Pricing of and Access to Consumer Credit

A review of the impact of the National Credit Act one year after its implementation

Research Report Summary

June 2009

National Credit Regulator

Feasibility
Clarity & Strategy through Economic Research

Prepared for the National Credit Regulator by Feasibility (Pty) Ltd

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A report has been prepared under the mandate of the National Credit Regulator, but has been independently researched, and does not necessarily reflect the views of the regulator. This is a summary of the research report which was submitted to the NCR for public consumption.

Contents

Introduction

A little more than a year after the implementation of the National Credit Act (NCA) in June 2007, FEASIBILITY conducted research for the National Credit Regulator (NCR) on the impact the NCA was having on the granting of consumer credit.

Particular attention was paid to pricing and access issues. The resulting research involved surveys, interviews, quotations from mystery shoppers and desktop research. An important part of the research involved a survey of 59 of the country's main providers of consumer credit. By the end of June 2008 they had provided over a trillion rand of credit.

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 for micro-loans.

It is not surprising then, that the NCA has had the most pronounced impact on pricing in the area of micro-loans. The results of this study indicate that the average price of a R1 000 one-month loan has fallen from more than 250% p.a. in 2006 to 93% p.a. in 2008. There have also been price reductions in other credit categories.

Access to credit has improved - as measured by the increase in the number of accounts and the size of the credit market book. The survey of the 59 providers revealed that the number of accounts had grown from 20 million in 2002 to about 32 million by end of June 2008. The value of the book had grown from around R360 billion in 2002 to just over R1 trillion at the end of June 2008.

As for the distribution of credit, there is evidence that individuals in the lowest income band still have limited access to credit. However, the expansion of the number of store cards as well as the reduction in the pricing of store cards in recent years, together with the moderation in the pricing of furniture credit suggest improved quality of access for the low-middle income consumer.

Providers said that the NCA had played a key role in levelling the playing fields in terms of more consistent offers of credit, improved transparency and better comparability. Some voiced a concern about misleading advertising. The NCR has the mandate to act in such areas and has already begun to do so.

The summary report sets out some of the details of the findings related to access, pricing and competition. Thereafter, the highlights of the analysis of each of the credit categories - more fully dealt with in the complete report - are provided.

The FEASIBILITY survey data should be seen as something distinct from either the South Africa Reserve Bank (SARB) or NCR data. The SARB publishes data collected from registered banks only, while the latest NCR release incorporates the Top 45 providers of 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.

It is difficult to measure the impact of the NCA on both the pricing and distribution of credit because credit providers have not, historically, been required to report on such variables and previous attempts at measurement have not always been consistent.

Nevertheless, by incorporating some of the data contained in earlier research - such as the 2003 FEASIBILITY study, research by the Micro Financial Regulatory Council (MFRC) in 2004, and the FRISK study of 2007 - it has been possible to estimate trends.

Access to credit

Access to credit has improved in terms of both numbers and book value since 2002, when the number of active accounts was around 19.8 million. The survey of the 59 providers revealed that this total had grown to about 32 million by end of June 2008.

Of the 32 million active accounts, the biggest single category was store cards – which amounted to 11.7 million active accounts (or 36% of the total). Credit cards are the next most significant category in terms of number of accounts (18.9%), with mortgages making up six per cent of the total number of accounts. As will be seen below, the number of motor vehicle accounts has almost doubled over this period, to 1.77 million accounts.

In terms of value, the aggregate book is R1.058 trillion, of which mortgages make up by far the largest share – some 70% of the value of all consumer credit. Asset finance (typically for motor vehicles) accounts for around 17% of the value of all loans.

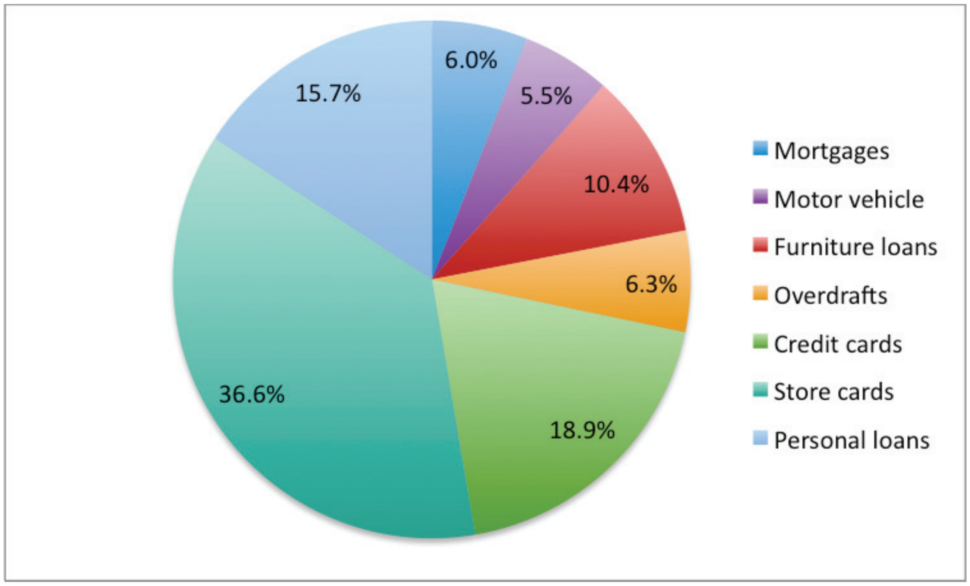
The 32 million active accounts (at the end of June 2008) can be divided into the following categories, with the book value and number of accounts given in brackets:

- The mortgage market (R730 billion, 1.9 million accounts)
- Motor vehicle finance (R176 billion, 1.8 million accounts)
- Overdraft facilities (R37 billion, 2 million accounts)
- Credit card facilities (R37 billion, 6 million accounts)
- Personal loans (R36 billion, 5 million accounts)
- Store card facilities (R14 billion, 11.7 million accounts)
- Furniture loans (R12 billion, 3.3 million accounts)
- Small business loans (R12 billion)
- Unsecured home loans (R63 million, 4000 accounts)

The role of the NCA in the improvement in access can probably be described as incremental and supportive to cyclical and structural factors in the market. Some of the potential impacts of the NCA have probably not yet played out – moreover - the NCA exerts both positive and negative influences on the access to credit. While the lifting of the usury cap has allowed providers to offer credit to those who could not profitably have been served before, the NCA now requires some form of affordability assessment, which can inhibit the granting of credit. It was therefore not altogether surprising that the providers reported an increase in rejection rates since the implementation of the NCA and that this was largely due to the impact of the affordability criterion.

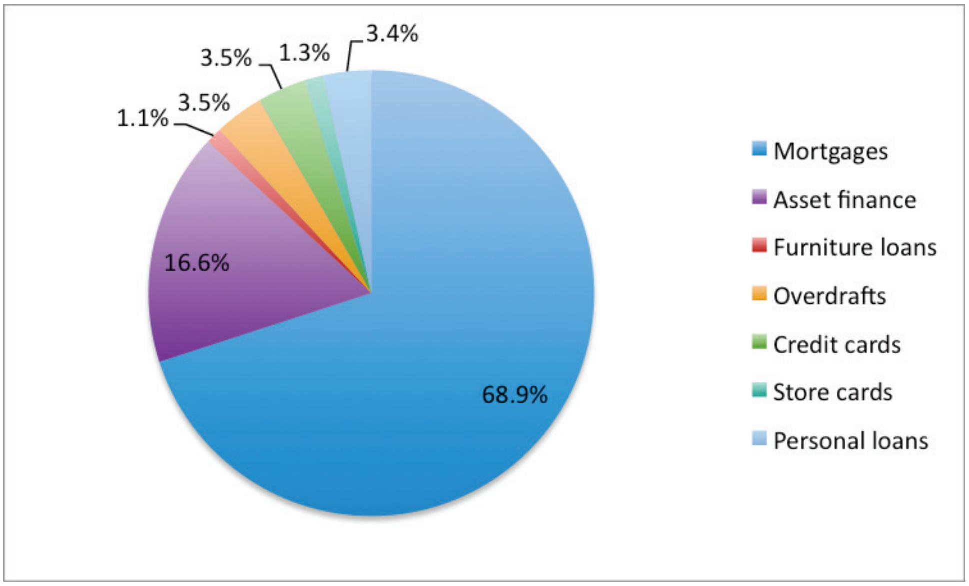
Since June 2007, some providers had experienced a lower rate of new account acquisition. This was attributed to the higher rejection rate, the more rigorous application process, and providers' own risk aversion in this particular phase of the economic cycle.

Number of accounts (as a % of the total)



Source: FEASIBILITY Survey 2008

Market share (Value as a % of the total book)



Source: FEASIBILITY Survey 2008

Pricing of credit

Evaluation of pricing revealed that maximum fees were often being imposed by providers, but that the limits permitted by the NCA were in general being observed.

The NCA has changed the consumer credit market in a number of ways, particularly by integrating the previously capped usury market with that of the uncapped market. Because credit providers have not always been required to report on certain variables, it is difficult to measure the extent of the impact. It is, nevertheless, possible to estimate trends in the pricing of some product categories.

An attempt was made to calculate the weighted Annual Percentage Rate (APR) for each of the categories. The APR combines interest costs, initiation costs, and monthly service fees, which may or may not include insurance costs. The spreads vary with category, provider and size of loan. The weighted APR takes into account the market share of the respondents, calculated here as the share of the reported book.

The NCA has had the biggest impact on pricing in the field of micro-loans. Prior to the NCA these were governed by an exemption notice to the Usury Act, which left the pricing of all micro-loans, defined as loans up to a value R10 000 for a term of up to 36 months, uncapped. As a rule of thumb, these used to be priced at 30% per month for one-month loans (equating to 360% per annum), while longer term micro-loans typically had prices well in excess of 100% per annum. The study indicates that the average price of a R1 000 one-month loan has fallen from more than 250% per year (in 2006) to 93% in 2008.

When indexed against the historical movements in the prime rate over this period, the reduction in the price of short-term credit is particularly marked since the NCA.

The range in pricing of short-term credit has also narrowed dramatically, with the difference between the highest and the lowest price loans dropping from 300% p.a. in 2004 to 112% p.a. in 2008. This suggests increased competition in this market segment.

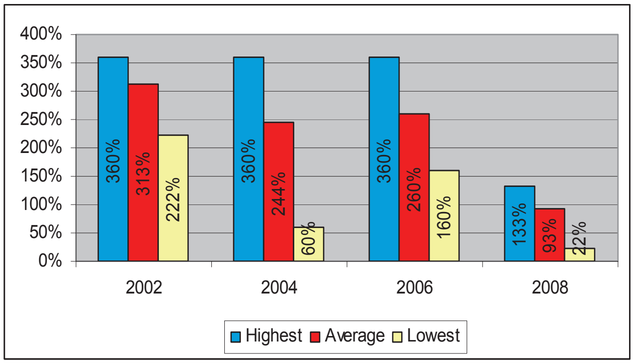
A fall in the price of furniture loans is also evident. The average APR inclusive of credit life insurance for a R5 000 furniture loan dropped from 74% p.a. in 2002 to 60% in 2008.

The cost of a R1 500 store card facility declined marginally between 2006 and 2008. When judged against the prevailing prime overdraft rate, the effective reduction is probably more significant. The weighted average APR declined from about 32% p.a. to 29% in 2008. There was, however, a marked decline in the lowest rate available – suggesting that more pronounced price competition could be in the offing for this market segment.

The pricing of mortgages and asset finance has typically been quoted with reference to the prime rate of interest, and there is little historical information to make easy comparisons. However, in 2008 the weighted average asset finance pricing for a vehicle valued at R225 000 was about one per cent above prime (excluding insurance, but including fees). This seems to be somewhat lower than the rates in earlier years.

The weighted average price for mortgages of R250 000 appears to be slightly lower in 2008 (one per cent less than the prime rate) compared with 1.3% above prime in 2006.

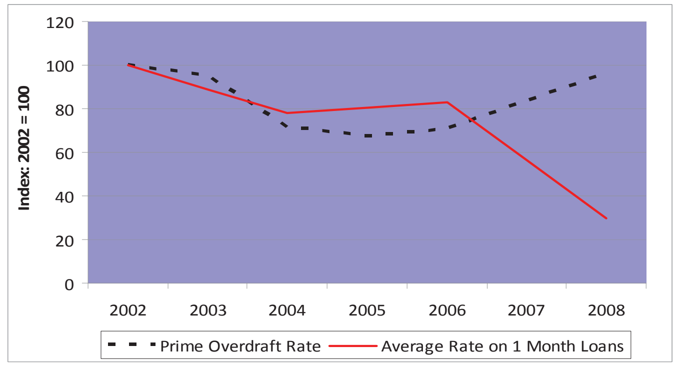
Short term loans – lower prices
(Average inclusive price for R1000 one-month loan)



Source: FEASIBILITY, 2003, MFRC 2004, Frisk, 2007 and FEASIBILITY 2008

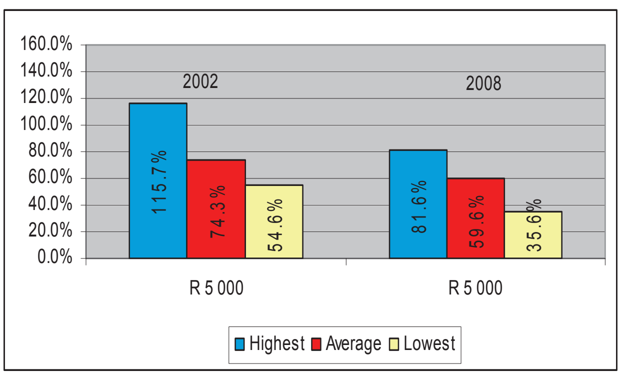
Note: Data for 2004 is for a one-month loan of R750.

Short term loans historical pricing relative to prime rate of interest



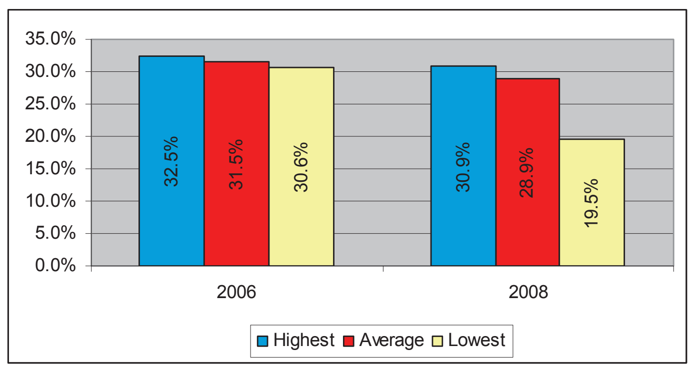
Source: FEASIBILITY, 2003, MFRC 2004, Frisk, 2007 and FEASIBILITY 2008, SARB

Furniture loans – narrower spread for R 5000 loan



Source: FEASIBILITY, 2003 and FEASIBILITY Survey 2008

Store cards – slightly lower pricing trend
(R1500 facility)



Source: Frisk, 2007 and FEASIBILITY 2008

Distribution of credit

Given the income distribution in the country, it is not surprising that that the distribution of credit remains skewed.

Estimates of access to credit suggest that low income individuals earning less than R1 825 per month (an estimated 8.6 million people) have limited access to credit (around 1.4% of the total credit disbursed). Their credit is limited to unsecured home loans, furniture loans, store cards and short-term loans, and collectively represents close to one per cent of the total credit extended to households. These forms of credit tend to be unsecured and are substantially more expensive than other forms of credit available to higher income groups.

The 13.8 million individuals in the LSM 4 to 6 categories earn incomes between R1 825 and R6 150 per month, and have access to an array of credit products. They account for around 18.8% of the total credit extended. They have access to an estimated 18.8% of the total value of credit extended to South African households. In particular, this group of consumers has been targeted by credit and store card facilities offerings, which may have lead to some substitutions away from the credit products more traditionally marketed to them, namely personal loans and furniture loans. This substitution is rational, given relative prices, however the limits on these facilities tend to be low, and so loans for large ticket items will still be necessary.

The roughly 6.8 million South Africans in the LSM 7 to 9 categories earn between R6 150 and R16 900 per month. They typically have access to all of the different types of consumer credit products, and collectively account for around 44% of the total credit extended to households.

Individuals in LSM 10 earn in excess of R16 900 per month, and number around 1.9 million individuals. The credit extended to them represents almost 36% of the total.

Market dynamics

In the period under review, there was some evidence of increasing debt-stress among clientele, as reflected in the rising numbers of bad debts and arrears. Some said this was an adjustment to the norm after three exceptionally good years, and the consequence of increases in the cost of living. Others said that the credit-push by suppliers prior to the NCA had contributed to this.

Providers raised concerns about the debt review process and the extent to which it is a constructive process for consumers. They pointed out that consumers' financial affairs are often complex and that extending terms does not always constitute a solution. Several providers expressed the view that the process may be doing little more than buying time for certain consumers. This delay may ultimately impair the value of the asset – and hence the provider's security. While the number of applications for debt review has grown steadily, it remains a fraction of the delinquent accounts of any of the providers interviewed.

Impact on competition in the market

The mystery shopping exercise revealed that although the NCA aims to improve comparability and disclosure for consumers, there is still a large gap between the intentions of a head office and what actually transpires on shop floors.

In general, it was more difficult to come away with a quotation than in the past.

We have to bear in mind that the NCA requires a sophisticated assessment in order for a pre-agreement quotation to be produced. This requires determination on the part of the shopper and belief on the part of the credit provider that he or she is dealing with a credible customer.

Moreover, if the credit provider – because of existing demand - can avoid the production of quotations, he or she may be inclined to do so. In some cases, mystery shoppers were refused quotations. Only a few provided consumers with explanations of the pricing breakdown and the reasons given for rejection were somewhat cryptic. A number of the quotations explicitly invoked Section 92(7) of the NCA, which obviates the need to comply with the requirements of pre-agreement disclosure. Others failed to comply with the requirements of the NCA, such as quoting on a repayment period of 12 months for credit cards. The mystery shopper exercise suggests that the benefits of improved disclosure have yet to be generally experienced by consumers.

Providers felt that it was too early to pronounce on the effect of the NCA on competition in their markets. However, they said that the NCA was likely to erode the distinctiveness of sub-markets – given that they are all governed by the same disclosure requirements. It is now, for example, easier to compare the pricing of furniture loans with that of credit card facilities. Providers saw this as a potentially positive outcome for competition in the market, but it remains to be seen whether or not consumers will benefit from this.

Bringing the agreements previously dealt with under the Usury Act, the Credit Agreements Act and the Exemption to the Usury Act within the remit of NCA has led to a number of changes with respect to pricing and repayment term of loans.

Moreover, the requirement for deposits in the case of motor vehicle and furniture sales has been dropped, as have associated maximum terms for these loans. This has affected the structure of these loans. Other innovations introduced since June 2007 include the conversion of micro-loans to credit facilities, attaching lay-bye features to store cards and introducing new types of housing loans.

Mortgage highlights

The twelve credit providers in our survey all originate loans secured by the housing asset.

At the end of June 2008, the value of the debtor's book of the providers surveyed was R730 billion. This represented 1.9 million accounts including partial mortgages and second mortgages.

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 satisfy the affordability assessment of the provider. The average term of a mortgage is 232 months (or 19.3 years).

Fifty five per cent of the loans outstanding in June 2008 were for mortgages and home loans of values less than R300 000. Loans of between R300 000 and R1 million, made up 38% of the 1.91 million mortgage accounts, while loans of more than R1 million outstanding made up only 6.8% of the total.

The survey results indicate that the total number of mortgages advanced by respondents increased by over 186 000 over the year to June 2008. Of this, the vast majority were associated with mortgages with values of between R300 000 and R1 million. The number of outstanding mortgages advanced at the lower end (with values of less than R300 000) and the upper end (values above R3 million) both declined between June 2007 and June 2008.

In interviews, most mortgage providers indicated that in the current economic climate, they were encouraging consumers to provide a deposit, or provide a higher deposit than before.

The survey reveals that while most providers charge both an initiation fee and a monthly service fee, relatively few charge the maximum permitted. Although monthly charges are pervasive, initiation fees are markedly below the permitted value for the lowest mortgage size surveyed, R280 000.

If the total number of housing accounts surveyed is *x*, and the total number of accounts for any provider is *t,* then the "market" share of such a provider is *t/x* (expressed as a percentage). Amongst the providers surveyed, the share of the surveyed market ranged from a negligible amount (one provider had slightly more than 1 000 accounts) to more than 28% (with around 530 000 accounts). This share of the surveyed book is used to calculate weighted averages – to provide an indication of each provider's influence on the pricing in the market.

The weighted annual percentage rate (APR) across all providers surveyed - exclusive of insurance - spans only 30 basis points - from prime minus 100 basis points in the case of lower value loans (14.5%), to prime less 130 basis points in the case of higher value loans (14.2%).

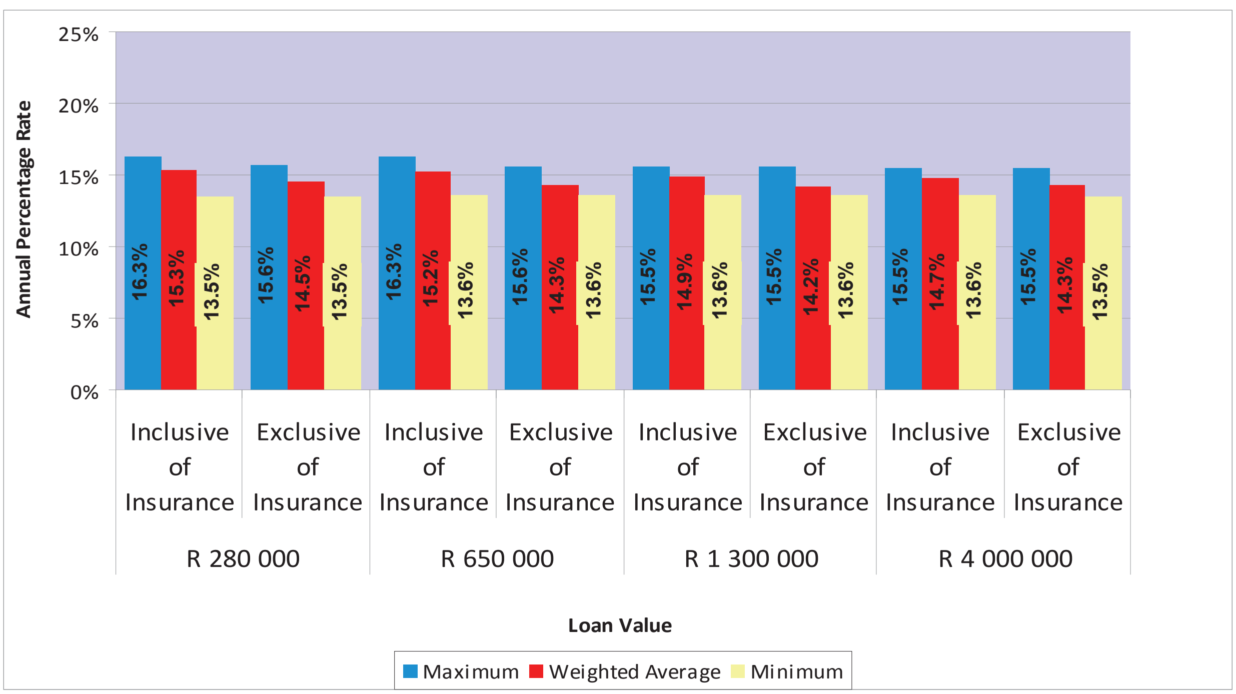
The weighted APR – inclusive of credit life insurance – for all mortgage sizes canvassed, ranges from 14.7% (for the largest mortgages) to 15.3% (for the smallest mortgages) per annum.

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 availability of stock at the lower end may well constrain the lower income households to this form of credit. The greatest share of mortgage credit is obtained by consumers in LSM 7 to 9 (earning more than R6 150 pm).

Mortgage characteristics : Size, term and minimum income (around R300 000)					
Provider	Average value granted	% of loans with flexible interest rates	Average term of loan (months)	Minimum required monthly income for average loan value granted	Ratio of min income to average loan size
Provider 1	R 45 829	..	..	..	..
Provider 2	R 129 081	99%	221.0	R 6 478.00	5.0%
Provider 3	R 133 730	96%	240.0	R 6 118.35	4.6%
Provider 4	R 134 229	89%	240.0	..	..
Provider 5	R 149 921	97%	259.0	R 6 287.03	4.2%
Provider 6	R 164 942	95%	206.0	R 6 097.70	3.7%
Provider 7	R 168 370	99%	240.0	R 6 832.80	4.1%
Provider 8	R 183 054	..	240.0	R 10 000.00	..
Provider 9	R 203 619	99%	213.4	..	..
Provider 10	R 209 529	100%	180.6	..	..
Provider 11	R 216 541	98%	240.0	R 10 000.00	4.6%
Provider 12	R 316 319	99%	280.0	..	..
Averages	**R 171 264**		**232.7**	**R 7 402**	**4.4%**

Source: FEASIBILITY Survey, 2008 (.. denotes absent value.)

Mortgages Pricing of various loans sizes
– inclusive and exclusive of insurance



Motor vehicle finance highlights

Eleven respondents to our survey originate loans secured by motor vehicles or similar assets.

The value of the debtor's book of the providers surveyed was R176 billion, at the end of June 2008, representing 1.77 million accounts. Their relative share of the surveyed market ranges from 0.1% to 37% of the combined book.

Around 46% of the loans outstanding in June 2008 were for loans of values between R100 000 and R300 000. Loans of less than R60 000 and between R60 000 and R100 000, made up around 24% each, while loans of more than R300 000 outstanding made up less than six per cent of the total.

According to providers' returns, some 142 000 new asset finance loans were originated in the year ending June 2008. Of this, the vast majority were associated with values of between R100 000 and R300 000. The number of outstanding loans advanced at the lower end (with values of less than R60 000) declined significantly between June 2007 and June 2008. This probably reflects repayment and account closure of smaller values, as well as a shift to higher value or new car sales.

From an access perspective, the weighted minimum income required in order to secure asset finance for an entry-level (or cheaper second-hand) vehicle, with an average price of R42 919 is around R6 753 per month.

In general, the term extends as the value of the loans size increases. The data show that for loans up to R60 000, the average term is 47.9 months and for loans of between R100 000 and R300 000, the average term is 56.7 months.

With the exception of a single niche provider (with less than 0.1% of the market), all respondents charge the maximum initiation fee permissible under the NCA. The niche provider and a provider to high net worth individuals are the only ones not charging the maximum monthly fee. 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. This is likely to facilitate price comparison by consumers.

The weighted APR - exclusive of insurance - across all providers surveyed spans only 180 basis points - from 17.9% for lower value loans, to 16.1% in the case of higher value loans.

The weighted APR – inclusive of credit life insurance – for all motor vehicle loans surveyed ranges from 19.6% (for loans of R45 000) to 16.3% per annum (for loans of R400 000).

Since the implementation of the NCA, providers are no longer restricted to a 60-month term. Survey responses suggest that some providers had an average term of 68 months for loans of R100k to R300k. Extending the term would make the payments for higher values more affordable.

In 2002, it was estimated that the value of leases and high value instalment sales for motor vehicles amounted to a book of R50.6 billion, with around 965 000 accounts. At the end of June 2008, the respondents had 1.77 million accounts and a book of R176 billion. This suggests a far higher proportion of individuals now have access to motor vehicle loans.

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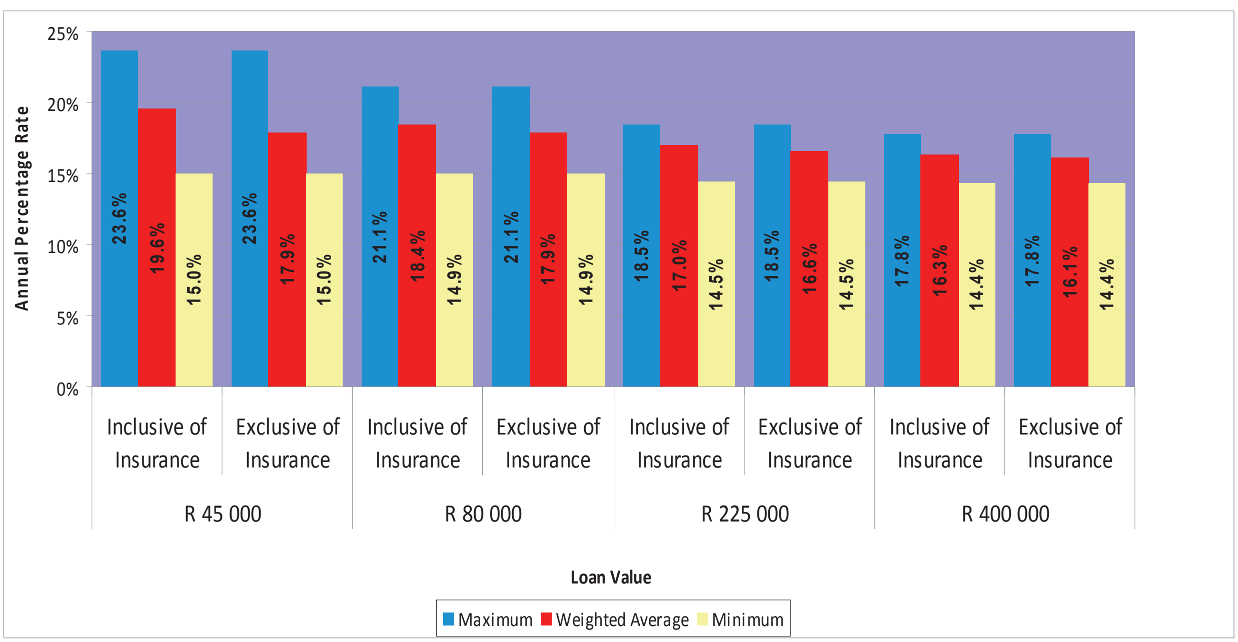
Motor vehicle loans – Average size, term and minimum income Loans between R100 000 and R300 000					
Provider	Typical (median) value granted	Average value granted	Average term of loan (months)	Minimum required monthly income for average loan value granted	Ratio of min income to average loan size
Provider 1	R 137 975	R 151 528	49.3	R 5 000.00	3.3%
Provider 2	R 176 010	R 184 013	55.6	..	..
Provider 3	R 214 736	R 234 042	56.0	R 23 592.00	10.1%
Provider 4	R 136 587	R 149 135	68.0	R 19 000.00	12.7%
Provider 5	R 140 000	R 156 343	50.0	R 28 915.84	18.5%
Provider 6	R 146 374	R 162 091	57.0	R 13 451.25	8.3%
Provider 7	R 147 050	R 162 098	58.5	..	..
Provider 8	R 144 158	R 158 547	55.0	R 15 800.00	10.0%
Provider 9	R 172 443	R 183 107	60.0	R 14 275.00	7.8%
Provider 10	R 199 979	R 199 979	58.0	R 16 400.00	8.2%
Provider 11	R 144 040	R 159 710	56.6	R 5 000.00	3.1%
Averages	**R 159 941**	**R 172 781**	**56.7**	**R 15 715**	**9.1%**

Source: FEASIBILITY Survey, 2008

Motor vehicles - Pricing, including weighted APRs for different asset loan values
(inclusive and exclusive of insurance)



Furniture loan highlights

Four furniture groups embracing nine different store brands responded to the survey.

The combined book for this product category as at 30 June 2008 was R12.1 billion, representing 3.3 million accounts. This represents a fall of some 120 000 loans relative to December 2007.

The majority of the 3.3 million loans (around 52%) as at June 2008 were for loans of between R2 500 and R8 000, with loans of R2 500 or less making up around 35% (or 1.1 million) of the total. Loans of between R8 000 and R15 000 represent 11% of the accounts, and loans of over R15 000 represent only two per cent of furniture accounts.

Terms range from 8 to 36 months. Any lengthening of the term is clearly designed to accommodate affordability of repayments. The most extreme example in our sample is the loan of around R1 467 for 36-months, which implies an instalment of about R78 pm.

The data show that initiation fees are typically charged, although these fees are generally below the permissible maximum.

Together, credit life and asset insurance add between 9.8% and 21.6% to the monthly instalment of a R5 000 loan.

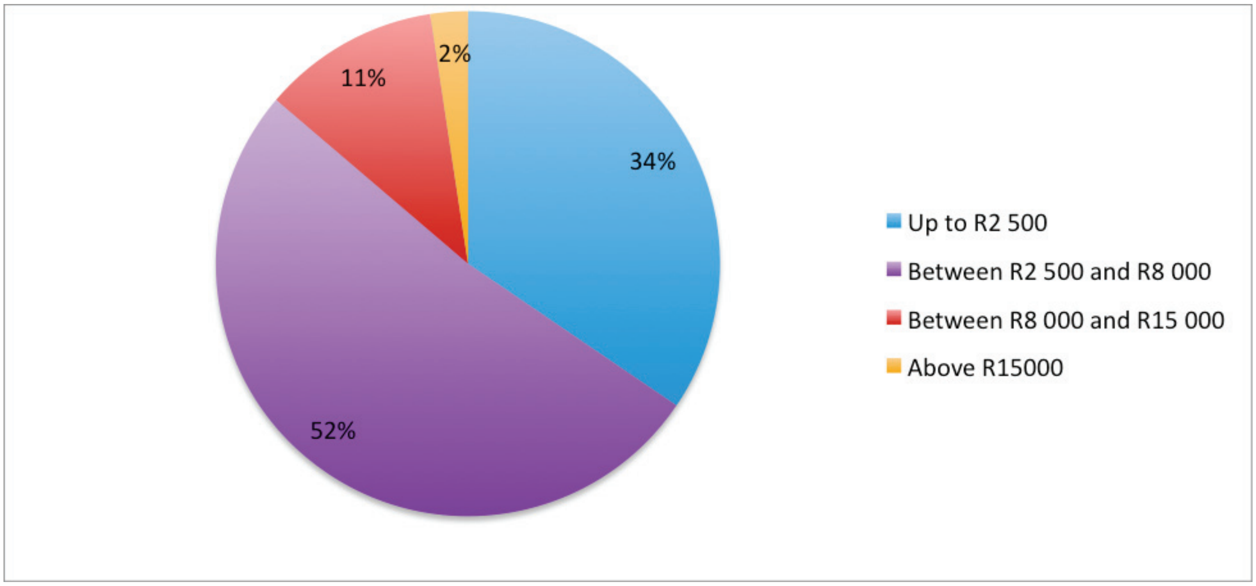
The weighted APR for furniture loans ranges from 70.3% to 54.4% (inclusive of insurance) and 41.6% to 31.1% (exclusive of insurance). This reflects the fact that regardless of facility size, credit life insurance adds substantially to the cost of furniture finance.

The charge for credit life insurance varies in its coverage. While one provider pointed out that its credit life insurance includes provision for the loss of income in addition to the cover for death and disability, this is not an industry standard.

In 2002, the book for instalment sales for furniture was estimated at R13.8 billion, comprising 1.6 million accounts. By mid 2008, the surveyed respondents had a cumulative book of R12.1 billion and some 3.3 million accounts. This suggests that while there are now more accounts (and possibly more account holders), the average value of such loans have fallen.

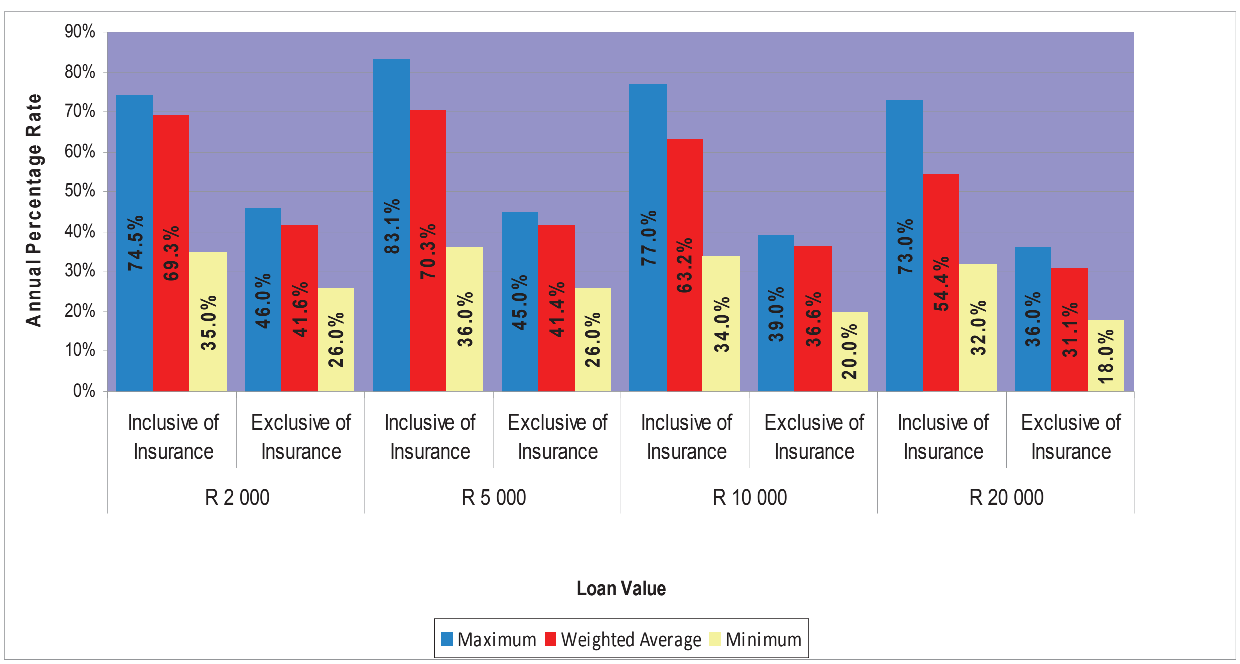
The average pricing of furniture loans has fallen somewhat – the APR inclusive of insurance for a furniture loan of R2 000 in 2002 has fallen from 78% to 70%. For a R5 000 furniture loan, where consumers were paying an average of 74% p.a. in 2002, they paid an average of 60% in 2008. In both cases, there has been a narrowing in the spread of such prices.

Furniture loans: Loan sizes
(as a % of all the outstanding loans on the books of providers)



Source: FEASIBILITY Survey, 2008

Furniture loan pricing – including weighted average
(different loan sizes, inclusive and exclusive of insurance**)**



Overdraft facility highlights

Overdraft facilities are typically linked to current accounts, which mean that providers must have banking licenses. Of the credit providers surveyed, five offer overdraft facilities, with a total value of credit outstanding at 30 June 2008 of more than R37 billion.

Of the two million overdrafts represented in the survey, 48% fell into the "up to R5 000" category. According to the providers, 240 380 new facilities were provided in the year to June 2008.

The average size of facility, less than R5 000, was R2 495, for 12-months. To qualify for an average size facility of this size, the typical client would need to have a monthly income of around R3699, or some 50% more than the facility size.

The data show that initiation fees are charged by three of the five providers, although only one of them charges the maximum level. Monthly fees are charged by all the providers surveyed.

While interest dominates the cost of overdraft facilities, one provider obtains as much as three quarters of its income on overdrafts from interest, while another derives only about 43%. The contribution of monthly fees ranges from more than 45.5% to less than 16.7% of total income from overdraft provision.

The weighted APR – inclusive of insurance - for overdraft facilities ranges from 29.7% for a R3 000 facility to 19.4% for a R25 000 facility. The APR exclusive of insurance is typically much lower for all facility sizes - with the exception of facilities of less than R3000 - ranging from 28.6% to 18.1%.

The historical access data for overdrafts are not comparable, as the SARB definitions were used, which aggregates overdrafts with personal loans, including micro-loans.

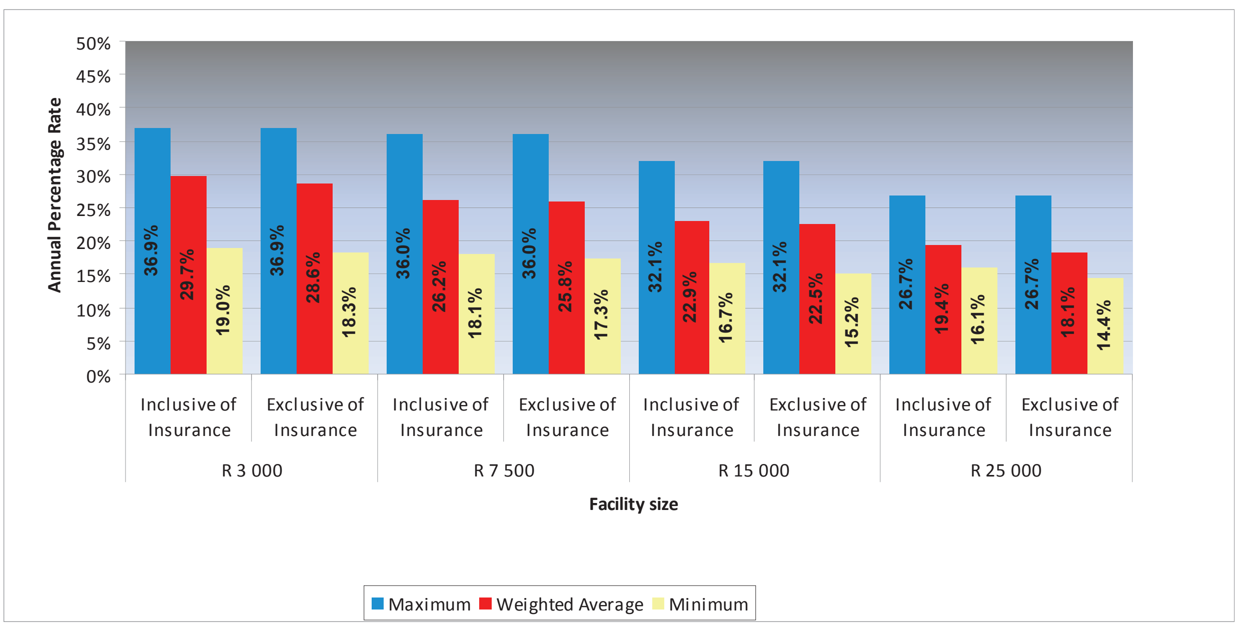
The interest rate charged for overdraft facilities has typically been benchmarked against the prime rate of interest, but there is no historical data available to compare pricing inclusive of fees.

Overdraft facility size, term and minimum income
(Facilities of R5 000)

Provider	Typical (median) overdraft value granted	Average overdraft value granted	Average term of overdraft (months)	Minimum required income for average loan value granted (as indicated above)	Ratio of min income to average loan size
Provider 1	R 3 100	R 2 969	12	R 10 386	350%
Provider 2	R 2 000	R 259	12	R 1 000	386%
Provider 3	R 3 272	R 3 091	3	R 2 000	65%
Provider 4	R 2 000	R 2 100	..	R 3 000	143%
Provider 5	R 4 000	R 4 054	22	R 2 000	49%
Averages	**R 2 874**	**R 2 495**	**12**	**R 3 677**	**147%**

Source: FEASIBILITY Survey, 2008

Overdraft facilities pricing – including weighted averages
(Different facility sizes – including and excluding insurance)



Credit card facility highlights

Collectively, the combined book of outstanding credit card debt by respondents to the survey amounted to just over R36.8 billion - as at the end of June 2008. This represented around 6 million accounts.

Around 2.2 million of these credit cards (or around 36%) were for facilities less than R3 000. In the year ending June 2008, 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 828. A typical client would need to have a monthly income of around R2 150 to qualify for the facility.

In order to accommodate lower income groups, some providers offer relatively small facilities and offer low minimum repayment terms. On average, for a facility of less than R3 000, consumers are required to pay just over five per cent of the outstanding balance to service their loan. One provider expects a minimum repayment of only three per cent

In general, the minimum average required income must exceed the value of the loan where small facilities are granted, but this does not appear to be the case where larger facilities are granted. For a facility of R39 500, the minimum income required is around R14 200.

The data show substantial variations in all types of fees, with some providers foregoing initiation fees, and others charging as much as R171 to initiate a R3 000 facility, and R855 for a R40 000 facility. Monthly service fees range from just over R5 to R57 for a R3 000 facility and from R10 to R43 for a R40 000 facility.

Credit life insurance is viewed as compulsory by three of the respondents. The rates charged range from R2.50/R1 000 to R5.90/R1 000. This can add between five and ten per cent to the APRs.

The range in APRs across providers is substantial for lower value facilities. Across the R3 000 facility, for example, APRs inclusive of insurance range from about 28% to 82%. This variance diminishes with the size of the loan; in the case of the R40 000 facilities, the inclusive APR ranges from 17% to 35%.

The weighted average APR (inclusive of insurance) declines from around 48% for a R3 000 facility to 29% for a R40 000 facility, and exclusive of insurance the range is 42% to 24%.

In 2002, it was estimated there were 4.9 million credit cards (held by individuals) with outstanding balances of some R13.6 billion. By mid 2008, respondents claimed 6 million accounts with outstanding balances of some R36.8 billion. If the 2002 estimates for credit card holders were reasonably accurate, then it is the facility size, rather than the number of accounts that has ballooned.

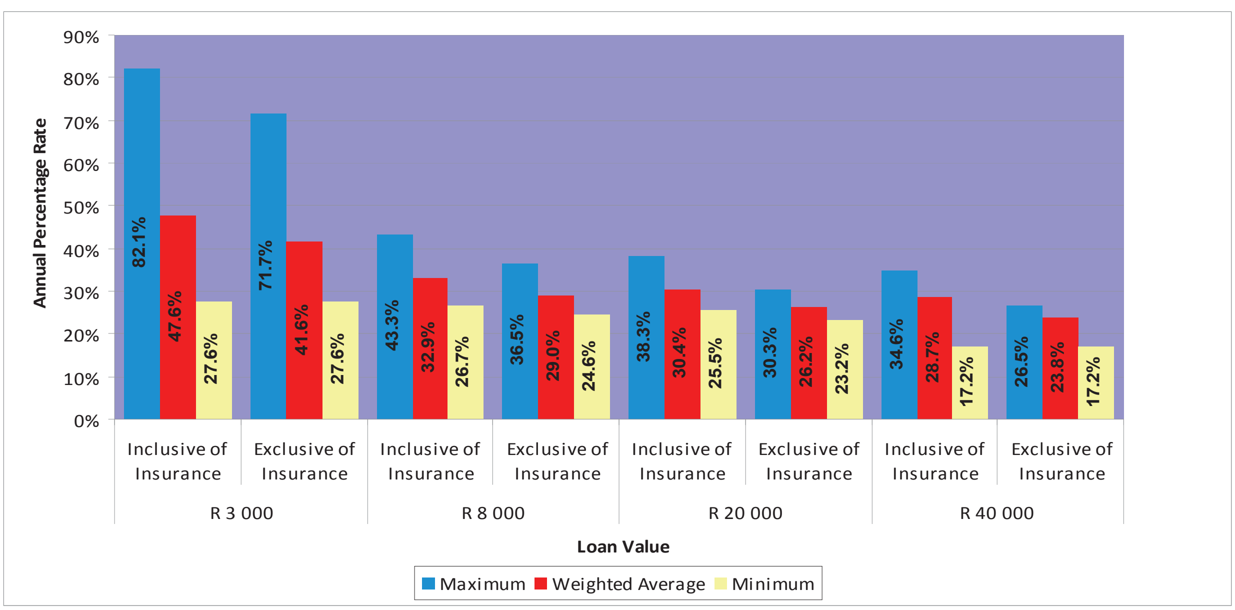
Rigorous comparison of historical pricing can not be provided as the data are not sufficiently comparable. However, the evidence suggests that for small facilities at least, the pricing has not changed significantly. This remains a product where weak pricing disclosure masks the true cost of such facilities.

Credit card facility size, minimum payment and income

Provider	Typical (median) value granted	Average value granted	Average term (months)	Min monthly repayment required (as % of outstanding balance)	Minimum required monthly income for average loan value granted	Ratio of min income to average loan size
Facility up to R3 000						
Provider 1	R 2 500	R 2 401	..	7.5%	R 750	31.2%
Provider 2	R 2 000	R 2 252	..	5.0%	R 3 000	133.2%
Provider 3	R 1 000	R 1 215	..	5.0%	R 2 000	164.6%
Provider 4	R 800	R 756	..	3.0%	R 2 000	264.6%
Provider 5	R 2 500	R 2 515	3.5	5.0%	R 3 000	119.3%
AVERAGE	**R 1 760**	**R 1 828**		**5.1%**	**R 2 150**	**117.6%**
Facility above R20 000						
Provider 1	R 30 000	R 32 424	..	5.0%	R 10 001	30.8%
Provider 2	R 40 000	R 50 830	..	5.0%	R 30 000	59.0%
Provider 3	R 28 710	R 36 101	..	3.0%	R 6 000	16.6%
Provider 4	R 46 800	R 47 902	1.2	5.0%	R 22 333	46.6%
Provider 5	R 28 000	R 30 436	12.0	5.0%	R 2 500	8.2%
AVERAGE	**R 34 702**	**R 39 539**		**4.6%**	**R 14 167**	**35.8%**

Source: FEASIBILITY Survey, 2008. Data for average term not provided by respondents.

Credit card pricing – including weighted APRs



Store card facility highlights

Eight respondents to the survey provide store card facilities. Collectively, their combined book of outstanding store card debt as at 30 June 2008 was more than R14.2 billion, representing around 11.7 million accounts.

Around four million of these store cards (about 35%) were for facilities less than R1 500.

The average size of facility, less than R1 500, was R860. A typical client would need to have a monthly income of around R2 845 to qualify for the facility.

While store cards rather than credit cards are typically offered to lower income groups, the repayment terms are not as lenient as for credit cards. Most providers expect ten per cent or more to be repaid each month, and one provider expects 100% to be repaid in 55 days.

None of the providers reported the imposition of an initiation fee, and only a minority charged (small) monthly fees. In addition, credit life insurance charges were not reported. As a consequence the difference between interest rate charges and the APR will be minimal, and there will be no difference between the APR inclusive of insurance and the APR exclusive of insurance.

There is some variance in the interest rates charged by different providers within value categories, so that, for example, in the case of a R1 500 facility, the lowest rate reported was 19.5%, while the highest was 31.4%.

The weighted average APR (inclusive and exclusive of insurance) throughout the range of facilities surveyed varies little - from around 29.2% to 28.2%.

In 2002, it was estimated there were some 4.9 million store accounts, with an outstanding balance of R5.9 billion. The survey respondents cumulatively accounted for 11.7 million accounts and outstanding balances of R14.2 billion. While it is not possible to have any certainty regarding the number of card holders, it is likely that the numbers of consumers with access to this facility have increased substantially.

While there are only a few historical pricing observations, the data shows a downward shift in pricing since 2006, which suggests this market has become more competitive.

Store card facilities: Average size, minimum payment and income					
Provider	Typical (median) value granted	Average value granted	Minimum repayment	Minimum required monthly income for average loan value granted	Ratio of min income to average loan size
Facility up to R1 500					
Provider 1	R 1 100.00	R 956.46	..	R 8 866.34	927.0%
Provider 2	R 700.00	R 780.00	10.0%	R 1 000.00	128.2%
Provider 3	R 1 002.00	R 1 097.00	8.3%	R 600.00	54.7%
Provider 4	R 1 000.00	R 1 172.00	16.6%	R 2 500.00	213.3%
Provider 5	R 0.00	R 104.00	22.0%	R 1 200.00	1153.8%
Provider 6	R 1 100.00	R 1 138.00	7.5%	R 2 000.00	175.7%
Provider 7	R 976.00	R 1 009.00	10.0%	R 3 750.00	371.7%
Provider 8	R 1 000.00	R 1 102.58	100.0%	..	..
Averages	**R 859.75**	**R 919.88**	**24.9%**	**R 2 845.19**	**309.3%**
Facility between R3 000 and R8 000					
Provider 1	R 4 860.00	R 5 225.77	..	R 21 355.41	408.7%
Provider 2	R 4 000.00	R 4 560.00	10.0%	R 3 800.00	83.3%
Provider 3	R 5 314.00	R 5 010.00	8.3%	..	..
Provider 4	R 4 500.00	R 4 824.00	16.6%	R 2 500.00	51.8%
Provider 5	R 4 750.00	R 4 876.00	7.5%	R 2 000.00	41.0%
Provider 6	R 4 800.00	R 4 951.00	10.0%	R 3 792.00	76.6%
Provider 7	R 5 000.00	R 5 010.04	100.0%	..	..
Averages	**R 4 746.29**	**R 4 922.40**	**25.4%**	**R 6 689.48**	**135.9%**

Source: FEASIBILITY Survey, 2008 (.. denotes absent value.)

Store cards pricing, including weighted averages – exclusive of insurance

Personal loan highlights

Twenty three respondents to the survey provide personal loans, although only a handful provide loans across all the loan values canvassed - from R1 000 to R50 000 and more. Collectively, their combined book of outstanding personal loan debt as at 30 June 2008 was more than R36.1 billion, representing around 5 million accounts.

Almost 89% of these loans (around 4.5 million) were for loans between R1 000 and R25 000. In the year ending June 2008, some 885 000 new personal loans were originated by the respondents. Only in the category "up to R1 000" was there a contraction in the number of loans reported in the preceding year.

In the NCA environment, short-term loans are those for up to R8 000, for a term of no more than six months. For loans of up to R1 000 for a term of six months, the average loan size reported was R727. A typical client would need to have a monthly income of around R2 000 to qualify for such a loan.

For loans of up to R8 000, the average size of loan was R2 220, for a term of around five months. Subject to affordability testing, to qualify for such a loan, a consumer would need a minimum disposable monthly income of R1 300. The lowest income threshold reported by a provider for a R1 000 loan was R710, for loans of up to R8 000 for a longer term, it was R500.

In each value category surveyed, 50% or more of providers charge the maximum initiation and monthly fees permissible for each loan value, and the majority charge credit life insurance.

The maximum reported APR – inclusive of insurance - for a smaller loan was 133.8%, while the lowest was 22%. For a R50 000 loan, the maxima and minima were 43.9% and 20.6% respectively.

The weighted APR range (inclusive of insurance) extends from 70.4% for a R1 000 loan to 26.1% for a R50 000 loan. If insurance is excluded, the weighted APR range is from 69.5% to 23.4%

The inclusive weighted APR of 70.4% for a R1 000 loan is considerably lower than the arithmetic average of 93%, a consequence of the competition introduced by one of the major players. When the particular provider's share of the market is taken into account, the weighted average falls.

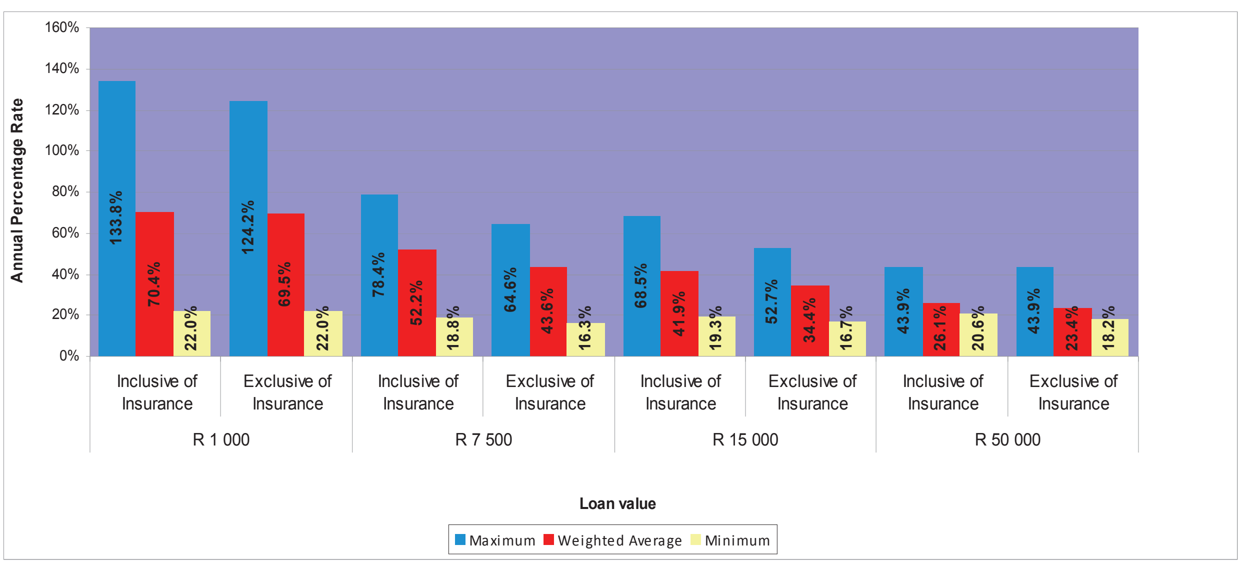
There are no comparable data on book size dating back to 2002, given the changing credit categories.

The NCA brings the treatment of micro-loans into line with other credit products and re-introduces a price cap. The effects of this are evident in the data surveyed, relative to historical pricing data. The results of this study indicate that the average price of a R1 000 one-month loan has fallen from more than 250% p.a. in 2006 to 93% p.a. in 2008 (arithmetic averages). The range in pricing has also narrowed dramatically, with the difference between the highest and the lowest price loans dropping from 300% p.a. in 2004 to 112% p.a. in 2008.

Personal loan sizes, term and minimum income (Loans between R1 000 and R8 000)					
Provider	Typical (median) overdraft value granted	Average overdraft value granted	Average term of loan (months)	Minimum required income for average loan value granted	Ratio of min income to average loan size
Provider 1	R 6 000	R 5 595	53.0	R 15 000	268%
Provider 2	R 5 400	R 3 158	3.0	..	..
Provider 3	R 5 287	R 4 965	24.1	R 1 500	30%
Provider 4	R 5 099	R 4 954	26.2	R 750	15%
Provider 5	R 5 000	R 4 975	6.0	R 13 074	263%
Provider 6	R 5 000	R 5 650	24.0	R 960	17%
Provider 7	R 3 000	R 4 284	5.0	R 1 000	23%
Provider 8	R 2 300	R 2 559	5.0	..	..
Provider 9	R 2 000	R 2 122	5.7	R 750	35%
Provider 10	R 2 000	R 2 000	4.0	R 4 000	200%
Provider 11	R 1 928	R 2 122	4.0	R 636	30%
Provider 12	R 1 908	R 1 908	2.1	R 1 076	56%
Provider 13	R 1 757	R 1 864	1.0	..	..
Provider 14	R 1 725	R 2 071	4.0	..	..
Provider 15	R 1 500	R 1 909	1.9	..	..
Provider 16	R 1 500	R 1 836	11.7	R 500	27%
Provider 17	R 1 500	R 1 741	6.0	..	..
AVERAGES	**R 1 920**	**R 2 220**	**4.6**	**R 1 327.0**	**60%**

Source: FEASIBILITY Survey, 2008

Personal loan pricing – including weighted averages inclusive & exclusive of insurance



Unsecured home loan highlights

Three respondents to the survey provide unsecured home loans with a combined book of R63 million at the end of June 2008, representing under 4 000 accounts.

The average term is close to two years in the case of loans up to R10 000 and 30 months, for loans up to R25 000.

The three providers all charge initiation and monthly fees, but only one of the providers has made use of the possible facility to charge the higher initiation fee possible under developmental (unsecured) home loans.

Two of the providers charge credit life insurance and one has provided data for insurance on the property. The variance in charges amongst these providers is very large, and accounts for the large variation in inclusive and exclusive APRs.

The weighted average APR for loans of R8 000 and R20 000 ranges from 55.5% inclusive of insurance to 43.5% exclusive of insurance for loans. The weighted average APRs are higher than the arithmetic values, as the shares of the book are dominated by the two providers charging the highest rates.

In 2002, micro-loans for housing originated by third parties were funded by the National Housing Fund Corporation (NHFC) and were capped at 42% p.a. – a figure that was later increased to 67% p.a. The average size of the loan was R4 660, and was provided for 21 months.

The pricing range for loans of R8 000 was from 33.4% to 60.4% (inclusive of insurance) and suggests that the pricing and approach has not changed much since the advent of the NCA.

Small business highlights

Four commercial banks and four specialist development finance institutions completed the survey for small business loans. The combined value of the outstanding small business loans at the end of June 2008 was around R12.3 billion – of which R1.3 billion was extended by the non-banks.

Commercial banks tend to offer larger loans to small businesses, for longer terms, but all providers appear to require some kind of surety. For smaller loans, a personal guarantee will suffice, but fixed assets are required as surety for the larger values offered to smaller businesses.

Over 60% of the loans provided by development finance institutions to small businesses were for amounts less than R10 000, while 55% of the loans provided by banks were for amounts in excess of R500 000. This different composition accounts for the variation in prices between these two different provider groups.

The APRs - inclusive of insurance – from developmental finance institutions range from 38.6% to 19.8% and exclusive of insurance, from 38.5% to 14.7%.

For commercial banks, the APR - inclusive of insurance - ranges from 23.4% to 15.5% across the range of values. APRs exclusive of insurance range from 18.4% to 15.5%.

For the production loans, the APRs inclusive of insurance range from 17.5% to 16.4% and exclusive of insurance from 16.4% to 15.5%

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Companies participating in the research

Absa	BMW
AFGRI Operations Ltd	IEMAS
African Dawn	Foschini
Blue Financial Services	Small Enterprise Foundation (SEF)
Capitec	Edcon
Daimler Chrysler	PJPH Peninsula
Homechoice	Alexander Forbes
Imperial Bank	Teba Bank
Investec Bank	AA Asset Finance
JD Group	Eskom
Lewis Group	Nedbank
Liberty Life	Real People
Londonbridge Property Financne (Pty) Ltd	Remaxone
Masstores	National Students Financial Aid Scheme
Metropolitan	Ellerines Group
Motor Financial Corporation	Sanlam Home Loans
Mr Price	Truworths
Pretorium Trust	NHFC
Ramahau Cash Loans	Ford Finance SA (FFS Finance)
Rapid Effect t/a Legaltrack	First Rand Group
RCS	Direct Axis
SA Home Loans	Credit U Financial
Senior Finance	Net1 Group
SENWES	Woolworths
Standard Bank	Momentum
Thuthukani	Rand Water
Toyota SA	African Bank
Umsombovu Youth Fund	Ithala Group
Vrystaat Kooperasie Bpk	Edu-loan
Women's Development Business	Mercedez Benz

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