

Personal Loans - UK - December 2011

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"Should interest rates start to edge up during 2012, as is widely predicted, and the unemployment rate rise further, credit defaults and impairment costs will also increase, and loan rates will come under pressure. However, given that lenders are currently benefiting from high margins on consumer credit products, there is arguably some room for manoeuvre and scope for tactical pricing."

– Sarah Hitchcock, Senior Analyst

In this report we answer the key questions:

- How has the loans market performed recently?
- What impact has the loss of competition had on the unsecured sector?
- Who are the main players in this market?
- Are there any areas of the market that are experiencing growth?
- And what are the market's short-term prospects?

The 2008 financial crisis and subsequent economic downturn have had a marked impact on the personal loan market, not least by fuelling a spate of market exits. Moreover, the companies that remain – notably the banks and larger building societies – have tightened their lending criteria and turned their focus inwards to their existing customers. Consequently, the supply of unsecured loans – particularly on the open market – has substantially reduced over the past three years, resulting in a fall in new lending. The secured/homeowner loan market has been hit even harder, with the past two years seeing very little in the way of new lending.

In the unsecured loan market, the reduction in competition means that lenders are currently enjoying healthy profit margins, due also to a historically low base rate and LIBOR. However, offsetting this are the substantial costs involved in bad debt provision and PPI compensation. Mintel's report offers a full appraisal of these and other issues affecting the personal loan market. Drawing on a range of industry and consumer research, the report also provides an overview of the size and competition of the market, and offers insight into consumer attitudes and behaviour in relation to loans and other credit products.

There are two main types of personal loan: unsecured and secured. **Note that the primary focus of this report is on unsecured loans.** The secured loans sector has heavily contracted since the sub-prime crisis.

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