



# Suggested Risk Solutions - Rural Housing Loan Fund (RHLF) – October 2011

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# TransUnion Overview

- Founded in 1968, headquartered in Chicago
- Global leader in credit and information management
- Provides credit solutions to > 50,000 businesses worldwide
- Reaches businesses and consumers on 5 continents
- Maintains credit histories on an estimated 500 million consumers
- Our core values – integrity, service, reliability, and performance

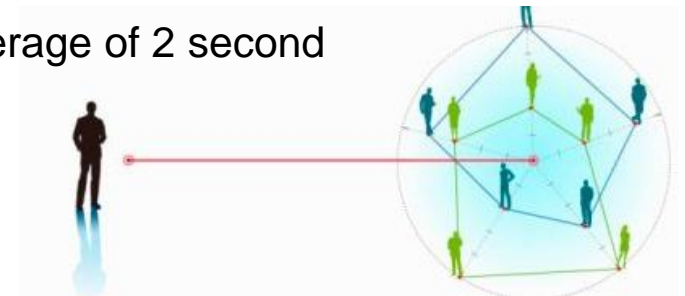
*Our heritage and expertise in the technology arena makes us one of the world's leading and most reliable risk management solution providers*

## The Global Reach



# TransUnion Credit Bureau Overview

- Southern Africa's most experienced and the leading provider of data based business intelligence – 104 years in the making.
- Strategic partnership with Dun & Bradstreet.
- Develop and manage complex, multiple databases. Consumer Credit, Commercial, Insurance Data System, Equipment Identity Register, Medical Schemes Fraud Database.
- First to introduce the convenience of generic scoring to the South Africa market.
- More than 50 million lines of data are captured, validated, stored and secured on a monthly basis.
- Serves 108 Industries, 3,400 clients, 12,000 subscribers.
- Process 2,5m monthly transactions per month at an average of 2 second response.
- Leaders in new formats and standards: F700.




# Investigations - RHLF

- Strategic goal of RHLF - “Empower rural people to maximize their housing options and improve their living conditions with access to credit from sustainable retail lenders”
- 40 289 loans in 2010/2011 financial year (Source- Annual Financial Statements dated 31 March 2011) (previous year 44 933)
- Total value of disbursements for 2010/2011 financial year – R224 million (previous year R202 million)
- Average loan size for 2010/2011 financial year – R5 000 (previous year R4 495)
- Loans receivable impairment as % of total loan book for 2010/2011 - 18% (previous year 24%)

# Investigations – Market Overview

## Individual stats

 Insolvencies decreased by 36.4% for the second qtr up to June 2011 (from 1 073 – 682)  
(Source; Stats SA)

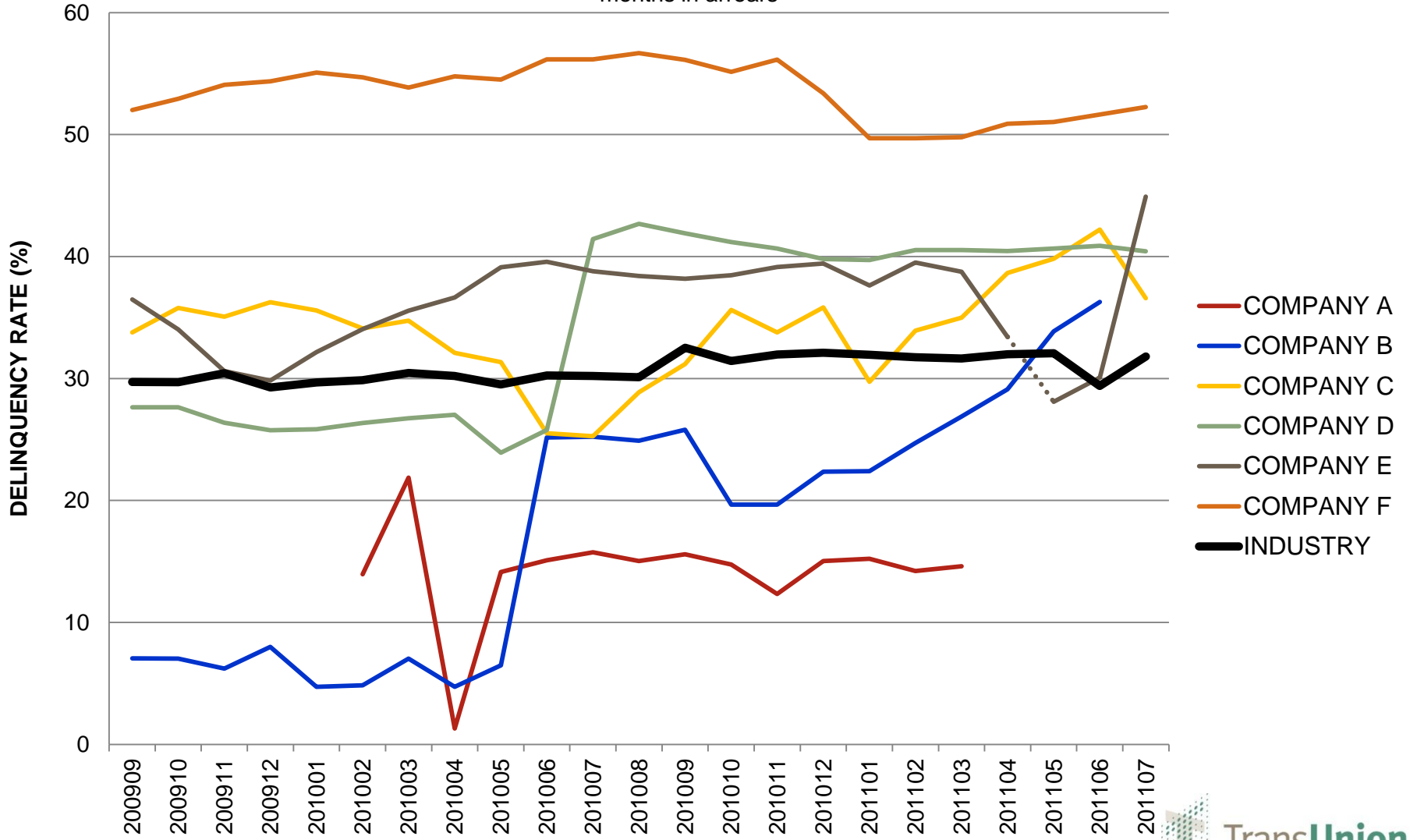
- Credit active consumers in SA +- 18 million
- Consumers with impaired records +- 8 million (46.5%) – rising per quarter
- Impaired definition – Accounts with three or more payments in arrears with adverse listings, judgments or admin orders
- +- 245 000 consumers currently applied/under debt review
- Only 110 000 were repaying lenders (15% within terms)
- Growing by 6 000 per month
- What can we read into these stats ?

# Background to discussion

- Main 4 (Key Performance Indicators) KPI's that needed additional focus –
  - No. of end-user loans per year
  - % of borrowers earning R3 500 p.m. or less
  - % of borrowers earning R9 500 p.m. or more
  - Impairments as % of total loan book
- Previous discussions were held with John Fourie (Director - ADS) to prioritize tasks
- RHFL wanted to track performance of loan book to various intermediaries
- Suggested by RHFL that we advise on three solutions to help manage risk, namely 1) Management reports 2) One Credit Bureau and 3) One central IT system

# Delinquency Rate of Accounts

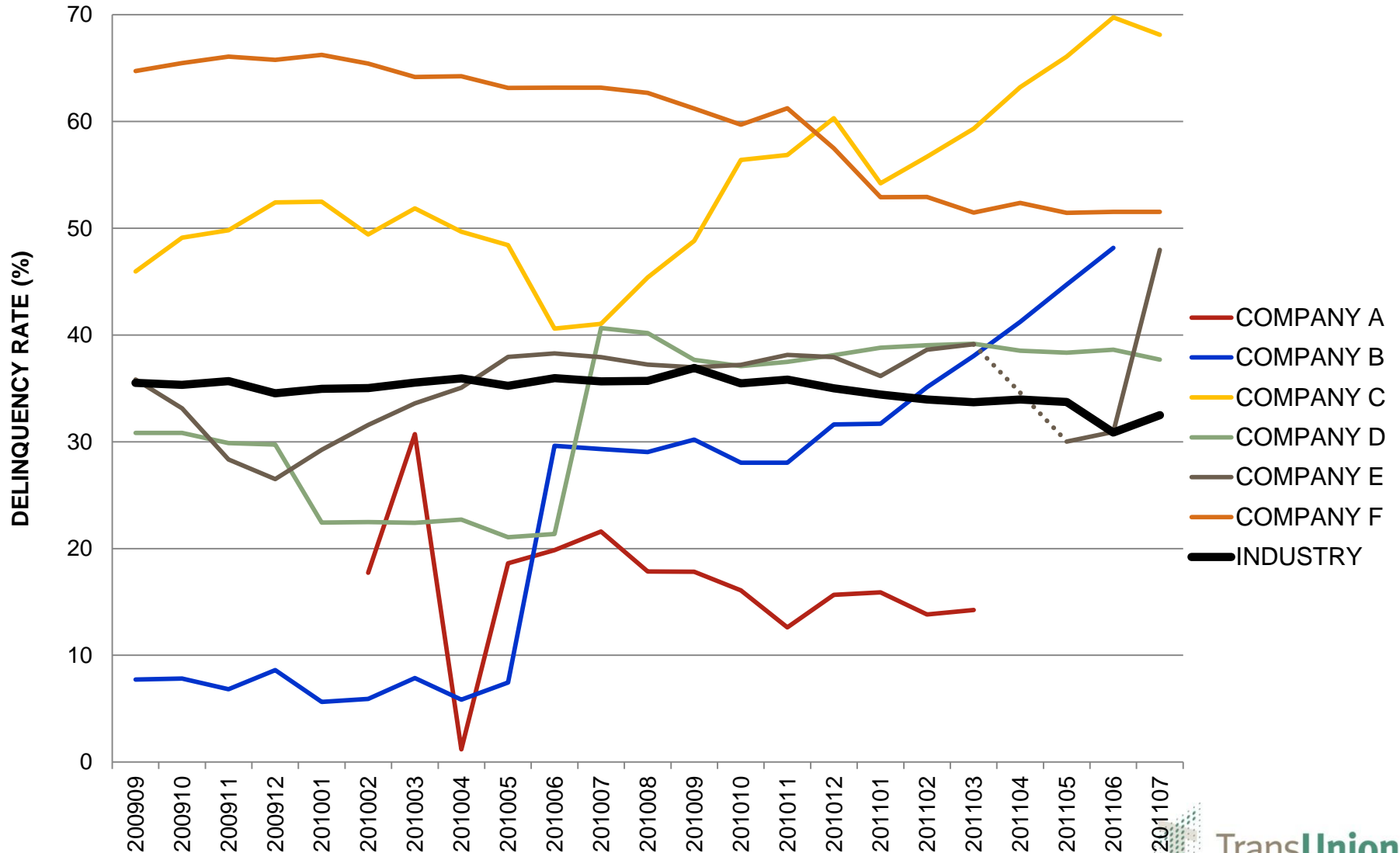
\*It is the accounts in status 3 to 9 months in arrears, expressed as a percentage of accounts in status 0 to 9 months in arrears





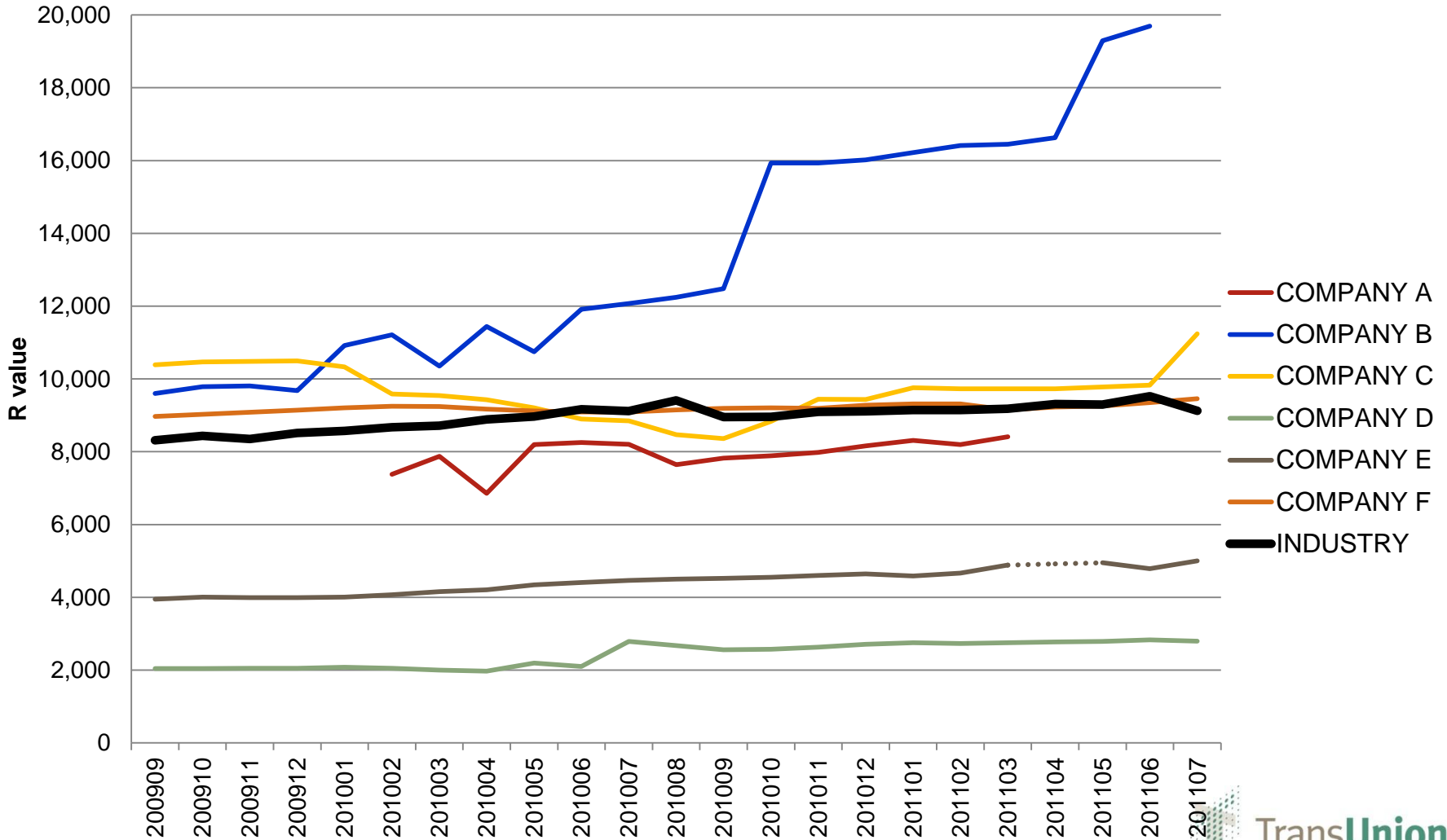
# Delinquency rate of Outstanding Balances

\*It is the total outstanding balance of accounts in status 3 to 9 months in arrears, expressed as a percentage of the total outstanding balance of accounts in status 0 to 9 months in arrears



# Average Outstanding Balance of Delinquent Accounts

\*It is the average value at risk per delinquent account



# Proposed Solutions

- 1) Management reports;
- This solution is the most likely for now in terms of a quick win, which could benefit RHFL in not only tracking the performance of their loan book but identify better managed intermediaries to increase their funding and rural reach.
- The **benefits** here would be that RHFL could take a pro-active view on risk (capital and interest rates) with useful management reports like;
- Roll rate report (which debtors will roll to a higher/lower risk bucket)
- Vintage curve reports (measures delinquency slopes of loans with different origination dates – delinquency maturation curve)
- Delinquency reports (shows number of accounts and value of delinquent debtors as % of book)
- The **challenges** here would be to ring fence the RHFL loan book in each intermediary and get the data in a timeously, prescribed format.
- We currently have delinquency data on 7 intermediaries

# Proposed Solutions

- 2) One Credit Bureau;
- The **benefits** here would include better pricing, due to higher volumes as well as “group learnings” i.e. common models and products could be used for joint benefit.
- The **challenges** here would be that some of the larger intermediaries have already secured preferential pricing through their holding company and the relationships have been built already with other Credit Bureau’s.

# Proposed Solutions

- 3) One Central IT system;
- The **benefits** of this would include better management reporting , standard format for data storage, real time tracking of age analysis performance.
- The **challenges** here would be that many of the intermediaries have already invested heavily into IT systems to integrate “automation” in the retail space.
- Also some intermediaries would be dictated to by their holding companies for central procurement strategies.
- RHLF only partly funds some of the intermediaries, so to ring fence their specific loan book would be a challenge.

# Summary

- Given that some intermediaries are above the market average for micro-lenders we suggest moving forward with custom management reports.
- First step for RHFL is to secure a data commitment from all/selected intermediaries – data needs to be timeous and prescribed format.
- Next step is follow up workshop (TU and RHFL) to discuss data requirements/format, targeted intermediaries and required custom management reports.
- TU can also assist with similar management reports or collection models for selected intermediaries , should they require assistance in the acquisition or management phase.



# Questions ?

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