Shorter terms remain the most popular for personal loans in Hong Kong

Of the new personal loan opened in Q4 2017, 63% were opened with loan terms of one to 24 months—evenly split between terms of one to 12 months and terms of 13 to 24 months.

Although this is unchanged from the same period two years before, there are some small changes happening a level lower, as banks issue slightly more short-term loans and money lenders issue slightly fewer. These shifts are indicative of minor changes in risk profile and differences in how higher-risk loans are treated.

Banks and money lenders in Hong Kong have very different risk strategies. Banks issue 40% of their personal loans to better-than-prime consumers, compared to money lenders, which issue 3% of their personal loans to the same niche. This gap has been closing, but slowly, since the same quarter in 2015, when banks issued 60% of their loans to better-than-prime consumers, and money lenders, 2%.

Despite this difference in risk weighting, when issuing to those better-than-prime consumers, both lender types have a similar term-strategy—32% of bank-issued personal loans and 33% of money-lender-issued personal loans have terms of one year or less.

However, as borrower risk increases, the strategies begin to diverge. When issuing personal loans to prime-or-riskier consumers, banks start to shy away from shorter terms, giving one-year terms in 16% of cases, while money lenders move further towards them, issuing one-year terms in 37% of cases.

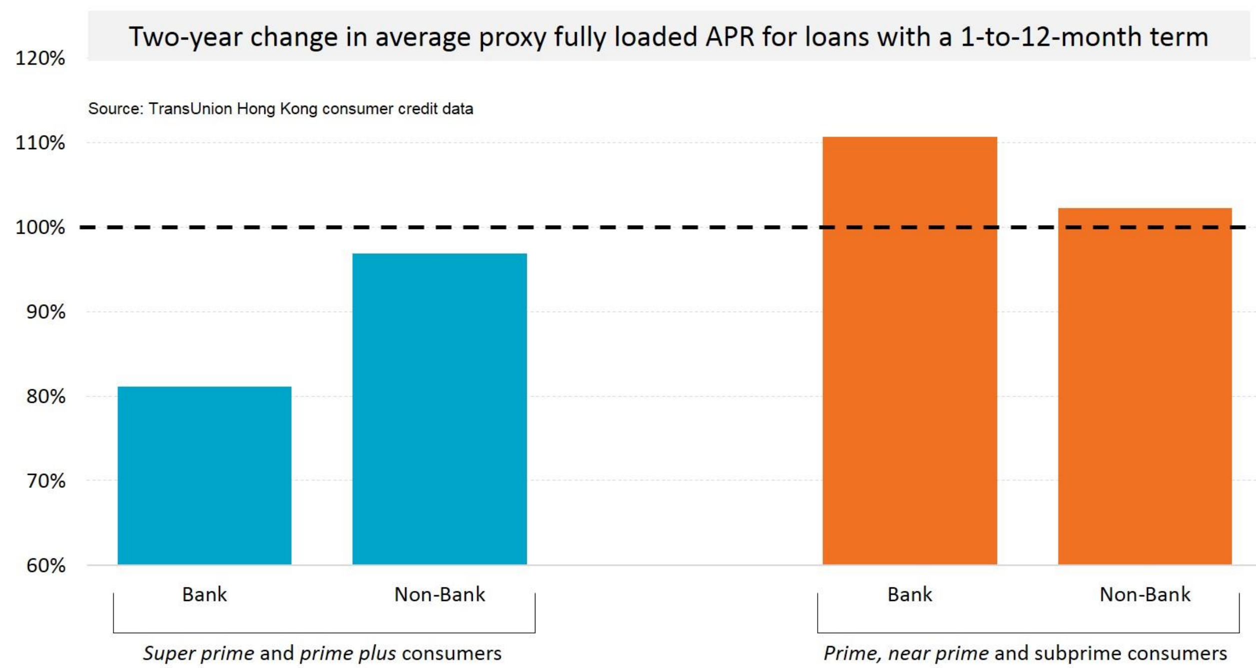
Distribution of personal loans opened in Q4 2015 and Q4 2017

			Super prime and *prime plus* consumers				*Prime, near prime,* and subprime consumers			
	All New Personal Loans		Bank Loans		Non-Bank Loans		Bank Loans		Non-Bank Loans	
Term	**2015**	**2017**	**2015**	**2017**	**2015**	**2017**	**2015**	**2017**	**2015**	**2017**
1 to 12	31%	31%	35%	32%	34%	33%	15%	16%	37%	37%
13 to 24	32%	31%	31%	30%	33%	34%	24%	26%	36%	34%
25 to 36	14%	13%	11%	12%	17%	15%	19%	15%	13%	13%
37 to 48	11%	10%	10%	8%	8%	8%	17%	15%	8%	8%
49 to 60	11%	13%	12%	18%	5%	8%	21%	23%	6%	7%
61 or above	2%	2%	0%	0%	3%	2%	4%	4%	1%	1%

Source: TransUnion Hong Kong consumer credit data

One part of banks' offerings that has changed is the average value of their one-year loans—up 62% since 2015 to $203,000, while the average value of a money-lender-issued loan was unchanged. However, bank-issued loans don't increase as predictably as terms are extended: a three-year loan issued by a money lender is twice as large as a two-year loan, which is twice as large again as a one-year loan.

That increase in average loan value was accompanied by a drop in average price, both of which suggest that the demand for tax loan equivalents may be driving this change. The average annual percentage rate (APR) earned by banks for low-risk, one-year loans is now just above 2%—a 19% drop from 2015. In the same period, the average APR earned by banks on similar but higher-risk loans rose by 11%, while the pricing of money-lender loans was much more stable.



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