**Personal loans in the US banking system**

Personal loans in the US banking system reached a record high of $245 billion in the fourth quarter of 2023, up 10.4% from the previous year. This debt is owed by 23.5 million Americans, a 4.4% year-over-year increase.

**Key statistics:**

* Personal loans account for 1.4% of outstanding consumer debt and 5.0% of nonhousing consumer debt.
* The average personal loan debt per borrower is $11,773 as of Q4 2023, up from $11,116 a year earlier.
* Most borrowers (54.3%) take out a personal loan to consolidate debt or refinance credit cards.
* The delinquency rate (60 days or more past due) for personal loans is 3.90% as of Q4 2023, down from 4.14% a year ago.

The personal loan market is dominated by depository institutions like banks, thrifts, and credit unions, but finance companies hold nearly a fourth of these loans. Fintech companies provide the largest loans on average, followed by banks, credit unions, and finance companies.

Personal loan debt has seen substantial growth over the past decade, with a brief decline in 2020 due to the pandemic. As of early 2024, average personal loan rates have risen more slowly after an initial spike in 2022.

**What impact has the pandemic had on personal loan trends?**

* There has been a substantial contraction in the personal loan market, with a reduction of 30 to 40% in demand for personal loans combined with a marked contraction in the supply of credit across nearly all lenders. This has created a "perfect storm" in the personal loan market.
* Lenders have either paused lending completely or severely restricted who they lend to by significantly tightening their credit criteria. Some lenders are excluding or restricting lending to consumers in high-risk sectors or who are self-employed.
* The weakening in bank lending could result from both a curtailment of loan supply and a decline in loan demand. To curb the spread of COVID-19, governments have adopted various measures like lockdowns which have impacted the ability to purchase products or services that personal loans are used for.
* While the share of personal loans in the total credit market is increasing, the average ticket size and disbursements have gone down. Loss of jobs and downturn in business due to lockdowns are major factors behind the low payment performance of personal loans.
* More women have resorted to unsecured personal loan borrowings rather than home loans or auto loans during the pandemic.
* Personal loan originations fell during the pandemic, and debt grew at a slower pace than it did in 2019.

**How has the pandemic affected the approval rates for personal loans?**

* The drop-in approval rates during the COVID-19 pandemic is most acute for personal loans, with a 30% decline. Loans against property (LAP) also saw a 28% drop in approval rates.
* When the pandemic hit, people with personal credit scores between 600 and 659 saw the sharpest decline in personal loan approvals.
* Lenders have severely restricted whom they lend to by significantly tightening their credit criteria. Some are excluding or restricting lending to consumers in high-risk sectors or who are self-employed.
* There has been a marked contraction in the supply of personal loans across nearly all lenders, creating a "perfect storm" along with the demand reduction.
* The weakening in bank lending could result from both a curtailment of loan supply and a decline in loan demand, as lockdowns have impacted the ability to purchase products or services that personal loans are used for.

**Inference**

* Personal loan balances reached a record high of $245 billion in Q4 2023, up 10.4% year-over-year.
* 23.5 million Americans owe personal loan debt, a 4.4% increase from the prior year.
* Personal loans account for 1.4% of outstanding consumer debt and 5.0% of non-housing consumer debt.
* The average personal loan debt per borrower is $11,773 as of Q4 2023, up from $11,116 a year earlier.
* 54.3% of borrowers take out personal loans to consolidate debt or refinance credit cards.
* The delinquency rate (60+ days past due) for personal loans is 3.90% as of Q4 2023, down from 4.14% a year ago.

**Impact of the Pandemic**

* Personal loan demand contracted by 30-40% during the pandemic, while lender supply also markedly declined, creating a "perfect storm."
* Lenders tightened credit criteria, excluding or restricting lending to high-risk sectors and self-employed borrowers.
* Personal loan originations fell, and debt grew at a slower pace than in 2019.
* Delinquency rates peaked at 4.14% in Q4 2022 but have since improved to 3.90%.
* The pandemic accelerated the shift towards digital lending, with fintechs providing the largest personal loans on average.

**Changes in Approval Rates**

* Personal loan approval rates dropped by around 30% during the pandemic.
* Borrowers with credit scores between 600-659 saw the sharpest decline in approvals.
* Lenders significantly tightened credit criteria, leading to a contraction in loan supply.
* The decline in approvals was driven by both reduced supply and demand for personal loans.