
Q4 2018 overview of creditors sector

At the end of 2018 there were 51 creditors in the market and eight credit intermediaries operating in Estonia. There were 12 creditors operating with an exemption, which is those in the same consolidation groups as banks.

Key indicators	Q3 2018	Change	Q4 2018
Balance of loan portfolio	995 mln €	?	1 bln €
Number of contracts	496 656 tk	?	539 764 tk
Net interest income	26,3 mln €	?	28,3 mln €

The portfolio of outstanding consumption loans of creditors increased in the fourth quarter of 2018 by 4.1%, or 41 million euros, to reach over 1 billion euros by the end of the year. Car leases provided the largest part of the quarterly growth with 25 million euros, and of yearly growth with 123 million euros.

Like earlier, companies associated with credit institutions had 80% of the outstanding loan portfolio of creditors at 832 million euros. The remaining 20% of the market was held by licensed creditors that were not associated with a credit institution.

The quality of the loan portfolio of creditors associated with credit institutions is very different from the quality of that of other licensed creditors. The quality of the loan portfolio of creditors not associated with credit institutions remains worse than that of the consumer credit portfolio of creditors operating with an exception for almost all types of loan. The lowest quality is other monetary credit, effectively unsecured small loans, which was 11.8% of the portfolio. Other monetary credit is equally the most common product, with 55% of the total portfolio.

The stock of overdue loans from other creditors operating under a licence at the end of the year reached 15 million euros, which is 15 times the 0.9 million euros of overdue loans at creditors associated with banks.

The quality of the loan portfolio at creditors associated with banks is very good, and the largest share of loans overdue more than 90 days are loan products for hire purchase of assets, at 0.9% of the portfolio.

As well as making consumption loans to private individuals, creditors also issue loans to businesses. The stock of loans to businesses stood at 2.3 billion euros at the end of 2018, having been 2.1 billion at the end of 2017. The biggest stock of corporate loans is at companies associated with credit institutions.

Main development trends and risks

- The average annual percentage rate on consumer loans, which means leases, other credit and hire purchase taken together, is very different at creditors associated with banks and at other creditors, as it was 9% at creditors associated with banks and 46% at other creditors. The rise in the annual percentage rate of other creditors in the second half of 2018 was caused by the two creditors with the largest turnover issuing loans at higher rates than previously. The annual percentage rate for credit at the banks averages 20%.
- The quality of the loan portfolio of creditors varies widely and depends on the type of consumption credit provided. The quality of unsecured targeted consumption loans, or other monetary credit, is notably worse than that of other types of consumption loan like mortgages and leases.
- The biggest risk in the creditor sector is still the ability of companies to meet requirements for responsible lending. As responsibility for meeting the requirements for responsible lending lies with the managers of the creditor, one risk is in the structural design of the creditor as an organisation. The second risk point in meeting the requirements for responsible lending is the obligation for creditors to check the information submitted by consumers. This means that one risk point for creditors is how available, comprehensive and accurate information on the consumer is.
- A tendency has been noted of late for some creditors to withdraw from their operating licence. There may be several reasons for this, such as the tough competition in the market, strict legal requirements or the desire to find a new form of business activity.

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