

Study on Personal Loans

The study aims at understanding the composition of the subsectors of personal loans and the changing trends. The two time periods chosen are December 2018 and September 2023 which were similar in terms of having similar repo rate regimes. The study also looks at composition of housing sector loans and the average ticket size across different credit limits. In the end, an analysis across population groups is presented.

Personal loans segments by Interest Rate

The subsectors of personal loans include housing, consumer durables, vehicles, personal credit card and other personal loans. Of this, sectoral share in total outstanding personal loans as of September 2023 was as follows: housing sector (53.5%), 'other personal loans' (28.9%), vehicles (9.8%), credit cards (4.8%) and consumer durables (0.7%).

Table 1 provides shares of different interest ranges for loans outstanding under each of these headings. The 4 buckets are less than 6%, 6-9%, 9-11% and above 11%. Of the total credit, most of the loans are concentrated in the 6-9% and 9-11% ranges. Over 50% of the personal loans are found in the 9-11% range at the aggregate level.

- Overall, the personal loan are largely concentrated in the 9-11% bucket. The highest is for housing loans followed by education and 'other personal loans'.
- Consumer durable and credit card loans are highly concentrated in the above 11% bucket indicating that these are high yielding loans for banks. In case of 'other personal loans' 45% of them are at rates above 11% while 43.6% are at 9-11% interest range.
- Vehicle loans are largely in the 6-11% interest range.

Table 1: Sectoral share across interest rates (Sep'23)

| Share out of each sector | Less than 6% | 6-9% | 9-11% | Above 11% |
|---------------------------------|---------------------|--------------|--------------|------------------|
| Housing | 3.4% | 32.8% | 60.4% | 3.4% |
| Consumer Durables | 0.4% | 6.0% | 18.1% | 75.4% |
| Vehicles | 2.3% | 45.4% | 36.9% | 15.3% |
| Education | 1.6% | 9.4% | 53.2% | 35.9% |
| Personal Credit Cards | 0% | 0.0% | 0.1% | 99.9% |
| Other Personal Loans | 1.4% | 10.0% | 43.6% | 45.0% |
| Personal Loans | 2.5% | 25.2% | 49.9% | 22.4% |
| Total Credit | 1.5% | 40.7% | 39.1% | 18.7% |

Source: RBI, Bank of Baroda

Next we see if sectoral share have changed in two interest rate regimes. Currently, RBI's repo rate is at 6.5% and the repo rate was at similar level in Dec'18.

Comparing the loans concertation across varying interest rates in Dec'18 with Sep'23, the picture remains the same for sectors such as consumer durables, credit cards and 'other personal loans'. All

of them have majority share of the loans concentrated in the 'above 11%' bucket. However, other sectors have registered some changes in the last 5-years with:

- Large share of the housing loan was concentrated in the 6-9% range in Dec'18 instead of 9-11% range in Sep'23. The movement to higher ranges can be explained partly due to the concept of EBLR coming in which has led to automatic transmission of interest rate hikes in this segment.
- Majority of vehicle loans in Dec'18 were from 9-11% bucket instead of 6-9% bucket in Sep'23. Here clearly the force of competition has led to rates moving to lower levels.
- Notably, for Dec'18 education loans were concentrated above 11% bucket, rather than 9-11% bucket in Sep'23. Here too the force of competition has led to lowering of interest rates.

Table 2: Sectoral share across interest rates (Dec'18)

| Share out of each sector | Less than 6% | 6-9% | 9-11% | Above 11% |
|--------------------------|--------------|--------------|--------------|--------------|
| Housing | 0.5% | 61.8% | 34.8% | 2.8% |
| Consumer Durables | 0.1% | 11.4% | 29.9% | 58.6% |
| Vehicles | 0.2% | 24.0% | 61.2% | 14.6% |
| Education | 0.2% | 8.3% | 41.5% | 50.0% |
| Personal Credit Cards | 0.2% | 0.0% | 0.1% | 99.7% |
| Other Personal Loans | 0.6% | 19.9% | 22.5% | 57.0% |
| Personal Loans | 0.4% | 40.4% | 33.0% | 26.1% |
| Total Credit | 2.9% | 31.9% | 36.4% | 28.8% |

Source: RBI, Bank of Baroda

Distribution of personal loans by Size of Credit limit

In terms of size of credit limits we look at **amount outstanding** in 6 buckets of credit limit ranging from less than Rs 25,000 to above Rs 1cr (Table 3 & 4) for the two points of time.

- For Sep'23 (Table 3), the aggregate credit with 52% share is above Rs 1 cr bucket and this includes all sectors such as manufacturing, services, agriculture. In case of personal loans it is just 10.4%. Back in Dec'18, the share for aggregate credit was as high as 59.8% for the same bucket, with the share of personal loan at only 8.9%. Clearly there has been a shift to smaller ticket size loans in the retail segment.
 - Within this set the highest share is registered by housing loans at 15.3% in Sep'23 and 11.2% in Dec'18.
- Overall, most of the personal loans are in the range of Rs 2-50 lakhs, with the concentration in 10-50 lakh bucket. The trend is similar even for Dec'18.
 - The subsectors of housing (58.3% from 62.5% in Dec'18) are under the same bucket of Rs 10-50 lakh in Sep'23.
 - Education (51%) loans too are concentrated in the Rs 10-50 lakh bucket as of Sep'23 but back in Dec'18 most of the education loans were concentrated in the Rs 2-10 lakh bucket. This may be attributed to the higher cost of education with fees increasing for professional courses in the country. Also the tendency for several students to study overseas has meant higher ticket size of loans.
- Vehicle loans were largely in the Rs 2-10 lakh range in Dec'18 (65.7%) followed by Rs 10-50 lakhs with 22.4%. This has changed in September 2023 with the shares moderating to 52.7% for the Rs 2-10 lakhs range but rising to 36.1% for the Rs 10-50 lakhs range. This is a reflection of the tendency of high valued vehicles being preferred by customers which has led to higher demand for such loans.

- Majority share of credit cards loans were found in the Rs 25,000 -2 lakh bucket back in Dec'18. However, this share has come down to 46.9% in Sep'23. This is so because of the limits imposed by banks on use of cards. This signals banks have been careful in terms of upgrading users to higher limits.
- Notably, the share of consumer durable loans in Dec'18 has fallen from 40.1% in the Rs 2-10 lakh bucket to 38.5% for the same bucket in Sep'23.

Table 3: Sectoral share across Credit Limits (Sep23)

| Share out of each sector | Less than 25000 | 25000 to 2 Lakh | 2-10 Lakh | 10-50 Lakh | 50 lakh- 1cr | Above 1 cr |
|--------------------------|-----------------|-----------------|--------------|--------------|--------------|--------------|
| Housing | 0.0% | 0.4% | 5.5% | 58.3% | 20.4% | 15.3% |
| Consumer Durables | 15.0% | 34.6% | 38.5% | 9.8% | 1.0% | 1.1% |
| Vehicles | 0.1% | 7.4% | 52.7% | 36.1% | 2.2% | 1.5% |
| Education | 0.0% | 5.3% | 33.9% | 51.0% | 8.6% | 1.2% |
| Personal Credit Cards | 2.5% | 46.9% | 45.1% | 4.9% | 0.2% | 0.4% |
| Other Personal Loans | 0.2% | 9.7% | 46.5% | 33.8% | 2.8% | 6.9% |
| Personal Loans | 0.3% | 6.3% | 24.8% | 46.0% | 12.2% | 10.4% |
| Total Credit | 0.3% | 6.8% | 14.5% | 20.2% | 6.2% | 52.0% |

Source: RBI, Bank of Baroda

Table 4: Sectoral share across Credit Limits (Dec'18)

| Share out of each sector | Less than 25000 | 25000 to 2 Lakh | 2-10 Lakh | 10-50 Lakh | 50 lakh- 1cr | Above 1 cr |
|--------------------------|-----------------|-----------------|--------------|--------------|--------------|--------------|
| Housing | 0.0% | 0.8% | 12.5% | 62.5% | 13.0% | 11.2% |
| Consumer Durables | 9.4% | 31.5% | 40.1% | 12.7% | 2.3% | 4.0% |
| Vehicles | 0.3% | 8.0% | 65.7% | 22.4% | 2.5% | 1.1% |
| Education | 0.1% | 13.5% | 53.3% | 31.0% | 1.6% | 0.5% |
| Personal Credit Cards | 3.4% | 56.5% | 37.5% | 1.5% | 0.2% | 0.9% |
| Other Personal Loans | 0.3% | 11.0% | 50.9% | 22.4% | 4.7% | 10.7% |
| Personal Loans | 0.3% | 7.8% | 32.4% | 42.2% | 8.4% | 8.9% |
| Total Credit | 0.4% | 6.8% | 13.9% | 14.9% | 4.2% | 59.8% |

Source: RBI, Bank of Baroda

Home loans

Tables 5 and 6 provide information on number of accounts in the housing sector based on the credit limit. In 2018, 47.1% of the number of borrowers were in the Rs 10-50 lakh range of loans. This has increased to around 58% in 2023. Higher cost of dwellings as well as individuals moving to higher value flats can be the factors causing this movement. The share of Rs 2-10 lakhs of credit limit correspondingly came down during this period. The share of borrowers taking loans of above Rs 50 lakhs increased from 4.2% to 9.1% reflecting the same factors driving purchase of higher value dwellings.

Table 5: No. of accounts in housing sector across different credit limit Sep'23

| Range of credit limit (Rs) | No. of Accounts | Share in total number of accounts |
|----------------------------|--------------------|-----------------------------------|
| Less than 25,000 | 3,57,976 | 2.6% |
| 25,000 to 2 lakh | 12,26,823 | 9% |
| 2 lakh to 10 lakh | 29,60,633 | 21.6% |
| 10-50 lakh | 78,91,502 | 57.7% |
| 50lakh-1cr | 9,79,169 | 7.2% |
| above 1cr | 2,66,546 | 1.9% |
| Total | 1,36,82,649 | |

Source: RBI, Bank of Baroda

Table 6: No. of accounts in housing sector across different credit limit Dec'18

| Range of credit limit (Rs) | No. of Accounts | Share in total number of accounts |
|----------------------------|------------------|-----------------------------------|
| Less than 25,000 | 93,991 | 1.2% |
| 25000 to 2 lakh | 10,12,363 | 12.4% |
| 2 lakh to 10 lakh | 28,76,183 | 35.2% |
| 10-50 lakh | 38,46,799 | 47.1% |
| 50 lakh-1cr | 2,67,627 | 3.3% |
| above 1cr | 73,308 | 0.9% |
| Total | 81,70,271 | |

Source: RBI, Bank of Baroda

Ticket Size of housing loans

- The average ticket size for the housing sector varies based on different credit limit. For the bucket, Rs 10-50 lakh, the ticket size is more than Rs 18 lakh for Sep'23 and above Rs 17 lakh for Dec'18.
- For the Rs 50 lakh-1 cr bucket, the ticket size is at above Rs 52 lakh as of Sep'23 compared with the size of Rs 51 lakh in Dec'18.
- Average ticket size across all the credit limits stands at 36,59,370 as of Sep'23 against the ticket size of Rs 39 lakh in Dec'18.

Table 7: Ticket size

| Range of credit limit (Rs) | Dec'18 | Sep'23 |
|----------------------------|------------------|------------------|
| Less than 25,000 | 17,233 | 12,958 |
| 25000 to 2 lakh | 81,107 | 76,178 |
| 2 lakh to 10 lakh | 4,56,676 | 4,66,098 |
| 10-50 lakh | 17,08,274 | 18,46,794 |
| 50 lakh-1cr | 51,25,124 | 52,10,469 |
| above 1cr | 1,60,08,962 | 1,43,43,724 |
| Average Ticket size | 38,99,563 | 36,59,370 |

Source: RBI, Bank of Baroda

Distribution of personal loans by Population Group

The availability and accessibility of banking service across population groups can be analyzed next. The entire portfolio is segregated across rural, Urban, semi-urban and metropolitan regions.

- In terms of amount outstanding (Table 8 & 9), majority share of the personal loans (52.3%) are in metro areas. This is followed by urban (23.4%) and semi urban (17%) regions for Sep'23. However, the share of personal loans was a tad higher at 53.7% in Dec'18 for the metros.
- Housing loans are largely concentrated in the metropolitan area, but the share has fallen marginally in Sep'23 (57.1%) against 58% in Dec'18.
- Share of consumer durable loans in the metropolitan area has jumped to as high as 65% in Sep'23 against a share of 58.4% in Dec'18. However, share of such loans in urban areas has fallen down (12.8% from 18.6% in Sep'23).
- Education loans remain concentrated in semi urban (30.2%) and metropolitan (30.5%) areas in Dec'18. However, the share of loans in semi urban (25.9%) has fallen while that for metropolitan area (39.4%) has risen in Sep'23. Interestingly it is the lowest in rural regions and has been coming down.
 - The same holds for vehicle loans. Here it may be conjectured that the NBFCs have a better reach.
- 'Other personal loans' have a higher reach in metro and urban regions, but has been increasing gradually in rural areas too during this time period.

Table 8: Sectoral share across Population group (Sep'23)

| Share out of each sector | Rural | Semi Urban | Urban | Metropolitan |
|--------------------------|-------------|--------------|--------------|--------------|
| Housing | 5.7% | 14.4% | 22.8% | 57.1% |
| Consumer Durables | 10.4% | 11.4% | 12.8% | 65.4% |
| Vehicles | 6.9% | 17.0% | 27.5% | 48.5% |
| Education | 10.1% | 25.9% | 24.6% | 39.4% |
| Personal Credit Cards | 2.5% | 7.4% | 18.2% | 71.9% |
| Other Personal Loans | 10.9% | 22.7% | 24.0% | 42.3% |
| Personal Loans | 7.3% | 17.0% | 23.4% | 52.3% |

Source: RBI, Bank of Baroda

Table 9: Sectoral share across Population group (Dec'18)

| Share out of each sector | Rural | Semi Urban | Urban | Metropolitan |
|--------------------------|-------------|--------------|--------------|--------------|
| Housing | 5.7% | 14.9% | 21.4% | 58.0% |
| Consumer Durables | 8.8% | 14.2% | 18.6% | 58.4% |
| Vehicles | 7.3% | 18.8% | 27.3% | 46.6% |
| Education | 14.7% | 30.2% | 24.6% | 30.5% |
| Personal Credit Cards | 0.8% | 4.7% | 16.3% | 78.2% |
| Other Personal Loans | 9.0% | 19.7% | 23.8% | 47.5% |
| Personal Loans | 6.9% | 16.8% | 22.6% | 53.7% |

Source: RBI, Bank of Baroda

Ticket size of 'personal loans'

Table 4 presents the ticket size of 'personal loans' across population groups. Interestingly the size of the loans has come down across the board. Average ticket size of personal loan in Sep'23 is higher than the average ticket size in Dec'18. Interestingly, the ticket size of personal loan in metropolitan area is far lower than the ticket size in rural area for Sep'23. A conclusion that can be drawn is that loans of smaller ticket sizes are being provided by banks on the back of the higher demand for such loans.

Table 10: Ticket size of 'personal loan'

| Credit Limit | Dec'18 | Sep'23 |
|----------------------------|-----------------|-----------------|
| Rural | 2,73,120 | 3,53,096 |
| Semi Urban | 3,11,663 | 3,56,997 |
| Urban | 3,11,111 | 3,53,573 |
| Metropolitan | 2,29,109 | 2,08,614 |
| Average Ticket size | 2,81,251 | 3,18,070 |

Source: RBI, Bank of Baroda

Concluding Remarks

- Across interest rates, housing loans have the highest concentration in the interest range of 6-9% in Dec'23 compared with the interest range of 9-11% for Sep'23. This is also on account of the adoption of the ELBR that has resulted in automatic transmission of interest rates hikes for this segment.
- On distribution of personal loans based on the size of credit limit, it has been noticed in the retail segment there has been a shift towards small ticket loans.
- There is also a preference of high value vehicle, which is why the vehicle loans are growing in the Rs 10-50 lakh bucket. Housing and education loans are concentrated in the Rs 10-50 lakh bucket led by rising cost of education and likelihood of students moving abroad for higher education
- Specifically on home loans, there are more borrowers in the Rs 10-50 lakh loan bucket in Sep'23 from Dec'18 mainly because of the rising cost and greater demand for high value flats. The average ticket size of home loan is above Rs 36 lakh for Sep'23.

On distribution of personal loans by population groups, it has been observed that most of personal loans are concentrated in the metropolitan areas. The majority share of education loans are concentrated in the metropolitan and semi-urban area. Notably, the share of other personal loans is gradually inching up in metro and urban regions. Furthermore, the average ticket size of personal loans across population group is higher for Sep'23 than for Dec'18.

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