

Consumers need to take credit commitments more seriously

South African consumers are struggling to keep up financially with the lifestyle that they are buying into.



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According to Compuscan credit bureau, there has been a quarter-on-quarter increase in the number of accounts with adverse enforcement status codes, which indicate that accounts have been handed over, assets have been repossessed, accounts have been written off or facilities/credit cards have been revoked as a result of non-payment.

Most notably, the data has shown that in Q1 2015 there was a 33% increase in vehicle asset finance (VAF) accounts that are listed on the bureau with adverse enforcement status codes, taking the total thereof up to approximately 28,000. Thus, compared to Q4 2014, there were approximately 7,000 additional new VAF accounts that had enforcement action taken.

"It's a well-known fact that consumers are under financial pressure and we're seeing more and more of the tell-tale signs thereof on the bureau. It's unsurprising that this is the case with the cost of food and petrol, to give just two examples of day-to-day expenses, weighing heavily on our budgets," says Frank Lenisa, director at Compuscan.

Cost of interest

"And, it's for this reason that we once again urge consumers to spend wisely on credit, within the boundaries of that which they can afford, taking the cost of interest into consideration. This is especially relevant when making lifestyle choices and taking on bigger financial commitments such as vehicle financing."

There was a decrease in the total number of number of vehicle loans, particularly those of lower value, granted in Q1 2015. "This may further confirm that those whose earnings fall within lower income brackets are experiencing a significant level of financial stress and thus are unable to obtain vehicle asset finance successfully," comments Lenisa.

Also indicating the level of financial stress amongst consumers is that the number of mortgage accounts listed with an adverse enforcement status code increased during Q1 2015. In Q4 2014 there was an increase of 6,000 mortgage accounts with adverse enforcement status codes listed on the bureau, and once again, at the end of Q1 2015, there was an additional increase of approximately 4,000 accounts of this kind that was recorded. This means that of the approximate 2,364,000 mortgage accounts that were listed on the bureau as at the end of Q1 2015, there were just under 23,000 that had enforcement action taken.

"Whilst the percentage of mortgage accounts with adverse enforcement status codes is relatively low, it remains a concern to see the number of adverse mortgage accounts increasing. This is rather indicative of a struggle to make ends meet as consumers generally tend to prioritise paying installments on their secured loans, such as their mortgages, instead of unsecured loans," says Lenisa.

Adverse accounts

Additionally, pointing to the fact that it is indeed becoming more of a difficult task to maintain a certain lifestyle with the

increasing cost of living as well as unexpected expenses, is the fact that the number of adverse accounts across all credit types once again increased, while 39% of all adverse enforcement status codes for Q1 2015 were listed on store card accounts.

As at the end of Q1 2015, there were approximately 19,273,000 credit-active South Africans. Of this number, there were in the region of 2,382,000 consumers recorded on the bureau whose worst position on their credit report was an adverse enforcement status, which indicates that there was an 18% increase in the number of these consumers since the previous quarter.

Persons whose worst position is an adverse enforcement status code

| Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|-----------|-----------|-----------|---------|---------|-----------|
| 2 382 000 | 2 011 000 | 1 360 000 | 745 000 | 0 | 2 938 000 |

Note: The statistics from Q4 2013 includes accounts that were subject to a two year retention period, meaning that the accounts had accumulated on the bureau in a time period of two years. After the removal of adverse information and the publication of the National Credit Amendment Act, Compuscan now hosts listings of adverse enforcement for only one year

Listed accounts

Further to this, as at the end of Q1 2015, roughly 74,686,000 open or recently closed accounts in retention were listed on the bureau, a decrease from about 76,998,000 accounts in Q4 2014. The number of accounts listed with adverse enforcement status codes was recorded at roughly 3,859,000 - an increase of 23% quarter-on-quarter.

"We're a credit dependent nation and we need to start taking our credit commitments more seriously. There are unfortunately consequences for non-payment for the consumer, as well as for credit providers, some of whom are struggling to stay afloat with increased overheads, bad debt, fraud and the cost of compliance eating away at their margins. Having said that, there is always hope to get back on track with one's repayments and work oneself out of a position of over-indebtedness," Lenisa adds.

Indicating that there are the consumers who are making good attempts to rectify their credit records, there was an increase in the total number of accounts with a paid-up default in Q1 2015. There were just over 71,000 accounts in retention on the bureau that previously had adverse enforcement status codes listed on them that were paid up in Q1 2015, a 21% increase compared to the approximate total of 59,000 adverse accounts that were paid up in Q4 2014.

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