in the introduction to this section, the widespread requirement amongst providers that credit life insurance policies are taken out to cover the outstanding debt in the event of death or disability may be regarded as excessive – given that the lender has full, and liquid security for their loans at all times. Views on this issue will depend on how persuasive the argument about needing to preserve the fund or policy value for the benefit of the fund member or policy holder and their dependents is viewed to be. Table 75 indicates the typical value of monthly credit insurance premiums charged by providers on different sized loans. Two providers do not charge credit insurance. The others do charge, but the premiums vary from as little as R1.28 on a R8,000 loan to R657.30 for a R150,000 loan. The weighted average monthly premiums increase from just under R16 per month for a R8,000 loan to almost R179 for a R150,000 loan.

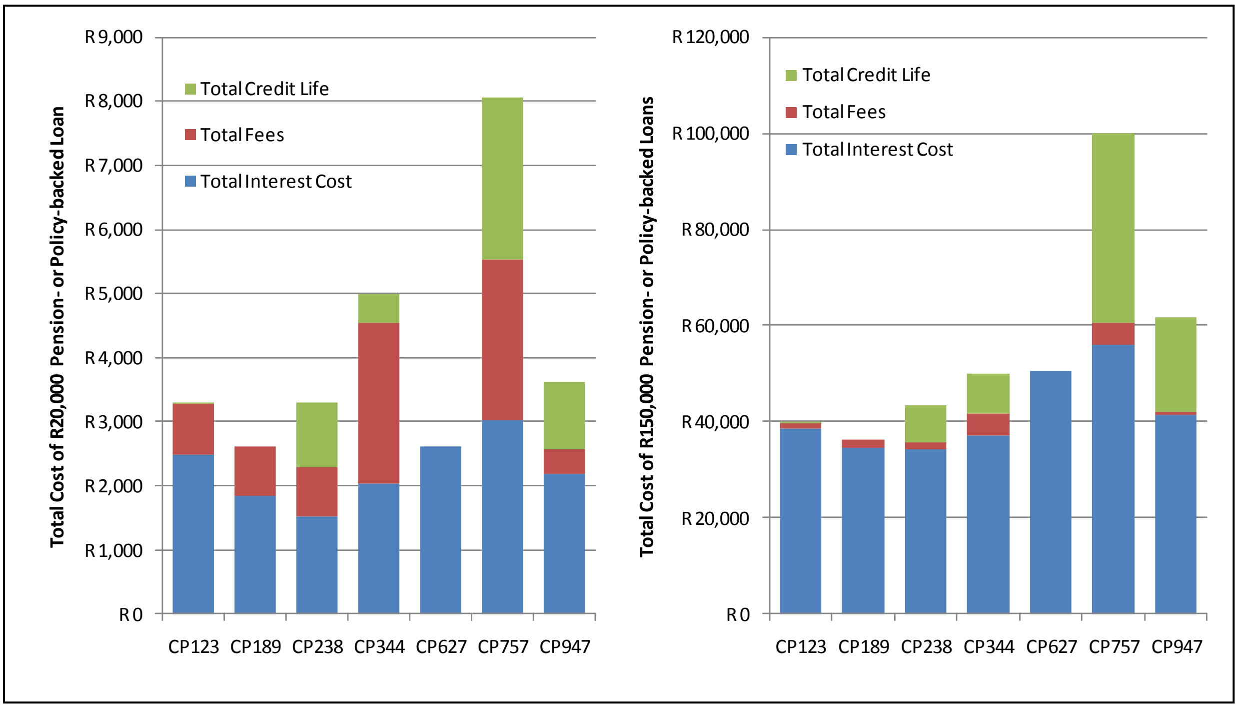
Table 75: Credit insurance premiums charged on pension- and policy-backed loans

Loan Provider	*Pension- or Policy-backed Loan Value*			
	R 8,000.00	**R 20,000.00**	**R 75,000.00**	**R 150,000.00**
CP123	R 1.28	R 1.28	R 1.28	R 1.28
CP189	R 0.00	R 0.00	R 0.00	R 0.00
CP238	R 33.33	R 41.67	R 104.17	R 125.00
CP344	R 7.28	R 18.20	R 68.25	R 136.50
CP627	R 0.00	R 0.00	R 0.00	R 0.00
CP757	R 52.35	R 104.80	R 338.55	R 657.30
CP947	R 17.60	R 44.00	R 165.00	R 330.00
Weighted Average	**R 3.83**	**R 24.02**	**R 51.22**	**R 68.77**
Simple Average of Responses	R 15.98	R 29.99	R 96.75	R 178.58

Source: Feasibility NCR Survey 2011

Figure 67 shows the total cost of a R20,000 loan (the graph on the left) and a R150,000 loan (the graph on the right). These costs are broken down into their interest, fee and credit insurance components. The total cost of a R20,000 loan can range from R2,600 to close to R8,100. The lowest cost provider only charges interest. The next lowest total cost charges slightly less interest but also has a fee component. The total costs of the most expensive provider are almost equally divided between interest, fees and credit insurance. The total costs of a R150,000 loan vary from just over R36,000 to more than R100,000. The bulk of the costs tend to comprise interest, but in the case of the most expensive provider, 39% (or more than R39,000) of the cost is contributed by credit insurance. The total fee component ranges from nothing to R4,560 – the maximum permitted under the NCA.

Figure 67: Total costs of a R20,000 and a R150,000 pension- or policy-backed loan



Source: Feasibility NCR Survey 2011

Only two of the providers surveyed had increased their fees in recent years. In both cases this was a response to inflationary pressures on general administration costs.

Table 76 indicates the effective APRs (inclusive of credit life insurance) for different providers and different loan values. These rates range from as little as 8.8% (Prime less 20 basis points) for a R150,000 loan to almost 39% (Prime plus 2,970 basis points) for an R8,000 loan. The weighted average for these loans range from 14.9% for a R20,000 loan to 10.4% for a R150,000 loan. There is no 2008 comparison provided in Table 76 or Table 77, as these data are not available.

Table 76: APRs of pension- and policy-backed loans inclusive of credit life insurance

Loan Provider	*Pension- or Policy-backed Loan Value*			
	R 8,000	R 20,000	R 75,000	R 150,000
CP123	18.0%	12.8%	10.1%	9.5%
CP189	15.0%	11.2%	9.2%	8.8%
CP238	15.6%	13.6%	11.8%	10.4%
CP344	23.8%	16.6%	12.5%	11.6%
CP627	12.1%	12.1%	12.1%	12.1%
CP757	38.7%	28.8%	23.5%	21.9%
CP947	16.0%	15.2%	14.7%	14.4%
Weighted Average APR	**13.6%**	**14.9%**	**11.6%**	**10.4%**

Source: Feasibility NCR Survey 2011

The effect of excluding credit life insurance from the calculations is shown in Table 77. It indicates that, on a weighted average basis, credit life insurance adds between 90 and 240 basis points to the costs of a pension- or policy-backed loan. However, in the case of the most expensive provider, the credit insurance can add between 800 and 1,200 basis points to the costs of their loans.

Table 77: APRs of pension- & policy-backed loans - excluding credit life insurance

Loan Provider	*Pension- or Policy-backed Loan Value*			
	R 8,000	R 20,000	R 75,000	R 150,000
CP123	17.7%	12.7%	10.1%	9.5%
CP189	15.0%	11.2%	9.2%	8.8%
CP238	7.0%	9.2%	8.8%	8.7%
CP344	22.2%	14.8%	10.6%	9.8%
CP627	12.1%	12.1%	12.1%	12.1%
CP757	26.7%	18.8%	14.7%	13.9%
CP947	11.5%	10.6%	10.2%	10.1%
Weighted Average APR	**12.6%**	**12.5%**	**10.2%**	**9.4%**
Difference between Inclusive and Exclusive APRs	1.0%	2.4%	1.4%	0.9%

Source: Feasibility NCR Survey 2011

5.8. Developmental Housing

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 a few years ago there were several more providers of this kind of loan, but there are now only a small number of providers registered with the NCR, and only two responses were received relating to this type of credit extension as part of this Survey.

5.8.1. Trends in the developmental housing finance book

In spite of the limited sample, and the fact that the housing market generally has been through tough times in 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.

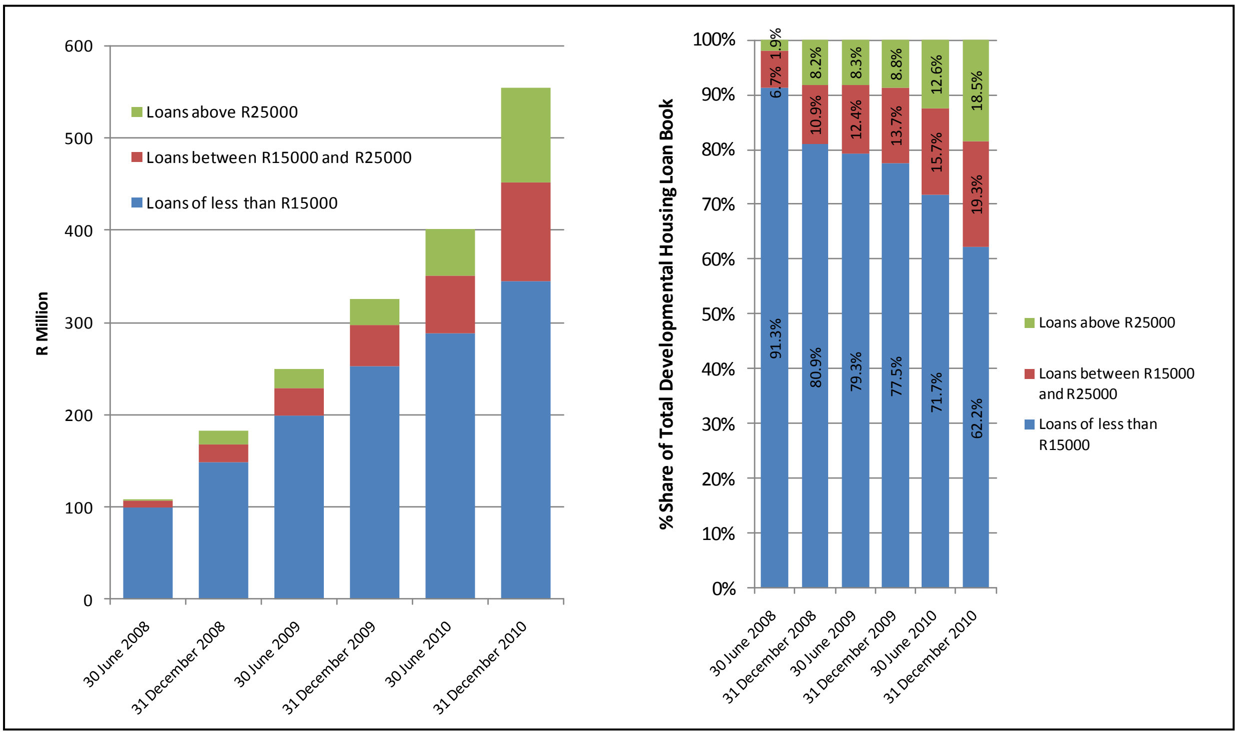
Table 78: Value of developmental housing loans

Outstanding Book as at:	*Aggregate Book Summary - R Million*			
	Loans of less than R15000	**Loans between R15000 &R25000**	**Loans above R25000**	**Total Book**
30 June 2008	99.6	7.3	2.1	109.0
31 December 2008	148.0	20.0	15.0	182.9
30 June 2009	198.3	31.1	20.7	250.2
31 December 2009	252.7	44.8	28.6	326.0
30 June 2010	288.1	63.2	50.6	401.9
31 December 2010	344.5	107.2	102.5	554.2

Source: Feasibility NCR Survey 2011

Figure 68 indicates the trends in the combined book value of respondents (the graph of the left) and the composition of the book by loan size (the graph on the right). The steady, but rapid growth in the combined book is clearly evident in the graph on the left. The combined value of loans on the books of providers increased by 408% between June 2008 and December 2010. The graph also highlights the relatively more rapid growth in the value of loans valued at above R15,000. This is also reflected in the growth share of loans of this size (above R15,000) in the combined book of respondents (the graph on the right). This increased from less than 9% of the total to close to 38% between mid-2008 and the end of 2010.

Figure 68: Value and size changes in the developmental housing finance book



Source: Feasibility NCR Survey 2011

Table 79 indicates the number of loans on the books of the providers surveyed. In total, these increased from almost 27,000 in June 2008 to close to 74,000 at the end of 2010 – an increase of 174%. The number of loans in the less than R15,000 value category increased by 142% over the same period, rising from close to 25,000 to more than 64,000. Although smaller in number, the rate of growth in loans in the R15,000 to R25,000, and above R25,000 categories both increased at stellar rates – by 1,500% in the case of the former and by more than 5,500% in the case of the latter.

Table 79: Number of developmental housing loans

Outstanding Book as at:	*Aggregate Book Summary – Number of Accounts on Book*			
	Loans of less than R15000	Loans between R15000 & R25000	Loans above R25000	Total Book
30 June 2008	26,478	404	56	26,938
31 December 2008	49,971	2,648	909	53,528
30 June 2009	42,218	1,748	626	44,592
31 December 2009	49,971	2,648	909	53,528
30 June 2010	53,250	3,787	1,563	58,600
31 December 2010	64,173	6,462	3,167	73,802
% Change June 2008 to December 2010	**142%**	**1500%**	**5555%**	**174%**

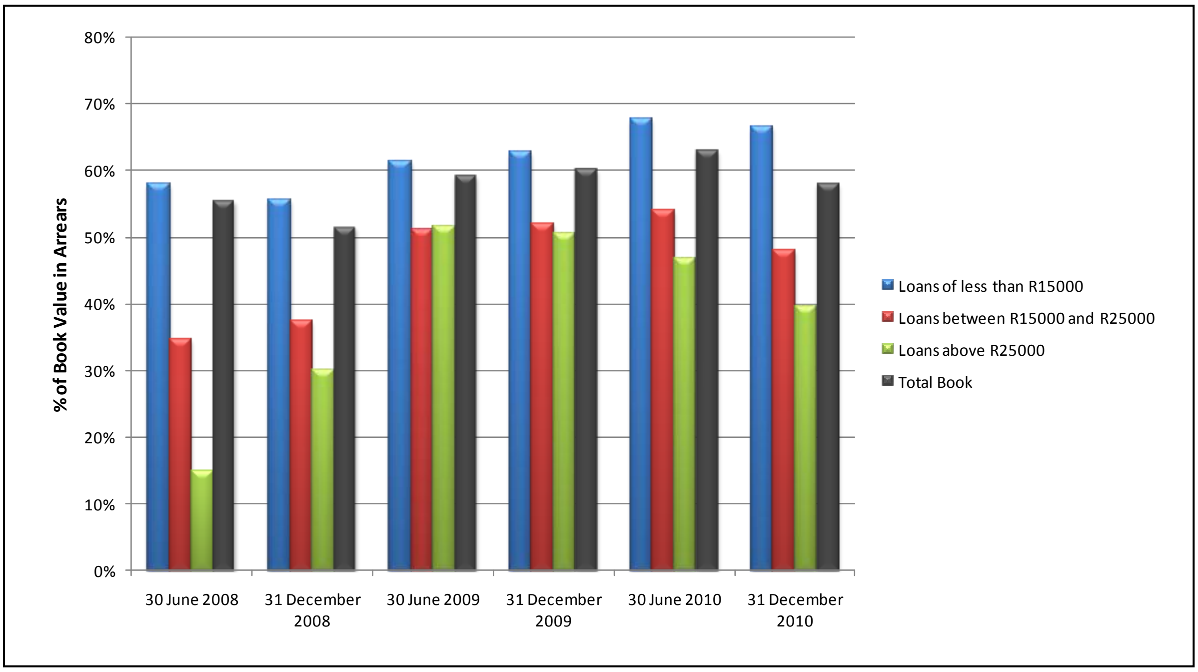
Source: Feasibility NCR Survey 2011

5.8.2. Developmental housing loans in arrears

The decline in the number of providers suggests that developmental housing finance is a difficult market segment to operate in on a sustainable, and commercially viable, basis. Part of the explanation for this might lie with the very high portion of loan values that are in arrears. Figure 69 indicates the value of arrears as a percentage of the value of the loan book for each value category. The arrears ratio for loans that were initially valued at less than R15,000 was consistently above 50% for the period covered by the survey. It increased from 56% to 68% between December 2008 and June 2010, before declining slightly to 67% at the end of 2010. Initially the arrears ratios for the higher value categories were significantly lower (around 35% for loans between R15,000 and R25,000, and 15% for loans above R25,000 in June 2008), but these also accelerated significantly in 2009 and the first half of 2010, before declining somewhat to the 40% to 50% range at the end on 2010. The arrears ratio for the total book declined slightly in the latter half of 2008 to 52%, but then increased steadily to 63% by mid-2010 before declining to 58% at the end of that year. The total number of loans in arrears increased from under 15,000 to more than 35,000 over the period covered by the survey.

Although not all loan arrears end up having to be written off, the high arrears ratio does point to difficulties in collecting repayments within this market segment – which is likely to be more prone to income variability arising from factors such as employment loss. High arrears would obviously also impact on the pricing of loans if the credit extension activity was operated on a purely commercial basis.

Figure 69: Percent of value of developmental housing loans in arrears



Source: Feasibility NCR Survey 2011

5.8.3. Current lending patterns

The most significant area of innovation amongst the developmental housing finance providers surveyed has been an increase in the value of loans granted. In one case this was coupled with a simultaneous extension of the term of the loans aimed at lowering monthly repayments. Both providers surveyed pay materials suppliers directly.

Table 80: Recent lending patterns in developmental housing finance

Lending Pattern Trends over past two years	*Response/Value*
Trend relative to typical loan term	1 increased;1 unchanged
Significant innovations around loan values?	Both indicated increase in loan values
Significant changes/ innovations in loan conditions	1 unchanged; 1 introduced incentives for term extension
Payment of loan to applicant or to materials suppliers	Both indicated payment to materials suppliers
Plans to expand their physical presence?	Both indicated plans to expand

Source: Feasibility NCR Survey 2011

5.8.4. Application channels, commissions and outlets

All applications for developmental housing loans are received through agents (one respondent refers to them as consultants) that operate outside of the provider's branches or offices. Typically, these are people located within building supply stores with which the development housing provider has an arrangement. On a weighted basis, these agents receive a commission of around 1.9% of the value of the loans placed (one provider pays 5% to its own consultants while the other pays 1.5%). In addition, the one provider pays a flat "introductory fee" of R50 per loan to people other than its own consultants who introduce customers.

Collectively, the providers surveyed have a total of 58 branches of their own, and a further 700 outlets that are shared. The latter are the building supplies stores at which agents/consultants are placed.

Two respondents plan to increase their physical footprint in coming years. In one case this is likely to be a general expansion – but no details were forthcoming. In the other case Limpopo, North West, Western Cape, Gauteng and the Northern Cape were specifically identified as areas for expansion.

5.8.5. Average loan values, required or realized incomes, and terms

The average typical values of developmental housing loans advanced within each loan size category are indicated below. These range from around R5,800 to close to R35,000. However, these averages hide the fact that one of the providers only offers loans for under R15,000 at present (although their book values indicate that they used to offer higher value loans). There is significant variation within this value category between the typical or median value of loans offered by the one provider surveyed (R6,400), and that of the other (R2,300).

Category of developmental housing loan	**Typical value**
Loans of less than R15000	R 5,792
Loans between R15000 and R25000	R 17,634
Loans above R25000	R 34,614

Despite the high value of arrears across different loan size categories, developmental housing loans appear to offer people with relatively low incomes the ability to access comparatively high loan values. Whereas one provider has an indicative minimum gross income requirement of R2,000 per month for a loan of close to R5,800, the other provider has indicated that successful applicants would typically have incomes of around to R4,500. However, the typical gross monthly incomes of successful applicants for loans of around R18,000 and

R35,000 (which are only offered by one of the providers surveyed) are only R2,300 and R3,700 respectively.

Table 81: Average loan size and required income for developmental loans

	Loan less than R15000	*Loan between R15000 & R25000*	*Loan above R25000*
Weighted average loan size	R 5,774	R 17,512	R 34,615
Income required to qualify for average loan size			
Minimum	R 2,000		
Average	**R 2,368**	**R 2,300**	**R 3,700**
Maximum	R 4,550		

Source: Feasibility NCR Survey 2011

The typical term of developmental housing loans appears to range from around 25 months for the lower value loan, to just over 31 months for a loan of around R35,000. Neither of the providers surveyed require a deposit to be paid. However, they have fundamentally different approaches towards fixed and variable rates: the one respondent only accommodates variable rate loans, while the other only offers fixed interest loans. They also differ in respect of their approach towards the need for credit life insurance as a prerequisite for getting a loan. One provider requires that borrowers take out credit insurance (which it offers and for which the credit extension activity receives an intra-group commission from the insurance activity), while the other does not. The former notes that its systems do cater for borrowers to source their required credit insurance from an independent insurer, but in practice it is not clear how many borrowers make use of this option.

5.8.6. Pricing

The total cost of a developmental housing loan is a function of four different cost elements: initiation fees, monthly service fees, interest and credit life (where levied). The NCA prescribes that the initiation fee for developmental housing loans is limited to:

a) R500 per credit agreement, plus 10% of the amount of the agreement in excess of R1,000;
b) But never to exceed R2,500 (excluding VAT).

This means that, for a R20,000 loan, the maximum permissible fee (including VAT) is R2,736 – which is what both of the providers surveyed charge. They also both charge the maximum initiation fee for an R8,000 loan, and the maximum monthly service fee of R57 (including VAT). One of the respondents bemoaned the fact that these limits had not been adjusted for inflation since the inception of the NCA, and that this was putting a squeeze on operating margins.

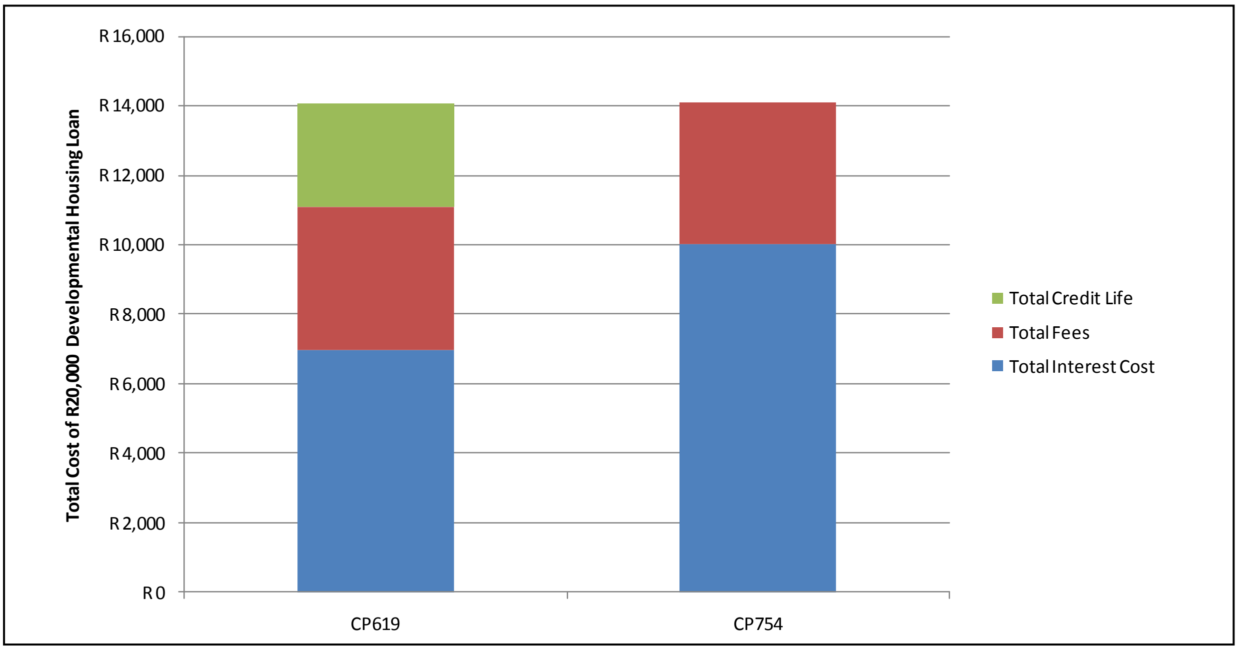
The NCA also caps the interest rate on developmental housing loans, using the formula:

[Repo rate x 2.2] + 20% per annum.

Based on the prevailing Repo rate, this means that the maximum permissible interest rate that can currently be charged is 32.1% per annum. While one of the respondents has indicated that the interest rate levied on their loans currently ranges from 22% for an R8,000 loan to 32% for a loan valued at R30,000, the effective rate being charged by the other provider is 38% - which appears to put them in contravention of the Act.

However, when the various cost elements are aggregated, there is no noticeable difference between the two providers in respect of the total cost of a R20,000 loan. They both charge the maximum permissible in respect of fees, but the one charging lower (NCA compliant) interest rates also charges credit insurance and the provider charging more than is permitted in interest does not require credit insurance. The total costs and their composition are shown inFigure 70.

Figure 70: Total costs of a R20,000 developmental housing loan



Source: Feasibility NCR Survey 2011

Both providers noted that there had not been any change in their fees in the past two years, but they are already charging the maximum permitted under the Act.

The net effect of the above is that there is very little difference between the APRs of the two providers surveyed. These are shown in Table 82below. On an inclusive basis, the one provider (CP619) is slightly cheaper in the case of an R8,000 loan and on par with the other provider for a R20,000. Credit insurance adds between 910 and 1,280 basis points to the effective pricing of the provider that requires this insurance.

Table 82: APRs of developmental housing loans for different loan sizes

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%	
Difference Between Inclusive and Exclusive APRs			
CP619	12.8%	10.3%	9.1%
CP754	0.0%	0.0%	

Source: Feasibility NCR Survey 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. Under these circumstances adding a credit insurance component that the customer has little practical option of obtaining elsewhere provides some measure of flexibility, but does not really leave the consumer any better off. There is no comparison for 2008 available.

These (admittedly limited) survey results tend to confirm the view that it is difficult to operate a developmental housing finance book on a commercial basis, unless the provider is able to significantly reduce the risks of bad debts (through a payroll deduction for example), or can obtain wholesale funds at a substantial discount from that generally available in the market.

5.9. Education Loans

Education loans are – as the name implies – 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. Providers may be banks, which typically focus on the provision of loans for tertiary education, and which usually allow repayment to be deferred until the learner (who is usually also the borrower) either qualifies or ceases to study. In order to mitigate their risks, banks often require that the loan is guaranteed by a third party. Providers may also be non-bank financial institutions, non-governmental development organizations, or organizations established and capitalized by the state. Some require that repayment commences almost immediately, which implies that the borrower is earning a regular income, and that the loan is either used to fund his or her part-time studies, or the studies of a dependent. Most providers tend to pay the educational institutions directly, and some even negotiate discounts that are not passed on to the borrower, and that constitute an independent revenue stream for the lender. Many providers have branches located at tertiary education institutions that provide a logical and convenient interface with clients and potential clients. These branches, and the loans extended to students, often serve as recruitment sites for clients that are, or are likely to become, graduates.

5.9.1. Trends in the educational finance book

The consolidated book value of outstanding education loans of the providers surveyed decreased in overall value between June 2008 and the end of 2010 – from close to R1.7 billion to R1.6 billion. This reduction is probably largely due to seasonal factors which result in the demand for loans increasing in the first half of the year (in line with the start of the academic year and the billing cycles of educational institutions) and then being partially repaid during the latter half of the year. Nevertheless, in addition to the seasonal shifts there appears to have been some reduction in the aggregate book value of loans that were originally for R10,000 or less, and a corresponding increase in loans of between R10,000 and R20,000. This suggests that increases in tuition (and residence) fees mean that fewer education funding requirements can be accommodated in the under R10,000 loan value category.

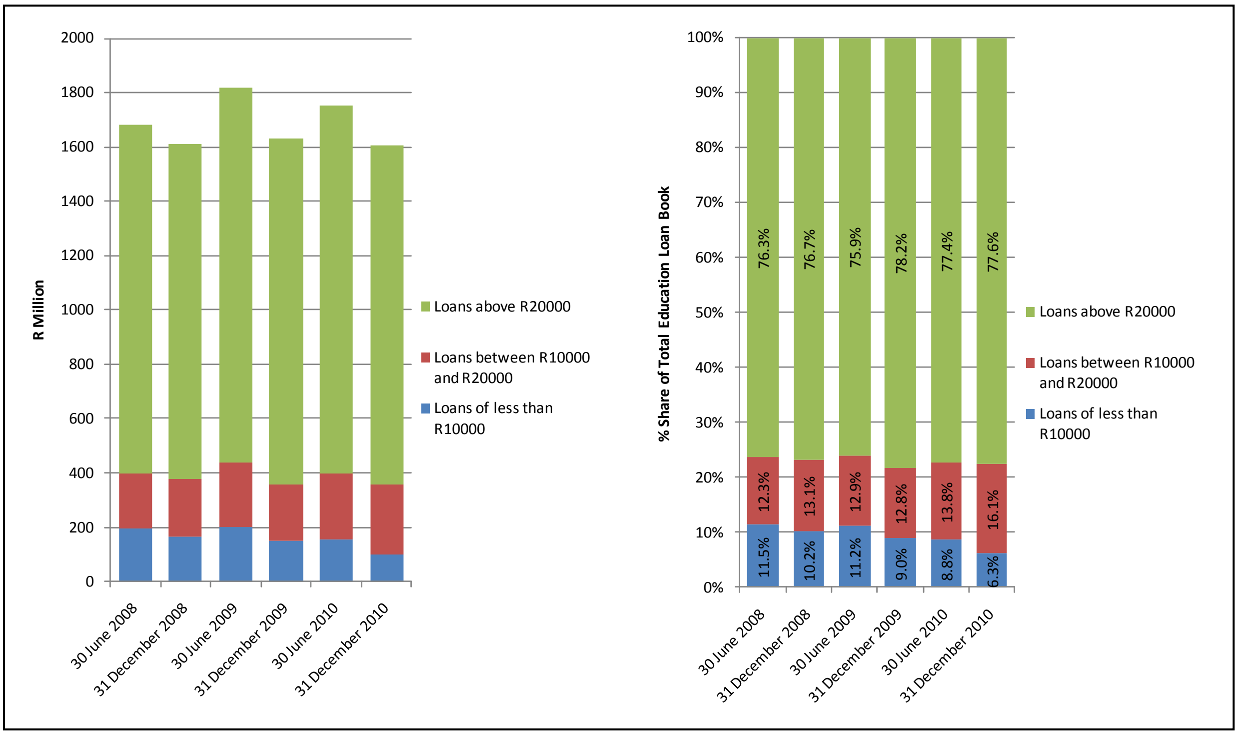
Table 83: Value of outstanding book of education loans

Outstanding Book as at:	*Aggregate Book Summary - R Million*			
	Loans of less than R10000	Loans between R10000 and R20000	Loans above R20000	Total Book
30 June 2008	192.9	205.9	1,281.9	1,680.7
31 December 2008	164.8	210.8	1,236.8	1,612.3
30 June 2009	202.9	234.5	1,379.6	1,817.1
31 December 2009	147.4	208.5	1,275.9	1,631.8
30 June 2010	155.1	241.2	1,356.8	1,753.1
31 December 2010	101.4	258.0	1,244.9	1,604.4

Source: Feasibility NCR Survey 2011

The trends in the combined book's value and composition are shown inFigure 71. The graph on the left indicates the value of the book, broken down into different loan size categories, while the graph on the right shows the changing composition of loan values. The bi-annual seasonality is apparent in the aggregate value of the book, while the graph on the right indicates that the share of loans above R20,000 has remained relatively stable at around 77% - 78% of the total book, and that the share of loans valued at between R10,000 and R20,000 has increased – from just over 12% to around 16%. There has been a corresponding drop in the share of loans valued at under R10,000 – from close to 12% to just above 6%.

Figure 71: Value and size changes in education loans



Source: Feasibility NCR Survey 2011

Table 84 indicates the number of loans on the books of the providers surveyed, as well as the percentage change in the number of accounts between June 2008 and December 2010. The aggregate number of education loans advanced and on the books of the providers surveyed declined from a peak of close to 111,000 in June 2009, to just over 93,000 at the end of 2010 – a fall of eight per cent. The number of loans in the under R10,000 value category dropped by almost a third, while the number of loans in the R10,000 to R20,000 category rose by two thirds. At the same time there was a four per cent decline in the number of loans originally valued at above R20,000.

Table 84: Number of education loans

Outstanding Book as at:	*Aggregate Book Summary – Number of Accounts on Book*			
	Loans of less than R10000	Loans between R10000 and R20000	Loans above R20000	Total Book
30 June 2008	55,968	15,680	30,119	101,767
31 December 2008	53,121	20,172	29,943	103,236
30 June 2009	58,684	20,415	31,703	110,802
31 December 2009	53,121	20,172	29,943	103,236
30 June 2010	43,799	22,687	31,038	97,524
31 December 2010	38,199	26,051	29,046	93,296
% Change between June 2008 and December 2010	-32%	66%	-4%	-8%

Source: Feasibility NCR Survey 2011

5.9.2. Education loans in arrears

Figure 72 shows the value of education loans that were in arrears between mid-2008 and the end of 2010. The total arrears of the providers surveyed increased from R137 million to R158 million in the year till June 2009, after which it fell quite sharply to just under R70 million at the end of December 2010.

Table 85 shows the arrears ratios that arise when the value of arrears are expressed as percentages of the values of the outstanding loan book shown in Figure 71. The arrears ratio of the total combined book rose from just over 8% to 9.4% in the latter half of 2008, but then declined in the subsequent period to 4.4% by the end of 2010. Arrears on loans that were initially valued at less than R10,000 rose quite sharply from just under once per cent to six per cent between June 2008 and December 2009, before declining slightly to 5.8%. Arrears in the loan value category of R10,000 to R20,000 followed a similar pattern, but the initial increase was less pronounced, and the arrears ratio ended the survey period at just above 4%, which was lower than in June 2008. The arrears ratio on loans above R20,000 increased to 11% in December 2008, but then declined to just over four per cent by the end of 2010.

Figure 72: Value of education loans in arrears

Source: Feasibility NCR Survey 2011

Table 85: Per cent of the value of education loans in arrears

Outstanding Book as at:	*Aggregate Book Summary – Arrears Value as % of Book Value*			
	Loans of less than R10000	**Loans between R10000 & R20000**	**Loans above R20000**	**Total Book**
30 June 2008	0.9%	5.1%	9.7%	8.1%
31 December 2008	1.3%	6.4%	11.0%	9.4%
30 June 2009	5.9%	6.8%	9.4%	8.7%
31 December 2009	6.0%	8.4%	8.1%	8.0%
30 June 2010	4.3%	4.4%	4.5%	4.5%
31 December 2010	5.8%	4.3%	4.2%	4.4%

Source: Feasibility NCR Survey 2011

5.9.3. Current lending patterns

As with most other types of credit products, education loans appear to have enjoyed very limited product innovation. Apart from one provider indicating that there had been some inflationary adjustment to average loan values, there have been no changes in the typical term, values or conditions relating to education loans. The majority of respondents pay the education facility directly, but one respondent advances the funds to the borrower/debtor. It is usual to require that someone stands surety for the loans granted.

As regards their physical "footprint", only one respondent indicated an intention to increase its number of branches in the coming period.

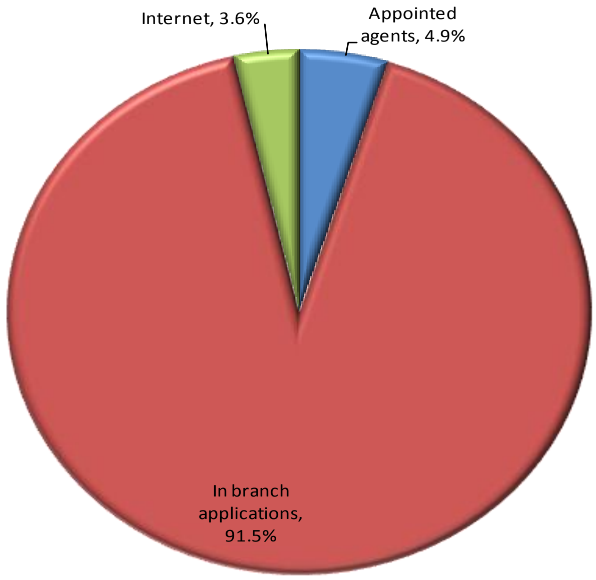
Table 86: Recent lending patterns in educational loans

Lending Pattern over past two years	*Response/Value*
Changes to typical loan term?	4 no change
Significant innovations around loan values?	3 no change; 1increase in line with inflationary adjustment of fees
Significant innovations to loan conditions?	4 no change
Requirement for surety?	3 "Yes"
Payment of loan to individual debtor or to education facility?	1 pay debtor;3 pay education facility
Plans to expand their physical presence?.	1 "Yes"

Source: Feasibility NCR Survey 2011

5.9.4. Application channels, commissions and outlets

Figure 73: Education loan application channels



Source: Feasibility NCR Survey 2011

The manner in which credit providers interface with clients and potential clients and receive credit applications varies with the type of credit product. Increasingly, technology and the internet are making it possible for people to interact with financial institutions in a virtual manner. However, this channel is currently better suited to certain types of products than others. Amongst the drivers that influence the choice of application channel are the financial sophistication of the borrower; the proximity to where the money is to be spent, or what it is to be used to fund; and the awareness of, and ability to use, any technology that is inherent in the channel. In interviews it emerged that personal contact at, or in close proximity to, the education institution that is to be attended is still important in the case of education loans. This is confirmed by Figure 73, which shows that – on a weighted basis, close to 92% of applications are still channeled through branches of the provider. Appointed agents that operate outside the offices and branches of the provider account for just underfive per cent of applications, and electronic applications submitted over the internet account for the balance of applications (under 4%).

Only one provider indicated that it pays a commission in respect of education loan applications. This amounts to 1.8% of the loan value and a flat R180.00 fee that is paid to appointed agents.

Although the bulk of loan applications are received at branches located on campuses, the respondents surveyed have a total of 2,325 branches or outlets at which education loans applications should (in theory) be able to be received. In addition, one provider claims a further 464 co-branded or shared outlets, but it is not clear whether they are able to handle education loan applications. Three of the respondents indicated that the number of branches they have had increased over the past two years, while a third indicated its branches had declined in number.

Of the education loan providers surveyed only one plans to expand its physical "footprint" in coming years. This is anticipated to be a general expansion across all provinces that could result in as many as 39 additional outlets.

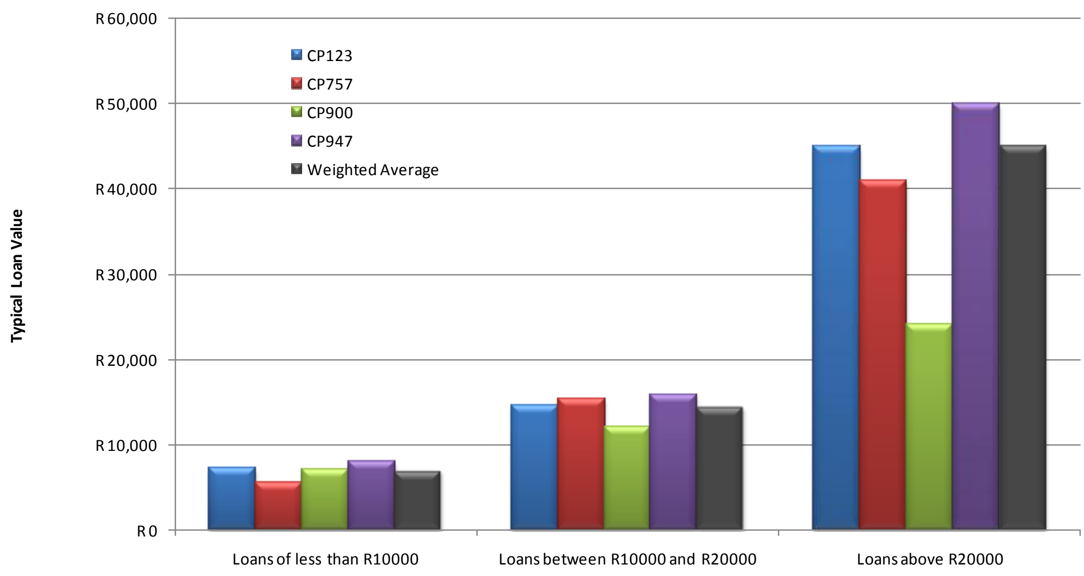
5.9.5. Average loan values, required or realized incomes, and terms

The survey provided for three value categories: less than R10,000; between R10,000 and R20,000; and above R20,000. The weighted average response within each of these value categories is as shown below.

Category of education loan	**Typical value**
Loans of less than R10000	R 7,019
Loans between R10000 and R20000	R 14,500
Loans above R20000	R 45,000

Figure 74 indicates the individual respondents' typical or median loan values within each loan size category. There is relatively little variation in the lowest category, but this increases as the potential size of loans rises. In the above R20,000 category, one respondent typically grants loans of around R24,000 while another will typically grant loans of R50,000.

Figure 74: Typical or median education loan values within each loan size category



Source: Feasibility NCR Survey 2011

Whereas gross income requirements for other types of credit typically relate to the income of the borrower, the general requirement for sureties for education loans means that any income required or achieved is more likely to reflect the position of the person standing surety than the person whose education is being financed. The only circumstances where this will probably not be the case is where a working person is studying part-time. The gross monthly incomes that are either required by the providers, or which are typical of successful applicants, are shown inTable 87. They indicate that for a loan of close to R6,000, the required or realised gross monthly income of successful applicants can range from just under R2,300 to R6,500. The weighted average income for this loan size is just over R4,300 per month. In the case of a loan of around R46,000, the required or realised gross income of successful applicants can vary widely – from under R3,900 to R32,800, with a weighted average of just under R8,700 per month.

Table 87: Average loan sizes and required incomes for educational loans

	Loans of less than R10 000	*Loans between R10 000 & R20 000*	*Loans above R20 000*
Weighted average loan size	R 5,877	R 14,272	R 46,090
Income required to qualify for average loan size			
Minimum	R 2,295	R 2,556	R 3,845
Average	**R 4,344**	**R 4,748**	**R 8,686**
Maximum	R 6,500	R 14,500	R 32,800

Source: Feasibility NCR Survey 2011

There is significant variation in the term of different education loans offered. Some providers require that lower value loans are repaid within 12 months, while others have typical terms for loans of under R10,000 of more than 40 months. In the case of loans above R20,000, typical terms range from 21 to 54 months.

Three of the respondents only offer variable interest loans, while the fourth only extends fixed interest loans. However, since the dominant provider of the lower value loans only offers fixed rate loans, the weighted average proportion of loans with variable interest rates is around 14% for loans under R10,000, rising to 35% for loans between R10,000 and R20,000, and to 95% for loans above R20,000.

Two of the providers surveyed require credit insurance, while the other two do not.

5.9.6. Pricing

Along with many other types of credit, the initiation fees on education loans are limited under the NCA to R1,000 (excluding VAT) and the monthly service fees are limited to R50 per month (excluding VAT). The level of the interest cap will depend on how the agreements are structured: they may fall under "unsecured credit transactions" or "other credit agreements". The only other cost element is in respect of credit insurance, which is not capped under the NCA.

Table 88 indicates the initiation fees, monthly service fees and credit insurance premiums charged by survey respondents. The fee components are all well within the limits set by the NCA and vary, in the case of initiation fees, from R0 to R1,026, and from R0 to R38 per month in the case of monthly service fees. The weighted average initiation fee ranges from almost R296 for a R7,500 loan to R452 for a R50,000 loan. Although the providers surveyed charge a standard service fee for all loan sizes, the effect of different weightings means that the weighted average monthly services fee differs quite significantly – from close to R34 for an R7,500 loan to just over R9 for a R50,000 loan. Credit insurance ranges from R0 to R17 per month for a R7,500 loan, and from R0 to R110 for a R50,000 loan.

Table 88: Fees and premiums of education loan providers

Loan Provider	*Education Loan Value*		
	R 7,500	**R 15,000**	**R 50,000**
Initiation Fees			
CP123	R 0	R 0	R 0
CP757	R 75	R 75	R 75
CP900	R 300	R 300	R 300
CP947	R 750	R 1,026	R 1,026
Weighted Average Initiation Fee	**R 295.82**	**R 402.37**	**R 452.35**
Monthly Service Fees			
CP123	R 0	R 0	R 0
CP757	R 0	R 0	R 0
CP900	R 38	R 38	R 38
CP947	R 20	R 20	R 20
Weighted Average Monthly Service Fee	**R 33.72**	**R 28.68**	**R 9.27**
Monthly Credit Insurance Premiums			
CP123	R 11	R 23	R 77
CP757	R 3	R 5	R 18
CP900	R 0	R 0	R 0
CP947	R 17	R 33	R 110
Weighted Average Credit Insurance Premium	**R 1.60**	**R 9.29**	**R 80.41**

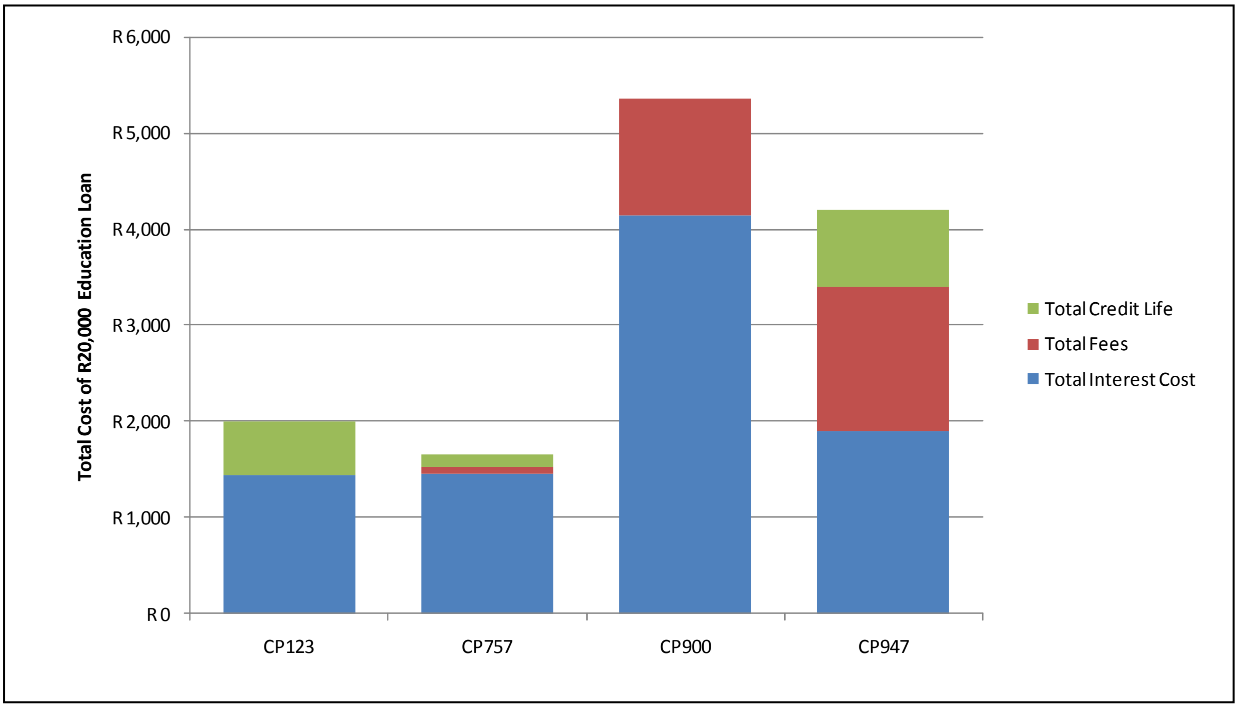
Source Feasibility 2011 Survey. Values include VAT

When these various cost elements, and the interest charged, are taken into account, the total costs of a R15,000 loan are as illustrated inFigure 75. These vary greatly – due to different approaches to pricing. The lowest cost provider has a total loan cost of close to R1,650 that incorporates interest (charged at Prime) and relatively small fee and insurance charges. The second lowest cost provider charges the same amount of interest (also based on Prime), does not levy any fees, but charges more for credit insurance – which collectively results in a total cost of just under R2,000. The second highest cost provider has significant contributions from all three cost elements that collectively result in a total cost of R4,200. The highest cost provider has a total loan cost of more than R5,350 that arises from it charging substantially more interest and a fairly significant amount of fees.

When the APRs for the different providers and loan sizes are compared - as are shown in Table 89–there are significant variations in pricing. These are 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.

In the case of a R50,000 education loan, APRs inclusive of insurance range from 9.7% to under 22%. The exclusion of credit insurance reduces the APRs by a weighted average of 330 basis points – although, again, the most expensive provider's rate is unaffected because it does not levy credit insurance.

Figure 75: Total costs of a R15,000 education loan



Source: Feasibility NCR Survey 2011

All of the providers surveyed indicated that there had been no change in their fees in recent years, although there are no comparable data for 2008.

Table 89: APRs of education loans for different loan sizes

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%**
Difference Between Inclusive and Exclusive APRs			
CP123	3.3%	3.3%	3.2%
CP757	0.8%	0.8%	0.7%
CP900	0.0%	0.0%	0.0%
CP947	4.2%	4.3%	4.4%
Weighted Average	**0.4%**	**1.3%**	**3.3%**

Source: Feasibility NCR Survey 2011

5.10. Small business loans

Small business loans consist of advances by providers to incorporated and unincorporated enterprises for the general purpose of funding their on-going operations and (in some cases) expansion. Providers range from banks to non-governmental organizations, development finance institutions and institutions established by government to address specific developmental challenges such as youth unemployment.

The traditionally high failure rate of small and micro enterprises, together with the fact that they often require fairly resource-intensive support and "hand-holding" can make such lending relatively risky and unattractive for commercially-driven, profit-motivated credit providers. For this reason, the state has (sometimes in partnership with other development finance institutions) established variousSME loan guarantee funds. The Enablis Khula Loan Fund is a relatively recent example. Although the National Small Business Act established definitions for micro, small and medium-sized enterprises in different sectors, these do not always appear to conform to the needs of credit providers and are not consistently applied – so one credit provider's definition of what qualifies for a small business loan may differ significantly from another's. Because of the higher risks associated with lending to small businesses, many commercial providers prefer to advance loans to entrepreneurs and partners in small businesses in their personal capacity – rather than to entities with limited liability. Even in cases where loans are advanced to the business entity, there are often requirements for personal surety.

The small business loan providers that responded to the Feasibility survey include the major commercial banks and two development finance institutions. They appear to operate in fundamentally different market segments, as is reflected in the value of the loans that they typically advance.

5.10.1. Trends in the small business loan book

The consolidated book value of the small business loan providers surveyed almost doubled from around R1,3 billion in mid-2008 to R2,4 billion at the end of 2010. However, there was a decline in the consolidated book value of loans between R50,000 and R100,000 of more than a third, only a small 4% increase in loans of between R10,000 and R50,000, a 64% increase in the value of loans under R10,000, and a more-than-doubling of loans above R100,000.These data are shown in Table 90.

Table 90: Value of outstanding book of small business loans

Outstanding Book as at:	*Aggregate Book Summary - R Million*				
	Up to R10000	Between R10000 and R50000	Between R50000 and R100000	Above R100000	**Total Book**
30 June 2008	71.6	37.2	51.8	1,092.8	1,253.3
31 December 2008	78.1	45.0	49.1	1,361.5	1,533.7
30 June 2009	89.4	41.1	49.1	1,421.7	1,601.3
31 December 2009	90.7	43.1	39.1	1,481.7	1,654.8
30 June 2010	95.9	39.6	36.1	1,520.7	1,692.3
31 December 2010	117.3	38.7	32.5	2,219.5	2,408.0
% Change between June 2008 and December 2010	**64%**	**4%**	**-37%**	**103%**	**92%**

Source: Feasibility NCR Survey 2011

Table 91indicates the number of small business loans on the books of those credit providers surveyed. It shows that the total number of loans advanced increased from around 57,000 to 76,000 between June 2008 and December 2010 – an increase of a third. However, 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, while loans valued at between R10,000 and R50,000 increased in number by 15% over the same period.

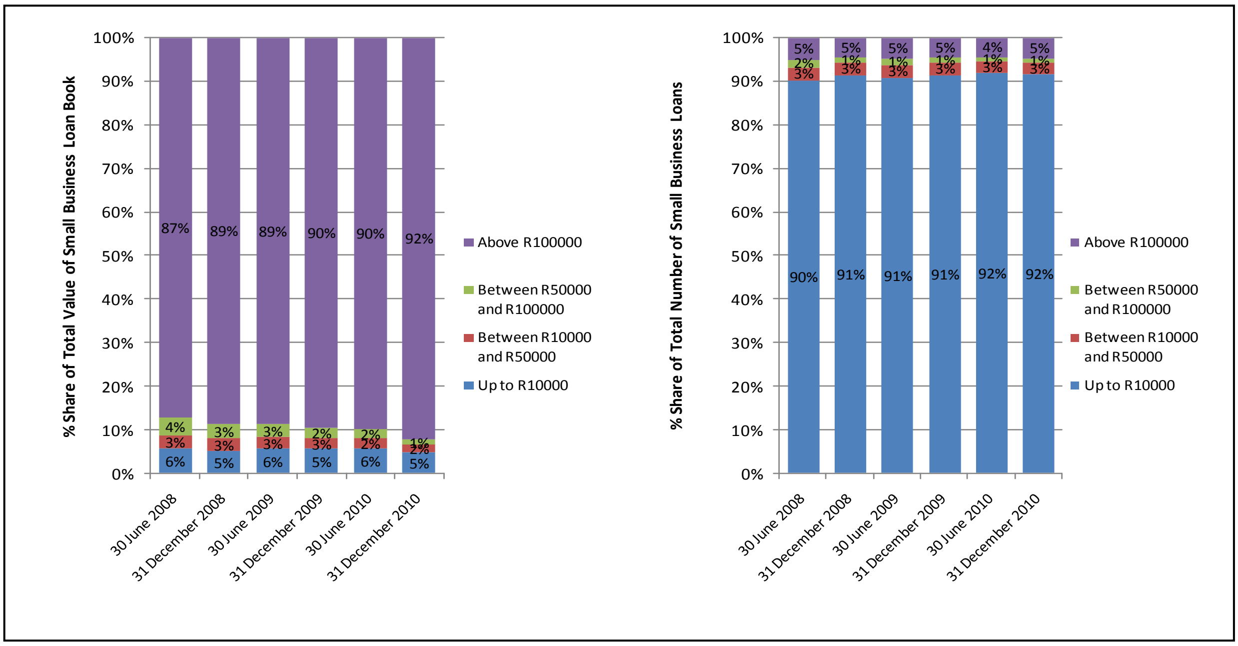
Table 91: Number of outstanding small business loans on book

Outstanding Book as at:	*Aggregate Book Summary –Number of Accounts*				
	Up to R10000	Between R10000 and R50000	Between R50000 and R100000	Above R100000	**Total Book**
30 June 2008	51,576	1,756	929	2,904	57,165
31 December 2008	62,795	1,980	781	3,140	68,696
30 June 2009	58,190	1,979	839	3,114	64,122
31 December 2009	62,795	1,980	781	3,140	68,696
30 June 2010	64,705	1,861	700	3,103	70,369
31 December 2010	69,768	2,018	664	3,713	76,163
% Change between June 2008 and December 2010	**35%**	**15%**	**-29%**	**28%**	**33%**

Source: Feasibility NCR Survey 2011

The trends in the composition of the value and number of accounts of the combined book of respondents are shown in Figure 76. The graph on the left indicates the composition of the aggregate value of the book, broken down into different loan size categories, while the graph on the right shows the changing composition of the number of loans by loan size. There is an almost inverse relationship between the composition of the book by value and the composition of the number of accounts, with loans valued at more than R100,000 making up 92% of the total value of loans advanced as at 31 December 2010, but only 5% of the number of accounts at the same date. Conversely, 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. The share of the outstanding book value of loans of between R50,000 and R100,000 fell from 4% to only 1% between mid-2008 and the end of 2010.

Figure 76: Composition of the value and number of small business loans



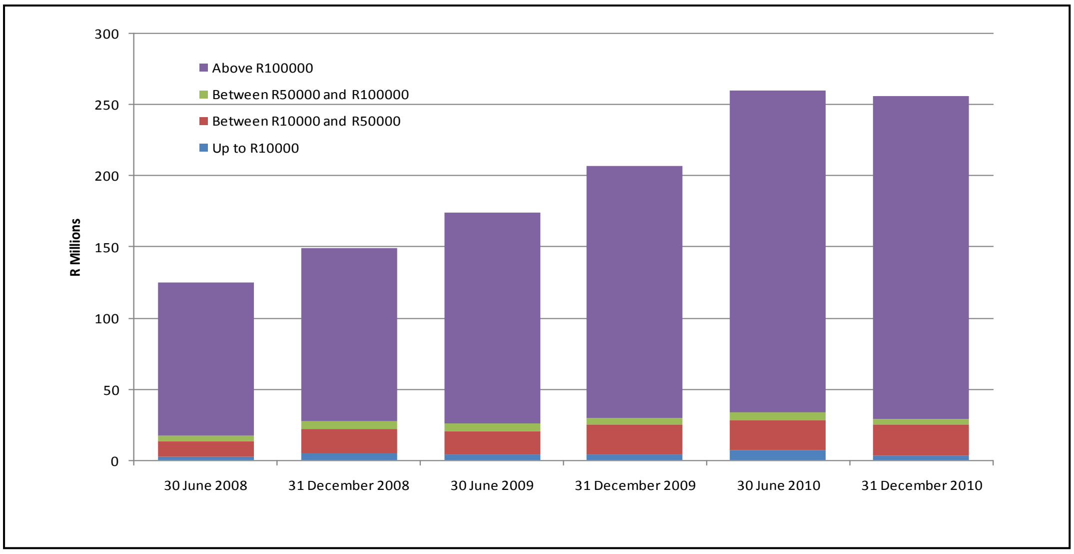
Source: Feasibility NCR Survey 2011

5.10.2. Small business loans in arrears

Figure 77 shows that the aggregate value of small business loans in arrears rose from R125 million to R260 million between June 2008 and June 2010, before dropping slightly to R256 million at the end of that year. The bulk of these arrears (R227 million of the R256 million at end 2010) were in respect of loans valued at more than R100,000. Table 92indicates trends in arrears ratios, calculated as the value of loans in arrears as a percentage of value of outstanding advances for the corresponding period. These show a high degree of variability across different loan sizes, ranging from less than 3% in the case of loans valued at less than R10,000 to more than 55% for loans valued at between R10,000 and R50,000. The average arrears ratio across the whole book increased from 10% to 15.4% between June 2008 and June 2010, but declined sharply back to 10.6% by the end of 2010.

The very high arrears ratios on loans of between R10,000 and R50,000, and the fact that they have increased across the whole survey period, point to a market segment that is suffering severe distress. These ratios offer some explanation for the decline in total advances to this market segment – from R45 million to less than R39 million between December 2008 and December 2010 – even though the number of accounts in this value segment increased.

Figure 77: Value of small business loans in arrears



Source: Feasibility NCR Survey 2011

Table 92: Percent of small business loan book values in arrears

Outstanding Book as at:	*Value of Arrears as % of Outstanding Book*				
	Up to R10000	Between R10000 and R50000	Between R50000 and R100000	Above R100000	**Total Book**
30 June 2008	3.4%	28.2%	7.7%	9.9%	10.0%
31 December 2008	5.9%	38.7%	10.6%	8.9%	9.7%
30 June 2009	4.4%	40.4%	11.0%	10.4%	10.9%
31 December 2009	4.0%	48.8%	13.6%	12.0%	12.5%
30 June 2010	7.7%	51.6%	15.3%	14.9%	15.4%
31 December 2010	2.7%	55.6%	14.1%	10.2%	10.6%

Source: Feasibility NCR Survey 2011

The number of loans in arrears increased slightly over the period. As a percentage of the total number of loans advanced, those in arrears rose from 3% to 3.4% between June 2008 and December 2008, but subsequently declined and stood at only 2.7% at the end of 2010.

5.10.3. Current lending patterns

Respondents to the survey pointed to limited product innovation, with only one respondent indicating a slight reduction in the average size and term of loans, and another pointing to the incorporation of behavior scoring elements, in addition to the traditional application scoring, in their overall scoring system.

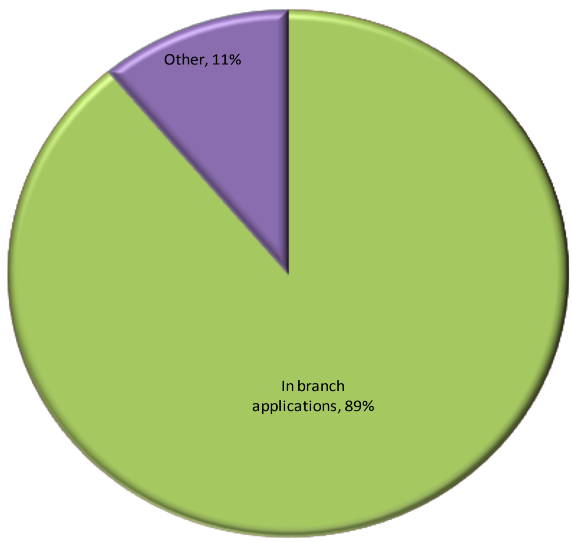
Table 93: Recent lending patterns in small business loans

Lending Pattern over past two years	*Response/Value*
Change in relation to the typical loan term?	5 unchanged, 1 indicated a decrease
Significant innovations around loan values?	4unchanged, 1 noted an increase, 1 noted a decrease
Significant change or innovation to loan conditions?	5unchange1 pointed to an improving trend in relation to high risk activities/sectors

Source: Feasibility NCR Survey 2011

5.10.4. Application channels, commissions and outlets

Figure 78: Small business loan application channels



Source: Feasibility NCR Survey 2011

A further indication of a lack of innovation in this product category is reflected in the channels used by providers to receive and process loan applications. Five of the six providers surveyed rely exclusively on completed applications submitted within their branch network. The remaining respondent has a team of small business service staff that visit businesses and complete and submit applications on their behalf. On a weighted basis, 89% of loan applications are channeled through branches, and 11% are completed and submitted by staff of the provider.

None of the providers pays any commission in respect of the channels used.

The small business loan providers surveyed have a combined total of 3,116 sole-branded branches at which loan applications can be received, and a further 545 shared, or co-branded outlets at which they are able to service clients. The latter includes retail chains and building supply stores. Two of the providers increased the number of these co-branded or shared outlets over the past two years while two other providers reduced their number.

Four of the providers indicated that they plan to expand their physical "footprint" in coming years – either directly, or on a co-branded basis. Generally, the focus of such expansion will be on provinces outside of Gauteng and the Western Cape. One provider noted that it had identified 39 towns and cities for expansion, five of which are in Limpopo, five in KZN, five in the Eastern Cape, eight in Mpumalanga, two in North West Province, two in the Free state, four in Gauteng, three in the Northern Cape, and four in Western Cape.

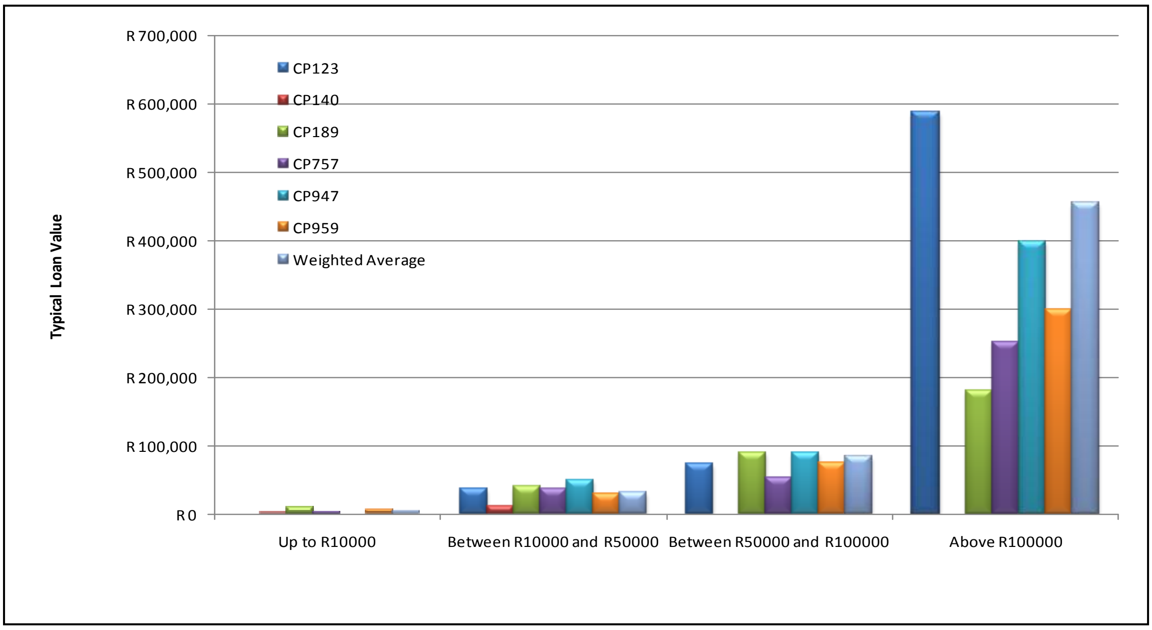
5.10.5. Average loan values, required or realized incomes, and terms

The survey provided for four value categories: less than R10,000; between R10,000 and R50,000; between R50,000 and R100,000 and above R100,000. The weighted average size of loans advanced within each of these value categories is indicated below.

Category of small business loan	Typical value
Loans of less than R10000	R 3,363
Loans between R10000 and R50000	R 31,070
Loans above R50000 and R100000	R 85,065
Loans above R100000	R 454,777

The typical or median loan values within each loan size category advanced by each provider are shown in Figure 79. One provider (CP 140) only operates in the lower value categories (up to R50,000) while another does not advance loans of less than R10,000. There is significant variation in the typical value of loans advanced that are above R100,000 in value. These range from close to R590,000 to R180,000.

Figure 79: Typical or median small business loan values within each loan size category



Source: Feasibility NCR Survey 2011

As noted above, credit providers typically require security for all small business loans. These range from personal guarantees to fixed assets to group loans secured by other members of the group. Table 90 shows the range of security that is typically favoured for different loan sizes by different credit providers, but it should be noted that almost all types of security will be considered.

Table 94: Types of security typically required for small business loans

Credit Provider	*Up to R10000*	*Between R10000 and R50000*	*Between R50000 and R100000*	*Above R100000*
CP123	Other	Other	Other	Other
CP140	Other	Other		
CP189	Personal guarantees	Other	Fixed assets	Fixed assets
CP757	For**loans of all sizes** : all types of security considered			
CP947	For **loans of all sizes**: require personal guarantees of applicants			
CP959	For loans of **up to R100 000**: require personal guarantees of applicants			Other

Source: Feasibility NCR Survey 2011

Four of the providers surveyed do not apply turnover limits to determine the eligibility of the small business to qualify for a loan. The turnover limits of the remaining two providers for the average loan values indicated are shown below.

Generally, it appears that where turnover limits are applied, a small business will require a turnover of at least ten times the value of the loan advanced.

Table 95: Loan size and turnover

Credit provider	*Up to R10000*	*Between R10000 and R50000*	*Between R50000 and R100000*	*Above R100000*
Average Loan Size of CP189	R 8,820	R 36,994	R 85,856	R 246,399
Business turnover required by CP189	R 88,000	R 370,000	R 860,000	R 2,500,000
Average Loan Size of CP947		R 42,500	R 86,842	R 645,143
Business turnover required by CP947		R 500,000	R 1,000,000	R 1,000,000

The interest rates levied by three providers vary with market conditions and benchmark rates for all loan sizes. Two providers only offer fixed interest loans, but they tend to focus on lower value loans. The last provider surveyed offers fixed interest loans for loan values less than R100,000, and variable rate loans for higher values.

None of the providers of small business loans surveyed require credit or top-up/absconsion insurance as a condition of the loans they advance.

5.10.6. Pricing

Along with many other types of credit, the initiation fees on small business loans are limited under the NCA to R1,000 (excluding VAT) and the monthly service fees are limited to R50 per month (excluding VAT). The level of the interest cap is set at the Repo Rate x 2.2 plus 20%, which equates to 32.1% per annum with the Repo Rate at its current 5.5%.

Table 88 indicates the initiation fees and monthly service fees charged by survey respondents. Most of the providers charge the maximum initiation fee permitted under the NCA for all loan sizes. One provider (CP 949) does not levy initiation fees on loans of less than R100,000 but charges R2,500 for loans of R125,000. The limit set by the NCA for developmental credit agreements for small businesses in R2,500 (excluding VAT). Three providers do not levy a monthly service fee on any small business loans, while two others charge the monthly maximum of R57 (inclusive of VAT).

Table 96: Fees and premiums of small business loan providers

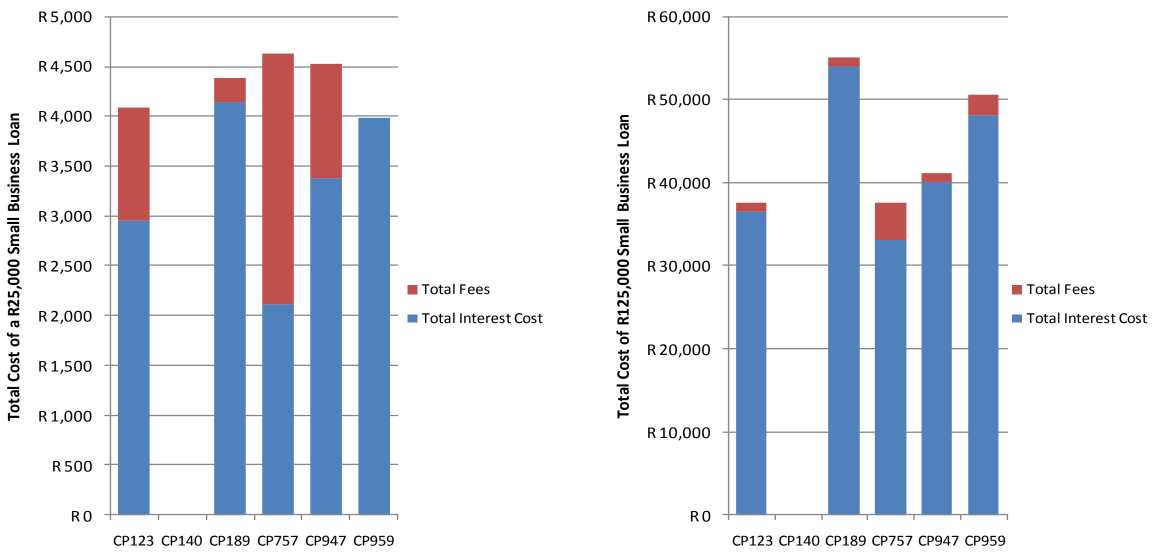
Loan Provider	*Small Business Loan Value*			
	R 10,000	**R 25,000**	**R 75,000**	**R 125,000**
Initiation Fees				
CP123	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP140	R 1,311.00			
CP189	R 100.00	R 250.00	R 750.00	R 1,140.00
CP757	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP947	R 1,140.00	R 1,140.00	R 1,140.00	R 1,140.00
CP959	R 0.00	R 0.00	R 0.00	R 2,500.00
Average Initiation Fee	**R 805.17**	**R 734.00**	**R 834.00**	**R 1,412.00**
Monthly Service Fees				
CP123	R 0.00	R 0.00	R 0.00	R 0.00
CP140	R 40.76			
CP189	R 0.00	R 0.00	R 0.00	R 0.00
CP757	R 57.00	R 57.00	R 57.00	R 57.00
CP947	R 0.00	R 0.00	R 0.00	R 0.00
CP959	R 0.00	R 0.00	R 0.00	R 0.00
Average Monthly Service Fee	**R 16.29**	**R 11.40**	**R 11.40**	**R 11.40**

Source Feasibility 2011 Survey. Values include VAT

Taking the various fees and interest charged into account, the total costs of a R25,000 (the graph on the left) and a R125,000 loan (the graph on the right) have been calculated and are shown in Figure 80. The total costs of a R25,000 loan with a nominated 12 month repayment term range from just under R4,000 to more than R4,600. The highest cost provider charges the least amount of interest, but makes up for this by comparatively high fees. The lowest cost provider does not levy any fees. The costs of a R125,000 loan range from almost R37,600 to more than R55,000. In this instance the the contribution of fees to total costs is relatively small.

Table 97 shows the APRs for the different providers and loan sizes, as well as the weighted average APR for all respondents. There is significant 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. By contrast, there is significantly 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. It should be noted that, because none of the providers charge credit or other insurance, there is no difference between rates inclusive and exclusive of insurance.

Figure 80: Costs of a R25,000 and a R125,000 small business loan



Source: Feasibility NCR Survey 2011

Compared with 2008, the cost for small business loans appears to have fallen – in line with the repo rate – except for the smallest loan of R10 000, where the dominant player's pricing dominates.

Table 97: APRs of small business loan providers

Loan Provider	***Small Business Loan Value***			
	R 10,000	**R 25,000**	**R 75,000**	**R 125,000**
CP123	10.5%	10.5%	10.5%	10.5%
CP140	45.2%			
CP189	15.0%	15.0%	15.0%	15.0%
CP757	13.4%	12.3%	11.8%	10.5%
CP947	12.0%	12.0%	11.6%	11.4%
CP959	16.2%	14.6%	14.3%	13.4%
Weighted Average APR 2010	**43.4%**	**12.6%**	**14.2%**	**11.4%**
Weighted Average APR 2008	26.3%	18.7%	18.4%	18.9%

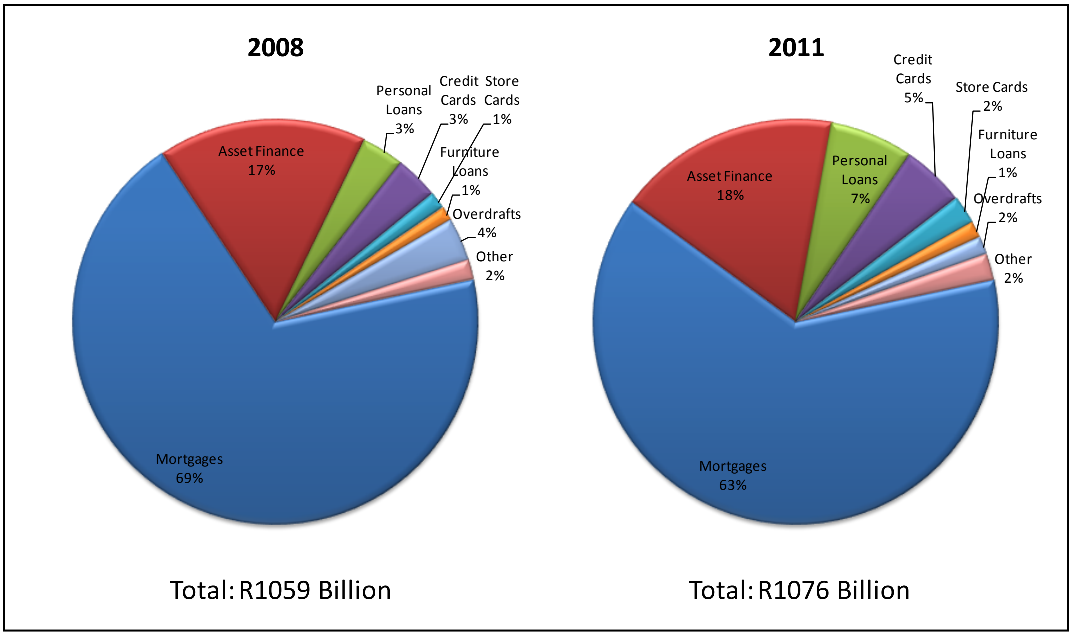
Source Feasibility 2008, 2011 Survey. Values include VAT

6. Comparisons with the 2008 survey

6.1. Market overview

In 2008, the aggregate value of the surveyed book was R1076.4 billion, compared with a book of R1058.5 billion as at December 2010. This represents a growth of 1.7%. In Figure 80 below, it is apparent that 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 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.

Figure 80: Comparison of the consolidated book values of the 2008 and 2011 Surveys



This aggregate view confirms what the more detailed analysis has shown – that while there has been some growth in the consumer credit book, the share of mortgages has shrunk as the importance of personal loans and credit cards and store cards have grown.

The number of 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 five 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 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 1.8 million. The number of accounts for asset finance and overdrafts have remained relatively stable.

6.2. 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 98: 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 99: 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

6.3. 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 100: 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 101: 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

6.4. 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 102: 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 103: 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

6.5. 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 104: 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 105: 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

6.6 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 106: 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.

6.7 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 107: 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 108: 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

6.8 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 109: 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 110: 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

6.9 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.

6.10 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 24 000 in June 2008 to close to 74 000 at the end of 2010 – an increase of over 200%.
- 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 111: 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.

6.11 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 112: 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

6.12 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)4.
- 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

[4] 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.

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 113: 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.

6.13 Cost and access summary

In this section, we provide indicative summary figures on how access and the cost of credit has changed since 2008. The data and analysis provided here build up a picture of credit distribution based on income demographics of the South African population. An exercise such as this requires a number of assumptions – as is set out below – but the process is revealing and provides insight as to how the credit market is changing in relation to the consumer.

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. As has been pointed out in the report, 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 determining 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.

Credit providers were requested in the survey 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. There was a significant disjuncture in survey responses between the minimum required income levels included in the scoring systems of some providers, and the average incomes of recently-successful applicants of providers that do not use minimum incomes in their scoring systems. In the case of most products and loan value sizes, the average incomes of recently-successful applicants was significantly higher than the indicative minimum incomes included in scoring systems. In this context, 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 degree to which 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 and that 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) That 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 114: 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
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 114 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 **115** and represented graphically in Figure 81.

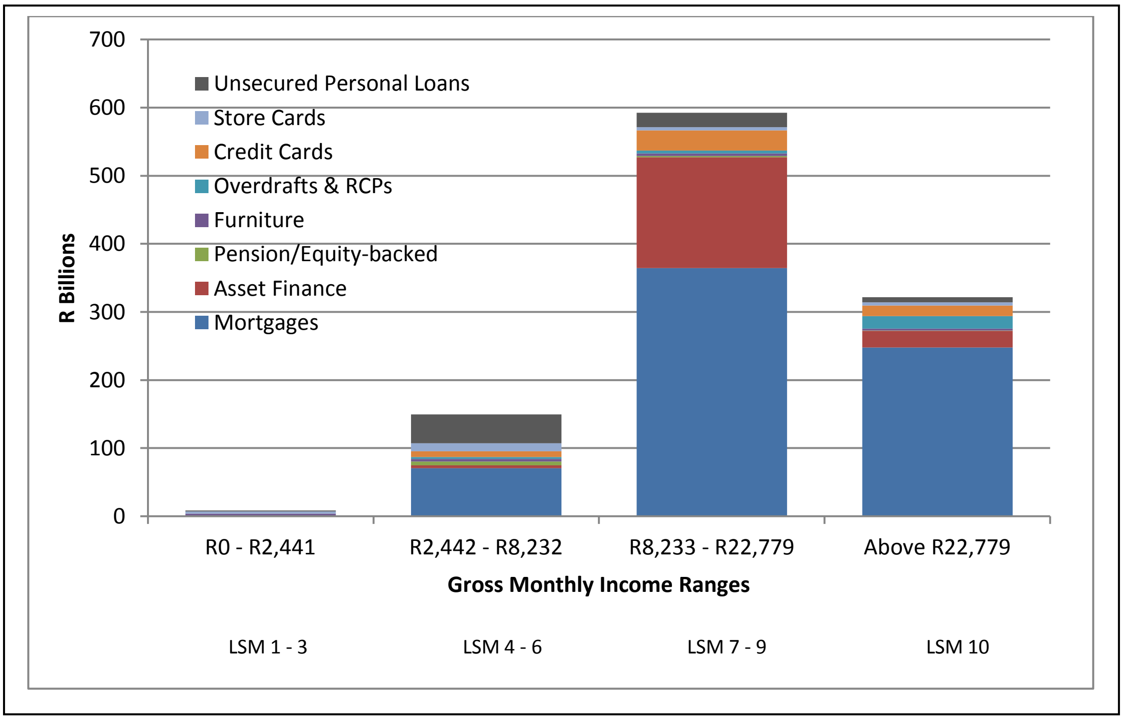
Table 115: Estimated credit extension by LSM group (R Billions) 2010

	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 (estimated to be earning less than R2,441 per month and to account for around 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. The next broad category of consumers – those in LSMs 4-6 - who represent 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 (earning between R8,233 and R22,779 per month and accounting for 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 only account for 6% of the country's adult population, but have access to 30% of the total credit extended to households.

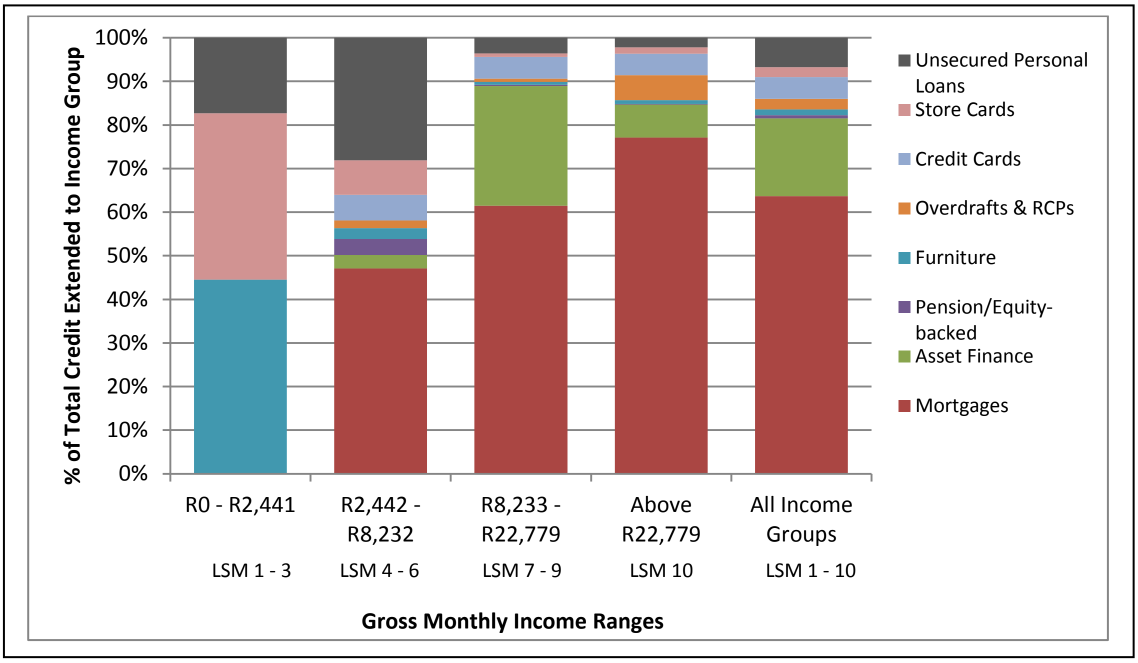
Figure 81: Value of credit extended to different income groups 2010



Source: Feasibility Survey

Figure 82 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. It is evident that secured credit (meaning credit secured by a property or vehicle asset) constitutes a significant proportion 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. It is notable that 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 82: Estimated composition of credit extended 2010.



Source: Feasibility Survey

Table 116 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 indicative 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. Relatively, these categories account for smaller shares of total credit extended to households in 2010 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, their share of total credit is estimated to have dropped marginally from 0.9% to 0.8%, while that of the LSM 4 to 6 group 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 116: 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 table above in more detail.

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. However, as has been pointed out earlier, 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.

The relative share of asset finance accessed by LSMs 4 to 6 is estimated to have declined from 8% to 2%, and by the LSM 10 group from 20% to 13%, between 2008 and 2010. 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 it is estimated that 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, but 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.

It is estimated that 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 association of overdraft rates to the prime rate of interest.

There appears to have been some shifting of credit extended to lower LSM groups with people in these lifestyle measures getting relatively less credit card facility credit, and relatively more store card credit. It is estimated that people in LSMs 7 to 9 now obtain a relatively greater share of credit card credit, but that 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. From this perspective, 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 significantly between mid-2008 and the end of 2010, but it is also estimated that a significantly 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 consolidation in pricing reflects consolidation in the personal loans sub-industry, with a number of smaller and medium sized players now longer operating.

Many of the shifts in access have their origins in the post-Global Economic Crisis business cycle, 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. Of course, in some cases, broader access than is suggested by the data is achieved by taking account of household, rather than individual, income (something that these estimates are unable to reflect). Also providers are prepared to offer credit to people earning substantially less than the weighted average income reflected on the survey returns would suggest.

Regarding the shifts in pricing, in general, the 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.

7. 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:

7.1. 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.

7.2 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, by engaging with credit providers more directly, for example by:

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

8. Method of the study

Determining the range of problems relating to market behaviour and practice in a consistent and comprehensive manner ideally requires a properly structured representative sample survey of consumers. However, this approach was not followed as it was both too time consuming and costly.

Given these constraints, it was decided that interviews with various financial sector ombudsmen, columnists of newspapers dealing with consumer complaints, consumer protection agencies and the NCR Complaints and Enforcement departments would help identify significant areas of concern. An interview questionnaire was prepared with a view to identifying the most commonly-raised problem areas and concerns, areas of improvement since the advent of the NCA, and possible gaps in regulation and enforcement.

It was intended that the findings of these interviews be supplemented by a number of other sources, intended to create a more nuanced and comprehensive picture of market practices. These other sources include:

- Focus groups with consumers who have credit arrangements.
- Quotations and statements provided by focus group participants
- Mystery shopping experiences with different credit providers and different credit products
- Adverts from the printed media
- Legal analysis of the pro-forma contracts provided to the NCR
- In-depth interviews with selected credit providers

These are all complementary approaches; the final analysis is drawn together in this report.

8.1. Market practices interviews

The focus of the market practices interviews was to probe the consumer experience in obtaining and repaying credit. In particular, the different life-cycle stages of the credit relationship – beginning at advertising and ending with the completion or termination of the contract - were of interest.

It was agreed that the best barometer of market practices would be interactions with the various ombuds covering financial services, as well as discussions with consumer complaints experts and other related consumer representative organisations.

It is doubtful that credit providers will own up to practices that may be considered misleading or undesirable that are linked to products that they offer. However, it is possible (and even likely) that competitors will be aware of practices of their competition. Therefore, the interviews and survey questions with credit providers will also include questions relating to the market practices of the rest of the industry.

Eight interviews were conducted. In addition, we received one written response from an out-of-town respondent.

Table 117: List of participants for market practices interviews

Institution	***Interviewee***
The Star – Consumer Watch	Wendy Knowler
NDMA CEO	MaguataMaphahlele
NCR complaints department head	ObedTongwane Manager: Complaints
NCR legal department head	Jan Augustyn Manager: Investigations & Prosecutions
CEO, DCASA	Paul Slot
Gauteng Provincial Consumer Affairs Office (Dept of Economic Development)	Mr F Manamela, Chief Director
Deputy Credit Ombuds	ReanaSteyn
Banking Ombuds	Clive Pillay
Personal Finance (written response)	NeesaMoodley-Isaacs Senior Reporter

8.2. Focus groups

In order to fully assess consumers' experiences of credit it would be necessary to conduct a comprehensive survey of a statistically representative sample of the South African adult population. Given resource and time constraints, such an approach was not feasible. Instead, it was decided to undertake a series of consumer focus groups that would examine the credit experiences of participants in a reasonably structured manner. Since an important objective was to assess consumer experiences of how they were treated in the event that they defaulted on their required credit repayments, selection of participants for such focus groups was concentrated on people who either had been, or were currently, debt stressed. Their debt-stressed status was determined by the fact that they were currently, or had been, under debt review. Participants in three of the four focus groups were in such a position. 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 118: Focus Group composition

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

Each of the focus groups was facilitated according to an agreed set of questions, discussion outline and approach. The number of participants in each focus group ranged from five to eight individuals. In an effort to get participants to feel comfortable in discussing what is generally perceived to be a taboo topic, they were initially requested to identify with the picture of a person selected and arbitrarily named by the group, and to discuss his or her credit experiences. Language diversity was accommodated, with facilitators being able to speak the home language of participants. Each focus group discussion was recorded on video and transcribed and, where necessary, translated into English.

8.3. Mystery shopping exercise

In terms of the NCA, consumers are entitled to pre-agreement disclosure, in the form of written quotations. Section 92 of the NCA, as well as the regulations (Forms 20 and 20.1), sets out the disclosure requirements and prescribed forms. This includes information about the principal debt, the proposed distribution of that amount, the interest rate and other credit costs, the total cost and the basis of any costs that may be assessed if the consumer rescinds the contract.

The aim of the mystery shopping exercise was a better understanding of the experience of consumers and provided an opportunity to gather quotations. The NCR indicated that mystery shopping processes can provide useful qualitative information on how customers are treated when applying for credit. It was assumed at the outset that this was likely to be the primary outcome of the process, and this seems to have been realised.

The required sample size was 40 mystery shops. Some 20 mystery shoppers were briefed, with the aim of obtaining two quotations for the same product from two separate credit providers.

Feasibility sub-contacted this process to Synovate (Pty) Ltd, given that they have extensive experience in this research method. Feasibility provided Synovate (the contractor) with guidance on the products and providers to target during this exercise, as well as the briefing and exit survey of the shoppers.

The categories and number of quotes approved by the NCR is set out in Table 119:

Table 119: Categories of credit providers

Description	*Number*	*Additional detail*	*Specific companies to be targeted*
Housing related loans	6	3 from big bank, also incremental	Any 3 big banks + one from either: NHFS, RFS Homeloans (Pty) Ltd, SA Home Loans, RealPeople Housing
Credit cards	4	Bank cards, including microlending banks	Big Banks, African Bank, Capitec, etc
Store cards	4		RCS; Edcon; Truworths
Overdrafts	2		2 big banks
Unsecured credit	8	Personal loans etc banks, ML banks and others	Nedbank; African Bank; Capitec; RealPeople; Blue Financial Services
Short-term credit	4	Micro lenders and ML banks	African Bank, Capitec, Thutukani, Blue Financial Services
Vehicle finance	4		BMW; Toyota
Furniture	4		Ellerines; Lewis
Education and skills loans	4	Students required	Eduloan; NSFIS (National Students Financial Aid Scheme); one Bank
Total	**40**		

The mystery shopping experiences were conducted in major city centres and the details of the location of the specific branch or entity where the transaction took place is listed in Annexure A. It is important to note that in most cases only one or two branches of listed credit providers were visited. It is acknowledged that the experience of the shopper could be branch specific, rather than reflect generally on the provider's approach to consumers.

The contractor was responsible for the recruitment of the mystery shoppers based on the type of credit products covering the LSM 5-10 groups. The contractor conducted a basic screening of the selected mystery shoppers to ensure that they were credit worthy and was able to participate in the process.

Feasibility provided the contractor with a mystery shopping guide and response sheet and the contractor provided Feasibility with individual mystery shopper reports and all other supporting documents, including a de-briefing session following the completion of the exercise.

As is reflected in a summary table of the mystery shopping Table 120, obtaining pre-agreement statements and quotations proved challenging. In some cases, the shopper had to push the sales person/credit officer for the information or to obtain a quotation. In response to Feasibility's query around the lack of NCR compliant quotations, the contractor explained that a mystery shopper had to follow the flow of the events as if a "normal customer"; prompting for information as could be expected from an average consumer. In this way, the experience of a typical consumer could best be obtained. For this reason, the shoppers did not press for quotes in a specific format or for information over and above that provided by the provider.

Some 47 shops were conducted in total, resulting 10 usable quotations. The attrition rate is due to the following factors:

- All "pre-qualification approvals"– pertaining to mortgages, asset finance and educational loans - were excluded. These were for the most part indications of a person's creditworthiness and their potential to obtain credit to purchase a house, finance a car or obtain finance to study at a tertiary institution, but they did not amount to a quotation in terms of the NCA. Unfortunately no recruited shopper actually purchased a house or car, or undertook studies during the period of mystery shopping. Fourteen such shops were thus excluded
- One shop electeda cash quote for the goods in question, and was thus excluded.

This left 32 potential shops where quotes could be obtained. As is shown in Table 120, the least number of quotations were obtained for furniture (1 in 8 shops), followed by short terms credit agreements and store cards. Applications for credit from unsecured credit providers proved to be the most fruitful, with 8 shops eliciting 6 quotations.

Of the 32 useful shops: 29 providers requested proof of income and 19 requested three months' bank statement. Only 9 asked for detailed expenditure information from the mystery shopper (see Table 123).

Table 120: Mystery shopping summary

Credit type	*Number of shops*	*Credit approved*	*Compliant quote?*
Useful mystery shops			
Bank Credit Cards	4	4	1

Store Cards	5	3	1
Furniture Finance	8	5	1
Overdraft Facilities	2	2	1
Short Term Credit Agreements	5	2	0
Unsecured Credit Agreements	8	8	6
Sub-total	**32**	**24**	**10**
Pre-approval quotations			
Mortgages	6	6	n/a
Motor vehicle finance	4	3	n/a
Educational finance	4	4	n/a
Sub-total	**14**	**13**	**0**

The contractor ultimately had to appoint 34 mystery shoppers (more than the anticipated 20) to complete the work. Originally it was thought that each shopper would obtain two quotations of the same kind. This was only possible in a few cases. In several cases, mystery shoppers were "declined" on their second transaction as they had made another recent credit application (even although these were still pending).

Other reasons for expanding the number of shoppers included:

- Education and Mortgage Applications – these applications required registration at educational institutions or offers to purchase property.
- Furniture Finance - three shoppers were initially used for the four applications. The "quotes" that the mystery shoppers received were unacceptable and exercise was repeated.
- Overdraft Facilities – by definition an applicant has to have an account with a bank in order to apply for the facility and most people have a single current account
- Vehicle Finance - three shoppers were used for the four applications
- Unsecured Credit Agreements – Seven shoppers used for the eight applications.

8.3.1. The experience of the mystery shoppers

In general, credit providers were not compliant with providing quotes. From the 47 credit providers targeted only 10 pre-agreement quotations were received. The exception was quotes for personal term loans, where six out of eight attempts elicited NCR compliant quotes.

Table 121 sets out the outcomes of all the shopping experiences in more detail.

With regard to credit and store cards only two of the nine credit providers provided a quote. One was received from Standard Bank, the other from Edgars. One store opened a telephonic assessment and then referred the person to a branch to open an account, the others provided verbal information or told the shopper that once they received the card they would receive an agreement and quote. An additional enquiry again produced no additional quotations.

The initial visits to furniture stores, which one would have believed would be a relatively easy source for quotations, proved fruitless. The one credit provider provided a "price advertisement" setting out three payment options, two informed the shoppers that they do not provide quotes and the fourth application elicited a cash-price quotation. In one instance, the sales consultant reduced some of the shopper's expenses in an effort to ensure that the shopper's application was approved. Feasibility requested the contractor to conduct four more mystery shopping attempts for furniture finance quotations. The subsequent attempts were not generally more fruitful, despite the shoppers being forceful in their demands for these quotations. One shopper noted:

> *I really had to be forceful in getting the branch manager in getting me a copy [of the quote]. Their concern seems to be that if they give out quotations, people will take the quotation and use it to shop around and get a better deal elsewhere.*

Table 121: Mystery shopping experiences

Assessment Store	Assessment Type	Credit Value Applied For	Credit Value Received	Credit approved	Compliant quote	Comments/Notes on Quotations
				BANK CREDIT CARDS		
Bank1	Bank Credit Cards	R 5,000	R 30,000	Yes	Yes	Was client of bank. Quote NCA compliant. Shopper applied for R5000 but received R30 000
Bank2	Bank Credit Cards	R 20,000	R 20,000	Yes	No	Only verbal quote; application was "referred", after 2 days shopper was informed that application has been approved
Bank3	Bank Credit Cards	R 9,000	R 9,000	Yes	No	Was not client of bank. Verbal discussion & was told quote would be posted. The shopper accepted the card and has even started using it but even though she was told that she would receive all the documents by post within two weeks she has not received anything and has also not yet received any statements either for this account.
Bank4	Bank Credit Cards	R 9,500	R 9,500	Yes	No	Was not client of bank, additional loan of R17000 was also offered; credit was approved
				STORE CARDS		
Store1	Store Cards	R 1,312	R 1,312	Yes	No	Shopper was not given a quotation, as it was not part of the standard process. She had to complete an application form and was informed by sms that the application was successful. Shopper collected card at which point she was provided with a print-out of the credit available on the card.
Store2	Store Cards	R 5,000	R 5,000	Yes	Yes	
Store3	Store Cards	R 750	R 750	No	No	Telephonic application; has to visit a branch in order to open account. Incomplete process.
Store4	Store Cards	Asked what would qualify for	R 4,000	Yes	No	Shopper received sms that application was approved, no quote provided. Shopper did not go back to the store
Store5	Store Cards	Asked what would qualify for	Not provided	No	No	Shopper was told that a quotation had never been requested before and that as such one would not be provided to her. The shopper is still awaiting approval of their application.
				FURNITURE FINANCE		
Store6	Furniture Finance	Asked what would qualify for	R 50,000	Yes	No	No quote; was only told how much qualified for
Store7	Furniture Finance	R 1,299	R 10,000	Yes	No	Shopper was told that they don't give quotes, could only get information once approved. Was told that there would be a cancellation fee if shopper wants to cancel (was asked to sigh application form and contract). After shopper left the shop, salesperson calls back to say that application was approved & come back and sign forms. Salesperson reduced some of the shopper's expenses on the expenditure form in an effort to ensure that shopper got the credit approved

Assessment Store	Assessment Type	Credit Value Applied For	Credit Value Received	Credit approved	Compliant quote	Comments/Notes on Quotations
Store8	Furniture Finance	R 1,649	R 1,649	No	No	Application declined, shopper was told he was blacklisted; but application was also for once-off payment, no instalments; however the same shopper was accepted another Store an hour before.
Store9	Furniture Finance	R 1,199	R 1,199	Yes	No	Only received what is termed a price advertisement; no formal quotation provided. No formal quotation unless shopper is willing to make a purchase.
Store10	Furniture Finance	R1,500	R 1,500	Yes	No	Despite insisting on a quote - shopper was told that quotations are not allowed to be given to customers - she had to sign acceptance before anything formal would be provided to her. Moreover a deposit was demanded before a quote could be provided.
Store11	Furniture Finance	R1,999	Not provided	No	No	No quotation provided – shopper was told that his application would only be approved once a backlog of applications had been processed. No quotation or approval of the application has been received to date.
Store12	Furniture Finance	R11,487	Not provided	No	No	Only received what is termed a price advertisement; no formal quotation provided. Told that policy was no formal quotation unless shopper is willing to make a purchase.
Store13	Furniture Finance	R5,299	R 5,299	Yes	Yes	Received a "quick quotation" with a fair amount of detail but based on the provisos on the application; it is open to review from both parties and is not binding. The shopper noted: "I really had to be forceful in getting the branch manager in getting me a copy. Their concern seems to be that if they give out quotations, people will take the quotation and use it to shop around and get a better deal elsewhere"
			OVERDRAFT FACILITIES			
Bank1	Overdraft Facilities	R 1,000	R 1,000	Yes	Yes	Existing client of bank.
Bank2	Overdraft Facilities	R 5,000	R 5,000	Yes	No	Existing client of bank. Shopper was given a paper with contact details; was told that as the application was done online and no paper work was necessary.
			SHORT TERM CREDIT AGREEMENTS			
Store1	Short Term Credit Agreements	R 1,000	Not provided	No	No	Shopper was told to sign application form/contract before any assessment and/or approval could be done. Consultant said "It was policy not to disclose the approval amounts"
Store2	Short Term Credit Agreements	R 1,500	R 1,500	Yes	No	Shopper was shown a "screen shot" from the computer detailing the loan amount and repayment value but no interest rate or other detail was provided. Was told that he could read the contract but could not take it home. Credit provider still had to phone his work place to confirm employment.
Store3	Short Term Credit Agreements	R 2,000	R 2,000	Yes	No	Loan officer indicated that shopper would not receive any additional documentation regarding the application unless shopper signed & accept loan. Loan Officer provided verbal quote.

Assessment Store	Assessment Type	Credit Value Applied For	Credit Value Received	Credit approved	Compliant quote	Comments/Notes on Quotations
Store4	Short Term Credit Agreements	R 3,000	R 7,000	No	No	Loan officer refused to give the shopper a copy of the quotation from the system as he refused to sign application form. The application was not approved but shopper was told that he qualified for the loan; in fact that he qualified for R7000 – more than twice what he had applied for. Shopper refused to sign application form
Store5	Short Term Credit Agreements	R 3,000	R 3,000	No	No	Shopper was told that CP did not give quotations to anybody, this is not part of their process and no document is "allowed to leave the premises without being signed". Shopper was told that he had to accept & sign the application form before further information would be provided. Shopper refused to sign application form.
			UNSECURED CREDIT AGREEMENTS			
Bank1	Unsecured Credit Agreements	R 10,000	R 5,000	Yes	Yes	NCR compliant
Bank2	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	Yes	NCR compliant
Non-bank3	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	No	Sales person told shopper that no quote would be given because shopper did not sign the declaration agreement that she wanted the loan. No documentation was given to take home to read
Non-bank4	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	No	Was told no quote could be provided unless signed agreement
Bank5	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	Yes	NCR compliant
Bank6	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	Yes	NCR compliant
Bank7	Unsecured Credit Agreements	R 5,000	R 2,223	Yes	Yes	NCR compliant. The Mystery shopper went in with the intent of requesting a loan to the value of R5 000.The consultant indicated that the applicant would not qualify for R5000 as she has other loans and that she would only qualify for a loan of R2 223.93 (repayment calculation supporting material) Based on being eligible for a value of R2 223.93 she requested a quotation for a loan to the value of R2 000.00 (value reflected on the quotation).
Bank8	Unsecured Credit Agreements	R 5,000	R 5,000	Yes	Yes	NCR compliant

Individual Mystery Shopper Reports

It was acknowledged upfront that pre-agreements and quotes for mortgages and educational loans would be difficult to obtain, since a property has to be involved or the student must be registered with an academic institution. (See Table 122)

In the case of mortgages, six pre-qualification quotations were obtained. Unfortunately in no case was an offer to purchase made and so no quotations compliant or otherwise could be elicited.

Table 122: Mortgages, motor vehicle & educational loans

Assessment Store	Assessment Type	Credit Value Applied For	Credit Value Received	Credit approved	Compliant quote	Comments/Notes on Quotations
			MORTGAGES & HOUSING-RELATED LOANS			
Bank1	Mortgage	R390,000	R370,500	Yes	n/a	Existing client of bank. This was a home loan pre-qualification; shopper received an email notification that they qualified for the loan value
Bank2	Mortgage	R200,000	R236,738	Yes	n/a	Existing client of bank. The quote - calculation of max bond the shopper qualified for based on monthly income. No pre-agreement attached
Non-bank3	Mortgage	Pre-approval request	R273,000	Yes	n/a	Shopper did not have offer to purchase & without that bank would not give a quotation; therefore request changes to pre-approval enquiry
Bank4	Mortgage	R350,000	R320,000	Yes	n/a	Existing client of bank. Shopper did not have offer to purchase. Bank did a pre-approval (affordable loan calculation)
Bank5	Mortgage	R499,999	R499,999	Yes	n/a	Existing client of bank. Was told that original quote will be posted - still outstanding.
Non-bank6	Mortgage	R425,000	R425,000	Yes	n/a	Provisional qualification, not according to NCR forma
			VEHICLE FINANCE			
Bank1	Vehicle Finance	R228,656	R228,656	Yes	n/a	Shopper received an "application verdict"
Non-bank2	Vehicle Finance	R131,667	R131,667	Yes	n/a	Shopper attached "Offer to purchase for vehicle"
Non-bank3	Vehicle Finance	R320,000	R320,000	Yes	n/a	This was an indicative finance approval
Non-bank4	Vehicle Finance	R139,000	Unknown	No	n/a	Application incomplete; dealer approached different banks & no outcome
			EDUCATION & SKILLS LOANS			
Non-bank1	Education and Skills Loans	R 29,000	R 29,000	Yes	Yes	Quote NCA compliant, but not in proper prescribed format
Non-bank2	Education and Skills Loans	R 3,000	R 3,000	Yes	No	Quote was not attached to this application. It appears that options for the loan repayment period were verbally offered.
Bank3	Education and Skills Loans	R 50,000	R 50,000	Yes	No	Was client of bank. Was given copy of application form & received call that the loan had been approved but the shopper did not go back to the branch.
Bank4	Education and Skills Loans	R 7,500	R 7,500	Yes	No	Was client of bank. Shopper under the impression that she received a quote. The shopper was given a schedule of loan values and possible repayment periods. This effectively was a screen dump with the following text: "this customer could qualify for a loan and has been quoted for an FNB unsecured loan. *Press enter* to complete a full loan application.

Source: Individual Mystery Shopper Reports

In the case of vehicle finance, once again all we have are pre-qualification approvals, which provide an indicative amount which could be financed should the consumer purchase a vehicle. Of the four enquiries, three such offers were received, they were clearly labelled "application verdict", "offer to purchase" and "finance approval".

Regarding the overdrafts, existing clients of two banks applied for this facility and both processes appeared to be compliant, but only one shopper obtained a written quotation.

Short-term pre-agreements and quotations also proved to be difficult to obtain, and not a single quotation was received from any of the five outlets visited. In most cases the consumer was made to feel that the request for a quotation was somehow outlandish and was told that "it was not policy" to provide a quotation. Moreover, in some cases, the consumer was required to sign an application form or declaration of intent before leaving the premises. In several cases the mystery shopper refused to so and left empty-handed. Box 5 describes one experience.

Box 5: Going through the hoops

One of the "unsuccessful" shoppers who attempted applications at Blue Financial Services was required to undergo a number of "processes" not reported at any of the other providers.

For an application for R1500, the applicant shopper was required to go to the "local" police station and get a signed affidavit that confirmed his residential address (this in spite of the fact that information furnished regarding domicile was FICA compliant). The shopper complied with the request and returned to the Blue outlet. The shopper then had to have his picture and finger prints taken at Blue's offices; which he did.

After this the shopper was told that the "system says" that he needed to provide two additional pay slips which he did not have with him. This is not a standard requirement. At this point the shopper left and did not pursue the quotation further.

The shopper was left feeling as if he was a criminal and that the effort required for the application was not worth the loan value.

The experience of the shopper suggests that Blue Financial Services will not provide quotations; they will only inform the individual of the details if they actually accept the approved loan.

Of the unsecured personal term loans, six of the eight enquiries elicited NCR compliant quotations. The exceptions were Real People and Blue Financial Services, both of which required the shopper to sign documentation before releasing a quote.

8.3.2. Shopper impressions

The shoppers were asked:

- Was it was easy to obtain credit?
- Were they aware of the NCA/NCR before this experience?
- Did they feel more informed about shopping for credit after this experience?
- Did they learn for this experience?

The majority felt it was easy to obtain credit and felt more informed and about obtaining credit than in the past.

The majority of the shoppers attested to the fact that they aware of the NCA and the NCR prior to their participation in the process. In spite of this, as the number of useful quotations elicited in the process testifies, they were not necessarily effectively able to enforce their rights.

8.3.3. Affordability assessment

Table 123: Mystery shopping affordability assessment

Credit Provider	*Credit category & credit limit*	*Proof of income*	*3 Months bank statements*	*Expenditure Information*
Bank1	Credit card - R9 000	Yes	Yes	No
Bank2	Credit card - R9 500	Yes	Yes	No
Bank3	Credit card - R30 000	Yes	Yes	Yes
Bank4	Credit card - R20 000	Yes	Yes	Yes
Bank5	Overdraft - R1 000	Yes	Yes	No
Bank6	Overdraft - R5 000	No	No	No
Store7	Store card - R1 300	No	No	No
Store8	Store card - R5 000	Yes	No	No
Store9	Store card - R750	Yes	No	No
Store10	Store card - R4 000	Yes	No	No
Store11	Store card - not provided	Yes	No	No
Bank12	Personal loan - R10 000	Yes	No	No
Bank13	Unsecured - R5 000	Yes	No	No
Non-bank14	Unsecured - R5 000	Yes	Yes	No
Non-bank15	Unsecured - R5 000	Yes	Yes	No
Bank16	Unsecured - R5 000	Yes	Yes	No
Bank17	Unsecured - R5 000	Yes	Yes	Yes
Bank18	Unsecured - R5 000	Yes	Yes	Yes
Bank19	Unsecured - R5 000	Yes	No	No
Non-bank20	Short-term - R1 000	Yes	Yes	No
Bank21	Short-term - R1 500	Yes	No	No
Non-bank22	Short-term - R 2000	Yes	Yes	No
Non-bank23	Short-term - R3 000	Yes	Yes	Yes
Non-bank24	Short-term - R3 000	Yes	Yes	Yes
Store25	Furniture - R50 000	Yes	Yes	No
Store26	Furniture - R10 000	Yes	No	Yes
Store27	Furniture - R1 649	No	No	No
Store28	Furniture - R1 999	Yes	No	No
Store29	Furniture - R1 500	Yes	Yes	Yes
Store30	Furniture - R1 999	Yes	Yes	No
Store31	Furniture - R11 478	Yes	Yes	No
Store32	Furniture - R5 299	Yes	Yes	Yes
Total (32)		**Yes – 29/32** **No – 3/32**	**Yes – 19/32** **No - 13/32**	**Yes - 9/32** **No - 23/32**

Source: Individual Mystery Shoppers' Reports

The shoppers were asked to note whether or not the credit provider asked for details regarding their income and expenses and what documents were requested. Once again we have excluded the detail of those mystery shopping experiences, which required an offer to purchase a house or vehicle or registration at an educational institution. The information is summarised in Table 123 above.

Most of the credit providers asked for proof of income and 3-months bank statements. According to shopper reports, the vast majority of providers could not perform an evaluation of the consumer's expenses, and hence it is hard to see how an affordability assessment could have been done.

It is possible that there was weak reporting from certain of the shoppers and they may not have noted particular questions which asked for expenditure in a composite manner. Moreover, providers may be applying an assignment of expenditure based on their scoring system or rule of thumb (which arguably may be as as effective as some of the self-disclosure from clients). Nonetheless, the level of apparent non-compliance regarding affordability assessment by many providers seems of concern and needs to be more closely examined by the NCR.

8.3.4. Explanation of cost and credit insurance

Table 124 summarises respondents experience as to whether or not the credit provider explained the costs of the transaction in general and whether or not the provider specifically pointed out matters regarding credit insurance.

While a majority of the providers explained the costs, less than half explained credit life specifically and only six providers explained the possibility of substitution. Part of the problem in this evaluation is that consumers were not provided with comprehensive quotations in each case and for this reason there may have been no opportunity to explain details on costing or on credit life insurance at the time of the application. Nonetheless the table suggests that consumers leave the application process without a full understanding of their repayment responsibilities and the components of this repayment.

Table 124: Explanation of cost & credit insurance

Credit provider	Credit category & limit	Explained Costs?	Explained credit insurance?	Credit insurance optional	Insurance can be substituted
Bank1	Credit card - R9 000	Yes	Yes	Yes	Yes
Bank2	Credit card - R9 500	No	No	n/a	n/a
Bank3	Credit card - R30 000	Yes	No	n/a	n/a
Bank4	Credit card - R20 000	Yes	No	n/a	n/a
Bank5	Overdraft - R1 000	Yes	Yes	Yes	No
Bank6	Overdraft - R5 000	Yes	No	n/a	n/a
Store7	Store card - R1 300	Yes	No	n/a	n/a
Store8	Store card - R5 000	Yes	Yes	Yes	Yes
Store8	Store card - R750	Yes	Yes	No	No
Store9	Store card - R4 000	No	No	n/a	n/a
Store10	Store card - not provided	Yes	No	n/a	n/a
Bank11	Unsecured - R5 000	No	Yes	Yes	Yes
Non-bank12	Unsecured - R5 000	No	No	n/a	n/a
Non-bank13	Unsecured - R5 000	No	No	n/a	n/a
Bank14	Unsecured - R5 000	Yes	No	n/a	n/a
Bank15	Unsecured - R5 000	Yes	Yes	Yes	Yes
Bank16	Unsecured - R5 000	No	No	n/a	n/a
Bank17	Unsecured - R5 000	Yes	No	n/a	n/a
Non-bank18	Short-term - R1 000	Yes	Yes	Yes	Yes
Bank19	Short-term - R1 500	Yes	No	n/a	n/a
Non-bank20	Short-term - R 2000	No	No	n/a	n/a
Non-bank21	Short-term - R3 000	No	No	n/a	n/a
Bank22	Short-term - R3 000	No	No	n/a	n/a
Store23	Furniture - R50 000	No	No	n/a	n/a
Store24	Furniture - R10 000	No	No	n/a	n/a
Store25	Furniture - R1 649	Yes	Yes	Yes	Yes
Store26	Furniture - R1 999	Yes	Yes	Yes	No
Store27	Furniture - R1 500	No	No	n/a	n/a
Store29	Furniture - R1 999	No	No	n/a	n/a
Store30	Furniture - R11 478	Yes	No	n/a	n/a
Store31	Furniture - R5 299	No	No	n/a	n/a

Source: Individual Mystery Shoppers' Reports

8.4. Evaluation of agreements

As part of the research, the NCR requested that a selection of existing agreements with consumers be evaluated in terms of their disclosure to clients.

In compiling this evaluation, we assessed 22 different credit agreements from a range of credit providers covering a variety of agreement categories:

- Small (pawn transaction, credit facility of < R15 000, or any other type except mortgage)
- Intermediate (credit facility from R15 001 to R249 999 – NOT pawn transaction or mortgage)

- Large (mortgage; or any other transaction -except pawn transaction or credit guarantee- larger than R250 000)

These agreements covered a range of different products:

- Personal loans
- In-store credit
- Overdraft facilities
- Developmental housing loans
- Mortgages
- instalment sale agreements

We were unable to review credit card agreements as insufficient information was furnished. Moreover, our analysis has been dependent on (and even hamstrung by) the completeness of the documents furnished by the NCR. Documentation was made available to the NCR by the credit providers themselves. In some cases it seems we have not received all the relevant documentation. It is not clear whether the NCR was not provided with all the information or if some went astray *en route* to us. It is difficult to effectively evaluate the documentation with some parts hidden from view. In some cases we were presented with an *ad hoc* selection of near-complete agreements - some with quotes, some with summaries, and some which may or may not have parts missing.

The objective of the exercise is to evaluate whether consumers are able to make informed choices from the agreements. Discussions around the legality, enforcement and practicalities around legal agreements are complex and it is not the purpose of this report to consider the different rules and laws, but to try and assess the contents and understand the contents of the agreements.

In terms of the definition of the NCA, a credit agreement and a credit facility meets all the criteria set out in Section 8 and 8(3) respectively. Section 93 and Regulations 30-31 set out the requirements and suggested format for small, intermediate or large agreements. Small agreements should be concise and straightforward - an example is provided Form 20.2 of the Regulations. It should be relatively easy for credit providers to adhere to this format.

Our results show some extremes – at the one end are those providers who fully comply, in both the spirit and letter of the law, and at the other end are those which do not appear to have complied with either. Bouquets go to *Teba Bank* and *African Bank* for their clear, easy-to-read, highly legible agreements. These contracts have obviously been modelled on Form 20.2. Other credit providers need to review their agreements in the light of this example. Several of the store-card providers should consider re-doing the layout of their very crowded (and unreadable) format.

Some organisations are using lengthy documents inappropriate to the value of credit extended for small loans. They are likely to intimidate the consumer, rather than inform them.

In other agreements we found that information furnished is inadequate or incompletely explained. For instance it would be better if the reference to the NCA's provisions is better described. For example, a contract states *Should you default by not making the required monthly payment, you may be charged default administration costs as envisaged in the National Credit Act.* The credit provider should expand on this. The credit provider could either refer to the specific section or describe how the costs would be calculated. In terms of default administration costs, the credit provider should state the circumstances under which the default administration costs will be charged, as well as the amounts. (Once again, adherence to the requirements of Form 20.2 is indicated.)

The requirements for intermediate or large agreements are rather more comprehensive. Regulation 31(1) states that –

> *(a) all information that is disclosed in a credit agreement must be comprehensive, clear, concise and in plain language;*
> *(b) The credit agreement may be set out in one or more documents …;*
> *(c) The lettering of the credit agreement must be legible and clear enough to ensure that it remains legible and clear if photocopied or faxed;*
> *(d) The lettering of the matters that are required to be disclosed in terms of sub-regulation (2) must be given equal prominence to the body of the rest of the document; If the quotation does not form part of the credit agreement, the information that is required to be disclosed in the quotation must be disclosed in the credit agreement on the first page of the agreement in a bordered tabular format titled 'Cost of Credit';*
> *(e) In the Cost of Credit table, the credit provider must also disclose the information prescribed in sub-regulation (2) (j) and (k).*

For the purpose of this discussion we consider an agreement to be a legal document outlining certain arrangements offered by one party to another, in this case the credit provider extending credit to the consumer, who has to choice to accept or not.

Contracts should not be viewed as weapons held in reserve to punish a wayward partner. Rather, they should be used primarily as tools for structuring relationships and memorializing or recording what the parties have agreed to do for and with each other.[5]

Even though policy makers are trying to prescribe certain formats and content, agreements are seldom user-friendly. For instance the sheer volume of information contained in some agreements is overwhelming by itself. One can also assume that most people do not read contracts carefully, especially if it has to be done in a short period of time. Moreover, our focus group research shows that most people do not understand what they read at a quick glance and that the level of financial literacy is weak. For this reason, long unwieldy documents are more likely to confuse than enable consumers.

We have not attempted a legal analysis here. The typical consumer does not have any legal background. Any illegalities are beyond the scope of this survey. We have focused on how the customer would experience the process and the extent to which the provisions of the Act have been met by the range of contracts sampled. Donning the "customer spectacles" we looked at degree to which the sample contracts met requirements in 3 main areas:

- NCR pricing requirements
  - all information fields completed
  - a clear summary page of costs
- Disclosure during the process [as apparent from documents furnished to us*]
  - Transparency: In other words has the customer obviously been included in the information processing, do they understand whythey are offered a particular interest rate, repayment structure etc.
  - Has an affordability assessment been done? Although very few indications of this were provided we have had to assume so in the absence of information that proves otherwise
  - Evidence that customer commitments or obligations have been fully explained
  - A clear statement of the total cost of the credit (not just the instalment)
- Common sense readability of the contract as per Regulation 31(1)
  - Concise, clear, plain language – avoiding Latin usage and difficult terms and unnecessary verbiage.

[5] http://schulzkelaw.com/the-purpose-of-a-contract/

- A clear, readable and reproducible font face and size for ease of reading and legibility of photocopied, faxed or e-mailed facsimiles.
- Consistency of font face & size with particular reference to additional costs and fees not being hidden in the "small print"

8.4.1. Comprehensiveness, clear, concise and plain language (Reg 31(1)(a)

Measuring the effectiveness of "plain language"[6] might be debatable as it is a fairly new concept in our legal system. Nor are there clear guidelines to assess whether a document has been written in plain language. According to Philip Stoop, plain language aims to address technical vocabulary, archaic words, overuse of passives, complex and long sentences, poor organisation and the format of documents and is therefore a valuable tool for enhancing disclosure, the value of disclosure, consumer understanding and procedural fairness.[7]

In general, it seems that credit providers have attempted to comply with the above requirements as set out in the NCA. There was little legal jargon used. However, some of the banks' contracts (*Ithala Bank* and*Kuyasa Fund)* still contain extraneous Latin terms.

Some credit providers have favoured brevity over comprehensiveness. Others have produced long documents which cover every particular of the Act but whether this has served the consumer in terms of being entirely understood is a moot point. In particular, in the case of certain bank agreements, many conditions applicable to the credit provider are provided. By covering their internal conditions together with the NCA requirements, the contract is bewildering. It would be helpful if the agreements are constructed in such a way that NCA stipulations are put together and issues around the bank's own conditions are kept separate by using the Form 20.1 format (*Teba Bank* and *African Bank* are good examples).

One cause of unnecessary (even irrelevant) length in documentation arises where a single, multi-purpose, "one-size-fits-all" contract is used for numerous products. In the samples provided to us, one of the banks *(Mercantile Bank)*

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[6] The NCA defines plain language in Section 64; Also refer to Section 22, Consumer Protection Act No. 68 of 2008.

[7] Phillip Stoop *Plain Language and Assessment of PlainLanguage* (abstract) http://www.unisa.ac.za/default.asp?Cmd=ViewContent&ContentID=24725

included all the information that did not apply to that product type and had not even drawn a line through it. A more relevant pertinent document could surely have been tailored to the product.

8.4.2. Legibility of credit agreements

In most cases, we found that the lettering of the credit agreements were hardly legible or quite fuzzy, especially in the case of copies we received. Either the font size is too small or the font face itself is not well chosen. Where a narrow font face has been used, the words and amounts (values) become fused and blurry (See copy of FNB – *Silver Cheque Account)* when it is reproduced.

8.4.3. Areas of compliance with Regulation 31(2)

In the course of checking the contracts for the qualitative criteria outlined above, it became apparent that the approach taken by different credit providers with respect to Regulation 31(2) shows enormous variation. We performed random spot-checks of the selected contracts for certain issues that emerged. This was not an exhaustive check of every clause in every contract.

The customer's right to make an informed choice is at stake where information is lacking.

Identification of type of contract*Reg 31(2)(a)* This was mostly done but not all providers have explained the type of contractual arrangement clearly enough e.g. For example, a standard document covering a range of loan types is not typically helpful to the consumer. *Landbank* categorises very clearly the specific types.

Cost of credit: Certain areas such as information regarding cost of credit Reg 31(2)*(c) (i) – (ix)* and issues around interest rate *(x) – (xii)* enjoyed widespread compliance.

Insurance contracts Reg 31(2)*(xiii) – (xviii)* This is a problem area. A number of the contracts sampled were not explicit about benefits accruing to the consumer in obtaining this service. Moreover details regarding commission and other fees were not provided. Possibly this information is shared in the policy documents, which were not furnished with the agreements. Our view is that such information should appear in the contract too.

We have concerns about the nature of insurance cover provided in Store-card applications. The option to substitute insurance offered by the credit provider with alternative insurance cover was not always explicitly made clear to the consumer. One contract stated that all cover would be lost if the account was in arrears – which may ultimately undermine the meaningfulness of the insurance. It is not clear whether an account in arrears by one day would have lost any cover.

Default administration: Reg 31(2)*(xix) – (xx); also (o) and (p*) **-** This is another area of concern. Amongst contracts examined, there was general non-compliance of one or more sub-sections. In several cases reference is made to the Act "in terms of NCA", but no further detail is given. The contract needs to be explicit about what that means for the customer, as well as the specific amount and way of calculating any applicable default admin charges. *Mercantile Bank* and *Landbank* explain concisely and clearly what ensues in the event of default, how it is remedied and the means by which costs would be calculated.

Reg 31(2)(xxi) The amounts to enforce payment were not indicated anywhere as such. Must the consumer assume that these the same as default administrative costs?

Credit bureau involvement Reg 31(2)(q) (i) – (iv) & (r) - In the longer bank agreements (*Mercantile, Nedbank, FNB*) every clause required in the Act about the involvement of the credit bureaux is found, including the address of the specific bureau to be used, but other contracts simply mention a credit bureau will be used.

Early payment option Reg31(2)(AA) **-** This is not explicitly offered in all cases – which may be an area of attention for the regulator. Since it would obviously be beneficial to the customer to pay off an account sooner than the instalments require, the customer's right to terminate (or pay early) should be highlighted.

8.4.4. Concluding remarks

The outcome of the assessment of agreements is mixed. Certain credit providers entered into both the spirit and the letter of the law in terms of compliance with the Act and the rights of the consumer.

There needs to be more detailed enforcement of such contracts, based on full provision of documentation by the regulator. While it is acknowledged that the regulator has many priorities, such evaluations could take place by means of a thematic review of a specific type of agreements, based on concerns emanating from the market.

8.5. Pricing and access survey

The survey was sent to 62 credit providers from the list provided by the NCR on 25 February for response by 18 March 2011. A total of 40 responses were received. These were interrogated and queries were raised in writing with the respondents. There was some delay in receiving responses to the queries raised from some survey participants.

The evaluation of the surveys is contained in Section 5.

8.6. Interviews with credit providers and experts

Interviews were conducted with the following credit providers and experts approved by the NCR.

Table 125: List of credit provider and expert interviews

COMPANY	*INTERVIEWEES*	*DESIGNATIONS*
Absa	Gustav Raubenheimber& Owen Sorour	Head Absa Retail & Head Credit Risk
African Bank	Johan de Ridder	CEO
BMW	Clive Prevost &ThinusNienaber	CEO & Manager Strategy, Sales and Marketing Services.
FNB	Dr ChristophNieuwoudt	Chief Risk Officer
Economist/Expert	Kirsty Laschinger	Snr Analyst, Investec
Ford Financial Services	Richard Blanden&Danie Visser	MD & Finance & Operations Manager
Edcon	Jim Slevick	Financial Services Executive
Thutukani	Mark Seymore	CEO
Bayport	Stuart Stone; Martin Freeman; Stephen Williamson	Executive Deputy Chairman; CEO & CFO
Real People Housing	Bruce Schenk & Garth Calver	CEO & Head of Credit
JD Trading	Grattan Kirk & Phillip Kruger	CEO &Director
Eduloan	Welma Fourie	Financial Manager
Economist/Expert	Dennis Dykes	Chief Economist, Nedcor Group
Sanlam	Gerrit v Heerden	Head of Retail Credit & Transactional Products
Woolworths	Doug Walker & Jose Rodriques	CEO& CVM Executive
Capitec	Jaco Carstens	Credit Manager
Lewis	Les Davies	CFO
Foschini	Messrs Meiring &Weyer	CEO & Head of Credit

Annexure A

Assessment Store	Assessment Type	City	Province	Credit Value Applied For	Credit Value Applied Received
BANK CREDIT CARDS					
Bank1	Bank Credit Cards	Johannesburg	Gauteng	R 30,000.00	R 30,000.00
Bank2	Bank Credit Cards	Johannesburg	Gauteng	R 20,000.00	R 20,000.00
Bank3	Bank Credit Cards	Durban	Kwa-Zulu Natal	R 9,000.00	R 9,000.00
Bank4	Bank Credit Cards	Durban	Kwa-Zulu Natal	R 9,500.00	R 9,500.00
EDUCATION & SKILLS LOANS					
Non-bank5	Education and Skills Loans	Cape Town	Western Cape	R 29,000.00	R 29,000.00
Non-bank6	Education and Skills Loans	Johannesburg	Gauteng	R 3,000.00	R 3,000.00
Bank7	Education and Skills Loans	Johannesburg	Gauteng	R 50,000.00	R 50,000.00
Bank8	Education and Skills Loans	Johannesburg	Gauteng	R 7,500.00	
FURNITURE FINANCE					
Store9	Furniture Finance	Johannesburg	Gauteng	Asked what would qualify for	R 50,000.00
Store10	Furniture Finance	Johannesburg	Gauteng	R 1,299.00	R 10,000.00
Store11	Furniture Finance	Pretoria	Gauteng	R 1,649.33	R 1,649.33

Assessment Store	Assessment Type	City	Province	Credit Value Applied For	Credit Value Applied Received
Store12	Furniture Finance	Pretoria West	Gauteng	R 1,199.95	R 1,199.95
Store13	Furniture Finance	Johannesburg	Gauteng	R 1,500.00	R 1,500.00
Store14	Furniture Finance	Johannesburg	Gauteng	R 1,999.99	Not provided
Store15	Furniture Finance	Durban	Kwa-Zulu Natal	R 11,487.51	Not provided
Store16	Furniture Finance	Durban	Kwa-Zulu Natal	R 5,299.99	R 5,299.99
HOUSING RELATED LOANS					
Bank17	Housing Related Loans	Johannesburg	Gauteng	R 370,500.00	R 370,500.00
Bank18	Housing Related Loans	Johannesburg	Gauteng	R 200,000.00	R 236,738.75
Non-bank19	Housing Related Loans	Johannesburg	Gauteng	Pre-approval request	R 273,000.00
Bank20	Housing Related Loans	Johannesburg	Gauteng	R 350,000.00	R 320,000.00
Bank21	Housing Related Loans	Cape Town	Western Cape	R 499,999.00	R 499,999.00
Non-bank22	Housing Related Loans	Pretoria	Gauteng	R 425,000.00	R 425,000.00
OVERDRAFT FACILITIES					
Bank23	Overdraft Facilities	Johannesburg	Gauteng	R 1,000.00	R 1,000.00
Bank24	Overdraft Facilities	Johannesburg	Gauteng	R 5,000.00	R 5,000.00

Assessment Store	Assessment Type	City	Province	Credit Value Applied For	Credit Value Applied Received
SHORT TERM CREDIT AGREEMENTS					
Non-bank25	Short Term Credit Agreements	Pretoria	Gauteng	R 1,000.00	Not provided
Bank26	Short Term Credit Agreements	Durban	Kwa-Zulu Natal	R 1,600.00	R 1,600.00
Bank27	Short Term Credit Agreements	Cape Town	Western Cape	R 1,500.00	R 1,500.00
Non-bank28	Short Term Credit Agreements	Durban	Kwa-Zulu Natal	R 2,000.00	R 2,000.00
Bank29	Short Term Credit Agreements	Pretoria	Kwa-Zulu Natal	R 3,000.00	R 8,000.00
Non-bank30	Short Term Credit Agreements	Pretoria	Gauteng	R 3,000.00	R 7,000.00
STORE CARDS					
Store31	Store Cards	Durban	Kwa-Zulu Natal	R 1,312.00	R 1,312.00
Store32	Store Cards	Johannesburg	Gauteng	R 5,000.00	R 5,000.00
Store33	Store Cards	Telephonic Application	Telephonic Application	R 750.00	R 750.00
Store34	Store Cards	Johannesburg	Gauteng	Asked what would qualify for	R 4,000.00
Store35	Store Cards	Johannesburg	Gauteng	Asked what would qualify for	Not provided
UNSECURED CREDIT AGREEMENTS					
Bank36	Unsecured Credit Agreements	Johannesburg	Gauteng	R 10,000.00	R 5,000.00

Assessment Store	Assessment Type	City	Province	Credit Value Applied For	Credit Value Applied Received
Bank37	Unsecured Credit Agreements	Johannesburg	Gauteng	R 5,000.00	R 5,000.00
Non-bank38	Unsecured Credit Agreements	Pretoria	Gauteng	R 5,000.00	R 5,000.00
Non-bank30	Unsecured Credit Agreements	Pretoria	Gauteng	R 5,000.00	Unknown
Bank40	Unsecured Credit Agreements	Durban	Kwa-Zulu Natal	R 5,000.00	R 5,000.00
Bank41	Unsecured Credit Agreements	Cape Town	Western Cape	R 5,000.00	R 5,000.00
Bank42	Unsecured Credit Agreements	Cape Town	Western Cape	R 5,000.00	R 2,223.93
Bank43	Unsecured Credit Agreements	Durban	Kwa-Zulu Natal	R 5,000.00	R 5,000.00
VEHICLE FINANCE					
Bank44	Vehicle Finance	Johannesburg	Gauteng	R 228,656.00	R 228,656.00
Non-bank45	Vehicle Finance	Durban	Kwa-Zulu Natal	R 110,100.38	R 110,100.38
Non-bank46	Vehicle Finance	Cape Town	Western Cape	R 320,000.00	R 320,000.00
Non-bank47	Vehicle Finance	Cape Town	Western Cape	R 139,000.00	Unknown