

National Credit Act nudges credit market in the right direction

For Immediate Release

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The advent of the National Credit Act (NCA) has had a profound impact on the credit market. This became evident in the outcome of research commissioned by the National Credit Regulator (NCR) on the impact of the NCA on the granting of consumer credit, with particular emphasis on pricing and access.

Gabriel Davel, CEO of the NCR, comments that the research shows that access to credit has improved in both numbers and book value since 2002 when the number of active accounts was 20 million. This survey has revealed that the total has grown to about R32 million accounts by end of June 2008.

The research also revealed that one of the areas in which the NCA has had the most pronounced impact on pricing is in relation to what were previously called micro loans.

“Prior to the NCA, these were governed by an exemption to the Usury Act, which left the pricing of all micro loans (defined as loans up to a value of R10 000 for a term of up to 36 months), uncapped. The study indicates that the average price of a R1 000 one-month loan has decreased significantly between 2002 and 2008. The range in pricing has also narrowed dramatically” said Dr Hawkins of Feasibility who was responsible for the study.

Davel notes that an important factor is that the consumers now have access to a greater range of alternatives. The NCA permitted a change in the credit market and consumers who may previously only have had access to a micro loan, probably now also have the option of a credit card or personal loan. Obviously, this implies that over-indebtedness becomes a bigger threat, which reinforces the importance of affordability assessments and application of the reckless lending rules.

In the case of furniture loans and store cards - both of which are readily accessible to the low to middle income consumer - there has also been a decline in prices.

The historical data for motor vehicle loans and mortgages is sparse, but the results suggest that the average asset loan value for a motor vehicle loan of R225,000 was priced some 1.1% above prime in 2008. This appears to be a lower mark-up than in 2002 and 2006. In the case of mortgages, the few historical observations suggest a marginal decline in pricing since 2006.

The survey of 59 of the country's key providers suggested that about R1.058 trillion of credit had been provided (as of the end of June 2008). The biggest share was the R729.5 billion (69 %) attributed to mortgages, followed by R176 billion (17 %) attributed to asset finance (loans for motor vehicles).

The study, carried out by FEASibility, also shows that the introduction of the NCA has changed the consumer credit market in a number of ways, not least by integrating the previously capped usury market with that of the uncapped exempt market. A major objective of the NCA was to improve a lot of lower income groups, and it appears to have made progress in this area.

Another key finding of the research is that providers surveyed by FEASibility said that the NCA had played a key role in levelling the playing field in terms of more consistent offers of credit, improved transparency and better comparability.

In the interviews, the vast majority of providers mentioned that they used credit bureaux data in their scoring. This use was also apparent in the mystery shopping exercise, where some applicants were turned down on the basis of the credit bureaux scores, however, the mystery shopping exercise indicates that the benefits of improved disclosure have yet to be generally experienced by consumers as it indicated that providers are inclined to avoid presenting quotations as required by the NCA. "This will be one of the focus areas for the NCR" says Davel.

Another positive impact of the NCA, according to the study, is that providers reported that the NCA had slowed down the extension of risky credit. Since June 2007, some providers had experienced a lower rate of new account acquisitions. This was attributed to the higher rejection rate, the requirements for affordability assessments, and providers' own risk aversion in this particular phase of the economic cycle.

Given the income distribution in the country, it is not surprising that the distribution of credit remains skewed. Low-income individuals earning less than R1,825 per month (an estimated 8.6 million people) have limited access to credit. Their credit is usually limited to unsecured home loans, furniture loans, store cards and short-term loans, and collectively represents about one per cent of the total credit extended to households in value terms. In volume terms, based on the number of accounts, store cards is the most common credit instrument, followed by credit cards and personal loans.

Notes to editors

There are certain important differences between the FEASibility survey data, the South African Reserve Bank (SARB) and the NCR data. The Reserve Bank publishes data collected from registered banks only, while the latest NCR release covers the Top 45 providers of bank and non-bank consumer credit. The SARB figures on household credit thus exclude non-bank providers and make up around 82% of the NCR data. This suggests that non-banks provide around 18% of formal credit (in terms of value) to South African consumers. The corresponding figure for 2002 was around 11%.

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