The debt abyss lures more SA consumers

Kramer is now seeing a debt counsellor to renegotiate his debts.

Kuisie Kramer opened an Edgars account at the age of 18. He had found a job in a restaurant straight out of school and needed clothes and shoes. Other credit offers soon began rolling in. Kramer got a cellphone contract and opened other store accounts.

“I opened more clothing accounts to get better clothes,” says the 23-year old who lives with his mother in Pretoria East. “You want to look larney.”

He also got a credit card and used it to pay for a trip to Thailand. His mother bought a car on finance for him — he didn't qualify for financing himself — and he pays most of the monthly instalments.

In 2005, Kramer (not his real name) had to take out a R20000 personal loan to pay for car repairs after an accident for which his insurer wouldn't pay out.

In a big, big hole

By October last year, he was in trouble. His monthly salary was R11000 and his debts were more than R100000. He reckons he needs about R4000 more each month to meet his obligations.

Kramer is now seeing a debt counsellor to renegotiate his debts, which he says are a “big, big debt hole”. It is like trying to break a drug habit, he says.

“I think of it like an addiction. You get to the stage where you think next month will be better, next month you will pay it off. Even though you tell yourself stop, stop, stop, you keep on spending.”

Kramer is one of about 6000 South African consumers who have sought professional help to restructure their debt. Rising interest rates, along with rising fuel and other prices, are likely to push that number higher.

“We fully expect that the applications of over-indebted people for debt counselling are going to ratchet up this year,” says Gabriel Davel, CEO of the National Credit Regulator, which oversees SA's credit market.

Costlier debt has doubled the number of people unable to pay their loans from a year ago, says Nedbank Retail MD Rob Shuter. The worst hit group for house repossession over the past six months is the middle-income market, which Nedbank defines as a household income of between R100000 and R400000 a year.

Absa Vehicle & Asset Finance managing executive Marcel de Klerk says the bank has seen a “definite increase” in the number of repossessed vehicles, especially among households earning up to R240000 a year. This income group accounts for about 85% of repossessions.

Richer, not poorer, will have debt problems

Dawid Spangenberg, head of credit and risk at First National Bank Home Loans, says the number of people with household mortgages who had sought to have themselves declared insolvent had doubled in the six months to January from the previous six month period. While this is a large change, absolute figures remain low. The value of loans reported as losses on banks' books stood at 0,8% in September, up from 0,6% at the end of 2006.

The greatest increase in debt problems this year is likely to take place among richer, rather than poorer, people, Davel says. “A fair number of people we see have total debts in excess of R1m.”

There are already signs of this. Woolworths, food and clothing retailer to the money-rich and time-poor, this week said that bad debts in the six months ending in December had increased and that it had hired more staff to enforce debt collections.

Bad debts rose to 7,8% of the company's total loan book, from 4,1% the year before. Customers were “really feeling the pinch” from interest rates, Woolworths CEO Simon Susman said.

No idea what they spent, or on what

Tony Richards is the MD of Octagon, a Fourways-based debt-counselling agency. He has about 400 clients, who range from domestic workers to financial directors, with debts ranging from R35000 to R16m.

Interest rate rises and debt exposure are two reasons for debt problems. Another is behavioural. While poorer people have debt problems because they don't have enough money, wealthier ones are generally worse at keeping track of their money, Richards says. He sees this when he asks clients to list their spending.

“A domestic (worker) has got a good idea where her spending is going,” he says. “The senior guys don't have it. The domestic worker will be able to tell you exactly what she spends — she paid R65,12 on her Jet store account, she sent R250 home. The guy at a senior level, you'll just see round figures coming in. That's a good indicator the person hasn't got a clear idea and hasn't budgeted in the past.”

Davel says that the people most likely to run into financing trouble this year are those wealthy enough or confident enough to buy investment property. “Quite a number of the people on the mortgages where people have to unwind are not necessarily the primary home, but rather people who bought a second or third home for investment purposes, which they now find are difficult to finance.”

Don't drag your name through the mud – it sticks

The prime lending rate has risen four percentage points since June 2006 to 14,5% — the highest level since 2003. While most economists say further rate hikes are unlikely, inflation — stoked by a weaker rand, higher electricity tariffs and surging fuel prices — may make this necessary.

Kramer warns everybody about getting too far into debt. His own indebtedness has been detrimental to his career. He wanted to study, but says no one now will grant him a student loan, given his credit record.

“You are born with a name,” he says. “Once you've thrown it through the mud, it's very difficult to pick yourself up again.”

“It's like an addiction. You get to the stage where you think next month will be better, next month you will pay it off. Even though you tell yourself stop, stop, stop, you keep on spending”.

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