

Prushka Business Credit & Consumer Debt Index

Executive summary

The January-March 2009 Prushka Index shows two clear trends: one expected, one not.

1. Expected was evidence of a general tightening of the credit cycle within the economy. This is evident from creditors referring overdue accounts to Prushka at an earlier stage in the credit cycle, no doubt caused by pressure on cash-flows and also an indication that businesses are taking a tougher attitude to their debtors. Prushka is also receiving more debts of smaller amounts indicating less available credit.
2. Unexpected were increases in Prushka's debt recovery rates. Prushka recovered a significantly higher percentage of referred debts in the last quarter than in previous quarters. This goes against a general perception that consumers are currently experiencing financial difficulty and may be explained by an easing of petrol prices, tax cuts, lower interest rates, government handouts, and because householders are making extra efforts to reduce debt.

Conclusion

The January-March 2009 Prushka Index shows businesses are taking a harder line on debts, that credit is less available, but that householders and businesses who owe money are paying off debts at a faster rate than before.

What is the Prushka Business Credit & Consumer Debt Index?

This Index uses data collected through Prushka's debt collection activities to gain insights into business credit and consumer debt conditions. Data comes from the collection of debts incurred by both individuals and businesses with 38,000 creditors, from across 14 regional and city locations, in five Australian states and territories.

The Index provides insights into two economic areas.

1. **Business credit conditions** – debt collection data is analysed quarterly to understand the urgency with which businesses across Australia are seeking to recover their debts and the availability of credit. This gives an indication of the credit conditions (tightening or relaxing) under which businesses are operating.
2. **Consumer debt conditions** – debt collection data is analysed quarterly to understand debtors' capacity to repay debts. This gives an indication of individual and business debt stress and financial stress generally.

The index is compiled and released quarterly: April; July; October; January.

About Prushka

Prushka is Australia's largest privately-owned debt collection agency and the country's largest debt collection agency by client number. Prushka handles debt and claims recovery for the corporate, small business, medical and insurance sectors – sectors in which it has dominant market share. For further information about the Company visit www.prushka.com.au.

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1. Business credit conditions

Insights into business credit conditions are based on two sources of debt collection data.

a) The age of debt

Every quarter new debts are referred to Prushka for collection. Prushka records the age of debt before a creditor referred it. The table below shows the proportion of all the debts referred in each quarter that fall within each age band.

Changes to the age of debt indicate how urgently businesses are seeking to reclaim unpaid money. Trends to shorter periods indicate tightening credit conditions while trends to longer periods indicate relaxing credit conditions.

Age of debt	The proportion of all the debts referred to Prushka each quarter that fall within each age band				Change from Q2 to Q3
	Q4 '08 Apr-Jun	Q1 '08 Jul-Sep	Q2 '08 Oct-Dec	Q3 '09 Jan-Mar	
1-2 mths old	6.14%	5.61%	8.61%	5.70%	-2.90%
3-5 mths old	33.62%	34.33%	34.05%	37.70%	+3.65%
6-11 mths old	39.20%	40.92%	36.22%	40.47%	+4.25%
12-24 mths old	15.02%	15.26%	13.53%	12.32%	-1.22%
24+ mths old	6.02%	3.88%	7.59%	3.81%	-3.78%
	100.00%	100.00%	100.00%	100.00%	

b) The size of debt

Every quarter new debts are referred to Prushka for collection. Prushka records the value of each debt referred to it. The table shows the proportion of all the debts referred in each quarter that fall within each value band.

Changes in the value of debt indicate the general availability of credit. Trends to lower values indicate tightening credit conditions while trends to higher values indicate relaxing credit conditions.

Value of debt	The proportion of all the debts referred to Prushka each quarter that fall within each value band				Change from Q2 to Q3
	Q4 '08 Apr-Jun	Q1 '08 Jul-Sep	Q2 '08 Oct-Dec	Q3 '09 Jan-Mar	
<\$150	39.01%	43.22%	44.72%	45.69%	+0.98%
\$150-\$500	38.57%	35.72%	34.62%	34.21%	-0.41%
\$501-\$1000	12.11%	10.37%	9.52%	9.88%	+0.36%
\$1001-\$5000	9.21%	8.98%	10.02%	9.05%	-0.97%
\$5000+	1.10%	1.71%	1.12%	1.17%	+0.05%
	100.00%	100.00%	100.00%	100.00%	

CONCLUSION

Creditors are referring overdue accounts to Prushka at an earlier stage in the credit cycle, probably because of pressure on cash-flows. This indicates that businesses are taking a tougher attitude to debtors. Prushka is also receiving more debts of smaller amounts indicating lower availability of credit.

2. Consumer debt conditions

Consumer debt conditions are indicated by debt repayment trends.

Each quarter Prushka records the total proportion of individual debts that have been recovered to the point of satisfaction by clients (closed), and those that remain unsatisfied (open), because further payments are required by clients.

Prushka also records two satisfied (closed) subcategories:

- Satisfied by full payment – debt repaid in full in one lump sum, indicating a higher capacity to repay a debt.
- Satisfied by instalment plan or by a reduced lump sum – debt repaid to satisfaction but by either instalments or an agreed reduced amount in one lump sum. These repayment methods indicate a lower capacity to repay debt.

Movements between satisfied and unsatisfied rates indicate the capacity of debtors to repay debt, with more 'satisfied' indicating greater capacity to repay debt and more 'unsatisfied' showing greater incapacity to repay debt. Movements between the two satisfaction subcategories also indicate the capacity of debtors to repay debt, with more 'satisfied by full payment' showing greater capacity to repay debt, and more 'satisfied by instalment or reduced lump sum' showing greater incapacity to repay debt. These trends are also indicators of financial stress more generally.

Debt status	% of debts satisfied or unsatisfied during each quarter				Change from Q2 to Q3
	Q4 '08 Apr-Jun	Q1 '08 Jul-Sep	Q2 '08 Oct-Dec	Q3 '09 Jan-Mar	
• <i>Satisfied by full payment</i>	42.29%	44.60%	43.27%	60.34%	+17.07%
• <i>Satisfied by instal't or reduced lump sum</i>	14.30%	12.29%	9.94%	10.28%	+0.34%
Total satisfied	56.58%	56.89%	53.21%	70.62%	+17.41%
Total unsatisfied	43.42%	43.11%	46.79%	29.38%	-17.41%
	100%	100%	100%	100%	

CONCLUSION

Prushka's debt recovery rates increased during the quarter. Prushka recovered significantly more debts in the last quarter than in previous quarters and Prushka recovered more by full payment. This suggests an increased capacity by debtors (both businesses and individuals) to repay debts.