Money Advice Trust comments on the Competition Commission – Payday lending market investigation Statement of issues

About the Money Advice Trust

The Money Advice Trust (MAT) is a charity formed in 1991 to increase the quality and availability of money advice in the UK. We work with the UK's leading money advice agencies, government and the private sector to increase the availability of money advice, improve its quality, and enhance the efficiency and effectiveness of its delivery.

MAT's vision is to help people across the UK to tackle their debts and manage their money wisely.

MAT aims to support individuals and micro-businesses in the UK through their debts and into financial health, and to improve the capability, quality and efficient delivery of free independent money advice by:

- Delivering advice to the public via National Debtline, Business Debtline and My Money Steps;
- Supporting advisers;
- Making the case for free money advice;
- Coordinating initiatives to improve money advice;
- Sharing research and information to shape and influence policy.

Introductory Money Advice Trust comment

We welcome the opportunity to comment on the Competition Commission's thinking in the draft Statement of Issues. This, we understand, sets out the Competition Commission's initial thoughts on the appropriate framework for the investigation.

Comments on individual issues

We would like to raise the following points.

We note that point 34 of the Statement says:

Basic lending fees and charges, including the initial interest, account for the greatest proportion of payday lenders' revenue, between 59 and 64 per cent according to the OFT compliance review. This means that between 36 and 41 per cent of payday revenue would have derived from other sources such as revenue from rolling over or refinancing and other fees and charges.

We would like to stress the critical importance to potential customer detriment of certain apparent distortions in the payday lending market which were highlighted in the OFT compliance review. Given that the profit made from the extra charges on rolled-over loans appears integral to the business models of many payday lenders, this may serve to encourage inadequate affordability assessments (thus contravening the OFT Irresponsible Lending Guidance[1]), and even lead to the deliberate targeting of people in the most vulnerable situations who are most likely to roll-over the loan or default.

There would therefore seem to be a direct link between the business models under which many payday lenders operate and the deepening of many customers' debt problems. We are concerned that this issue has not been given sufficient emphasis in your statement of issues document. A business model that relies for its profitability upon customers' failing to pay on time, could be considered to be a broken business model.

People in vulnerable and crisis situations will, in our experience, be particularly likely to default if their financial situation and capacity to repay are not adequately assessed. It is therefore imperative that any weighing up of elements of consumer preference (for example speed and convenience of being granted a loan) takes into account those for whom the consequences of inadequate affordability assessments may be particularly severe.

[1] The Irresponsible Lending Guidance requires an assessment of affordability to be taken into account when lending to customers, which involves "a reasonable assessment of whether a borrower can afford to meet repayments in a sustainable manner".

We have seen no evidence that potential customers select payday loans on the basis of comparing relative costs of the products or even on the basis of which company offers a lower interest rate. We would suggest that if elements of the payday lending customer market are motivated by desperation or immediate need, then the difference between an APR of 4,000% and 4,010% is not likely to influence their thinking when selecting a loan, whereas advertising that grabs their attention may well do. Neither would represent a “best value” product choice in such circumstances.

As part of our submission to the OFT investigation into the payday lending industry, we provided results from a survey of National Debtline and Business Debtline clients. We have also promoted the Citizens Advice survey on payday lending to clients who are experiencing problems with payday loan debts and suggested they complete this questionnaire. This social policy evidence therefore represents input by clients of our services. We anticipate the Commission will take account of that evidence as part of its investigations.

Money Advice Trust

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