The loan danger

Payday loans offer a short-term solution when your cash won't stretch to the end of the month. But new *Which? Money* research reveals poor practices that could leave consumers' finances and personal data at risk

WHAT YOU'LL LEARN

- The dangers of short-term loans
- Techniques used by online payday loan companies
- Where to borrow small amounts for short periods at lower APRs

Consumers took out £1.9bn in payday loans in 2010, up from £1.2bn in 2009, according to recent research. With ongoing economic uncertainty and mainstream banks still reluctant to lend, the market is likely to grow further. We've investigated eight payday loan websites and uncovered significant problems, including what we believe to be breaches of the Consumer Credit Act (CCA), poor privacy provisions and inflated APRs.

Credit licences

Any company that offers credit services must be correctly licensed by the Office of Fair Trading (OFT). Payday loan provider Easyloans Ltd shows a credit licence number on its Paydaykong site, but this does not cover the name Paydaykong.com, so we believe it's in breach of the CCA. We asked the company about this serious omission, and its spokesman said: 'I'm sure this is nothing more than a simple oversight.' You can check if a website is licensed by visiting www.oft.gov.uk.

Swiftmoney.co.uk, a trading name of New Forest Finance, offers payday, unsecured and secured loans. However, the APR on loans is not displayed anywhere on the website and the company failed to respond to our emails and phone calls. We've reported both companies to the OFT.

Data protection and privacy

When you apply for a loan online you have the right to opt out of receiving marketing materials from that company, and you must actively consent to receiving third-party marketing before a company can share your details with other companies, usually by an opt in. We believe two payday loan websites fail to give consumers this option.

A *Which? Money* researcher applied for a loan of £100 through Quick-payday.co.uk. The loan was then provided through another group website, Quickquid.co.uk. Both are trading names of Casheuronet UK. Quick-payday's website has only one tick box to accept the terms and conditions and the privacy policy of the lender before you can get a loan.

By ticking the box, you are also agreeing to accept marketing from the company and 'carefully chosen marketing partners.'

We think it is poor practice to only allow consumers to proceed with a loan application if they accept marketing and only to explain this in the small print. When we queried this with Casheuronet UK, the company said it had clarified the wording on its websites and told us that neither website actually shares customer data with third-party marketing partners.

Unsolicited emails and calls

However, within a few days of making his application, our researcher had received 47 unsolicited emails from third-party promoters about other payday loans, impaired-credit loans and claims management services, most addressed to him by name and many from companies based in the USA. He also received repeated calls on his mobile and home

£100 for one month: how much?

Payday loan companies often claim that they compare favourably with overdrafts. While this is usually true of unauthorised overdrafts, if you have access to an authorised overdraft this will usually be much cheaper. The table below compares the cost of borrowing £100 over one month using payday loans and bank and building society overdrafts. Charges are based on one £100 transaction on the first day.

£100 BORROWED OVER 31 DAYS	
	COST
PAYDAY LOAN COMPANIES[a]	
QUICK-PAYDAY.CO.UK	£20.00-£30.00
QUICKQUID.CO.UK	£20.00-£29.50
PAYDAYBANK.CO.UK	£25.00[b]
PAYDAYKONG.COM	£25.00[c]
PAYDAYLOAN.CO.UK	£25.00
PAYDAYUK.CO.UK	£25.00
WONGA.COM	£36.72[c]
UNAUTHORISED BANK AND BUILDING SOCIETY OVERDRAFTS	
CO-OPERATIVE BANK	£21.24
NATIONWIDE BS	£21.50
FIRST DIRECT	£25.00
HSBC	£26.50
LLOYDS TSB	£81.46
BARCLAYS BANK	£110.00
SANTANDER	£125.00
HALIFAX/BANK OF SCOTLAND	£150.00[d]
NATWEST/ ROYAL BANK OF SCOTLAND	£186.00
AUTHORISED BANK AND BUILDING SOCIETY OVERDRAFTS	
FIRST DIRECT	£0.00
SMILE/CO-OPERATIVE BANK	£1.35
NATIONWIDE BS	£1.61
BARCLAYS BANK	£1.64
NATWEST/ROYAL BANK OF SCOTLAND	£1.69
HSBC	£1.69[e]
SANTANDER	£5.00[f]
LLOYDS TSB	£6.61[g]
HALIFAX/BANK OF SCOTLAND	£26.00[d]

a We reviewed the biggest online payday lenders by 12-week UK Google clickthrough rate for the search term 'payday loan'. We've not included services advertised as aggregators. Swiftmoney.co.uk is not included in this table due to its lack of charges information and its inappropriate level of site security and personal detail required **b** 28-day loan **c** 30-day loan **d** After deducting the £5 that Halifax pays if customer funds their account with at least £1,000 each month **e** Assumes this is the first overdraft in last six months. If not, fee is £26.69 **f** 0.50p per day (capped at £5 per month) **g** Includes £5 per month overdraft fee

Which? online

Visit www.which.co.uk/waystoborrow for details of cheaper alternatives to payday loans

In the magazine

For more details on payday loans, see Money Made Simple, p34

telephones. Almost half of the payday loan emails falsely claimed that an application had already been made to that company. Casheuronet UK is currently investigating the matter and we have reported the case to the Information Commissioner's Office (ICO).

The privacy policies of both Paydayuk.co.uk and Wonga.com say they may pass your details to third party lenders or brokers if your application is declined. PaydayUK told us that consumers can opt out after rejection but before details are passed on, and that it will review its privacy policy. Wonga said that, in practice, it doesn't pass on your details. We think both websites should clarify their wording immediately.

Poor website security and admin

Three of the websites we looked at – Swiftmoney, PaydayUK and Paydayloan – failed to use the more secure https web address in all browsers for their loan application pages, potentially putting your personal details at risk. We're concerned that Swiftmoney requires you to enter your bank account details on an unsecured page.

We also have concerns over offline data security. PaydayUK approved a loan, but only if our researcher sent a significant amount of personal data by email or fax – both potentially risky. This included a copy of her driver's licence and both sides of her debit card.

Some of the websites couldn't even get the basics right. One applicant to Wonga was told that his application had been 'referred' and that someone would be in touch with a decision. Despite several follow-up emails from our researcher, no reply ever came.

Paydayloan was even worse. We successfully applied for a loan and were told it would be paid on 13 July, but it wasn't. We spoke to the company, and were assured that the money had already been transferred, but a follow-up call confirmed that it hadn't. We finally received the money on 25 July, far too late if you need the cash urgently.

Misleading APR comparisons?

Payday loan companies often claim that the advertised APR on a payday loan is unhelpful due to the short timescale, and also because it's poorly understood by consumers.

However, some payday loan websites fail, in our opinion, to give a fair picture to their customers. PaydayUK, for example, compares three- and five-year loans (both with a 19.9% APR) with a 30-day payday loan with an advertised APR of 1,737%. It compares the actual interest paid under each option, concluding that the interest repaid on the longer-term loans is 'much higher than a payday loan'. We think this argument is misleading as an interest charge

> 'We're warning those who offer payday loans that if they do not do so responsibly we will not hesitate to take action to protect vulnerable consumers' *Office of Fair Trading*

PHOTOGRAPHY ALAMY, GETTY IMAGES

of £153 on a £500 loan over three years is clearly much better value than a £125 charge for just one month.

Most companies set your loan, and its charges, in relation to a future payday. In many cases you'll pay the same amount of interest whether you're borrowing for 14 or 31 days. On 14 August, we asked PaydayUK for a quote on a £100 loan, setting our payday as the last day of the month. We were still quoted the standard charge of £25, despite the short period – equivalent to an APR of 16,203%.

Unrequested loan roll overs

Payday loan companies defend their high charges by claiming that they're only designed for short-term borrowing. Several companies in our test, however, encouraged borrowers to extend (roll over) their loan, sometimes for several months.

Paydayloan has a prominent statement on its homepage reading 'Loan extension guaranteed', while PaydayUK repeatedly contacted us, offering to roll over the loan.

When you apply for a loan with Quickquid, it gives two options: a one-month or a two-month loan. The company describes the latter as 'our most popular option', which we're concerned may encourage customers to extend their loan period even before they have taken it out. As soon as our researcher submitted his application to Quickquid, the on-screen message read: 'Need more time to pay back your loan? Don't worry, you still have five extensions available.' In the days before repayment was due, Quickquid sent several roll over offers by email and text message.

Worse still, even though our researcher initially applied for a one-month £100 loan, when he revisited the website and asked about a new loan, he was surprised to be offered £1,200. He was also told: 'You've reached our discounted rate tier – only pay £12.50 per £50'. This could encourage consumers to take on more debt in the false belief they're getting a better deal – the 'discounted' rate of £12.50 per £50 borrowed is exactly the same rate as our researcher paid for his initial loan.

Are credit caps the answer?

Payday loans are by their nature expensive. The short timescales, small amounts, credit checking costs and the higher risk of default by the borrower combine to push up lenders' costs.

Imposing an interest rate cap could make payday loans more affordable, but risks shrinking the market. It may even exclude some individuals from legal borrowing altogether.

Which? agrees that the regulator should be able to introduce caps, but only if justified by a full market investigation, aimed at establishing the effect on people at the edge of the lending market. The OFT has announced plans to commission such research.

So should payday loans be capped or banned altogether? Have your say at **www.which.co.uk/paydayloans**.

which? Conversation

A mixed bag: many of the eight loan companies we investigated have significant problems

Two researchers applied for a £100 loan with PaydayUK. Both were told by letter: 'When you have paid back your outstanding loan, you will be eligible to borrow more – you are already pre-approved.' The amount they could borrow increased for each subsequent loan, in one case to £250 on the second loan, £440 on the third and £620 on the fourth.

Many payday lenders claim that they don't charge interest on interest. Before a loan is rolled over, the previous month's interest has to be paid off. However, consumers can easily apply to two payday lenders in alternate months, using one loan to repay the other, including the accrued interest. By telling customers that their future loans are pre-approved and bigger each month, lenders are effectively building long-term borrowing with compound interest into their lending structure.

The trade body for short-term lenders, the Consumer Finance Association (CFA), has recently published a code of practice for its members. Point two states that members will 'never encourage customers to borrow more than they need'. CFA members include Quickquid and PaydayUK; we believe both are acting inappropriately. Three of the eight websites (Quickpayday, Quickquid and Paydaykong) failed even to signpost struggling consumers towards free debt advice.

The OFT told Which? that it 'is warning those who offer payday loans that if they do not do so responsibly it will not hesitate to take action to protect vulnerable consumers'.

Quick cash, unacceptable service

Payday loans can offer quick access to cash. However, our research unveils a litany of poor practice. From minor administrative confusion through to no consumer credit licence at all, many payday loan companies are failing to give their customers the service they deserve, with several falling far short of acceptable standards.