ADDRESS
PO Box 361, Ashford, TW15 9DZ

TELEPHONE 07787 503545 EMAIL info@MYJAR.com WWW MYJAR.com

Mr Matthew Weighill,
Inquiry Manager,
Competition Commission,
Victoria House,
Southampton Row,
London,
WC1B 4AD

19 August 2013

Dear Mr Weighill,

Payday lending market investigation - Publication of issues statement

Thank you for your e-mail dated 13 August inviting comments on the issues statement that has been published. We would comment as follows:

MYJAR is the trading name of TxtLoan Limited.

Paragraph 10

The issues statement acknowledges that the demand for small, unsecured short-term loans to meet temporary gaps in cash flow is not a new phenomenon. It is also not a new phenomenon that these temporary gaps can be urgent, unforeseen and extremely difficult for individuals, typically on low incomes or with a poor credit record, to plan for. The report by Bristol University's Personal Finance Centre (March 2013) highlights that many users of short-term loans choose this form of borrowing for a number of reasons including convenience, lack of ready alternatives and the reputation of the lender.

The statement of issues defines payday loans as "unsecured loans which are generally taken out for less than 12 months, and where the amount borrowed is usually less than £1,000". However for the purpose of the inquiry you have excluded home credit, credit cards, credit unions and overdrafts. We note from the report by Bristol University that users of payday and short-term loans are also typically users of credit card cash advances and unauthorised overdrafts. We also note from the research referred to in the report (Section 6.6) that unauthorised overdrafts can be significantly more expensive than short-term loans of a similar amount and term. We believe therefore that the scope of the inquiry should be extended to include cash advances and unauthorised overdrafts. We agree that it is appropriate to exclude home credit on the basis that there has recently been a full review and changes made within that sector.

Paragraph 12

The issues statement recognises the growth in the market for short-term loans and the causes for this are reflected partly in the Bristol University report and referred to in Paragraph 10 of the issues statement, including ease of access and trust in the providers. The growth of the sector also results from the refusal of the traditional High Street lenders to engage in this part of the market and the high cost for borrowers who use unauthorised overdrafts as compared with the transparency of loan terms offered by many in the short-term lending sector. (See also comments under your Paragraph 39).

Paragraph 17

We have reviewed the BIS customer survey. Whilst we appreciate that this is independent of the Competition Commission, the nature of the questions will inevitably lead to misleading outcomes. We have attempted to complete the survey based upon our product that importantly does not allow rollovers or extensions as we automatically arrange a suitable repayment plan with our customers as soon as they tell us they are unable to repay us on time. For example:

> Q.5 Did the lender check your personal finances and general situation to see if you were able to pay back the loan? – The applicant is likely to be completely unaware of the checks carried out.
>
> Q.7 Did the lender ask you to provide documents about your personal finances and general situation to check that you could afford to pay back the loan? – Almost no retail lenders seek evidence/documentation of this type.
>
> Q.18 Did the lender let you make the decision to extend the loan without pressurising you? – The correct answer for MYJAR customers here would be "no" as we do not offer rollovers but the subsequent questions about rollovers would also all be "no" suggesting that we give insufficient information about rollovers when we don't offer them in the first place.

There are also questions about information provided about Continuous Payment Authorities at the time the customer borrowed that are likely to rely on their memory of information that may have been given orally or on screen but not paid great attention to. The survey covers loans taken from 26 November 2012.

Paragraph 32

Whilst it is undeniable that the top 3 lenders account for a significant proportion of the market, this does not imply that the market is uncompetitive. The market characteristics are far from monopolistic, there are 240 registered pay day lenders in the UK and this ensures that there is significant choice of product type, delivery channel and cost. Part of the media comment from local communities is that there is too much choice of providers on the High Street, not too little.

The concentration of lending is a function of this being a young market and reflects first mover advantage for a small number of participants who had the capital to drive consumers to their brand. It is the regulator itself that can improve the spread of lending in the market by normalising the sector through clear, effectively and monitored regulation. With better regulation the sector will benefit from new serious entrants and more capital as investors take comfort in an industry that is now through the worst of the regulatory changes.

To that extent, we welcome the FCA promising more intrusive, robust and transparent regulation due to be implemented in April next year.

Paragraph 39

The issues statement identifies that the average cost of a payday loan of £100 for 30 days is in the region of £25. We believe that it would be more balanced to reflect in the statement the spread of costs of payday loans from the evidence that you already have obtained rather than the average cost.

In Paragraph 14 of the issues statement it is noted that payday lending has indeed "been, and continues to be" a sensitive issue which has attracted a large amount of political and media attention". The focus of that attention has been largely been on the misleading Annual Percentage Rate that certain lenders are required to use. The same measure is not required for unauthorised overdrafts which in cash terms can work out significantly more expensive for borrowers – see below. The APR is an extremely poor indicator of true costs but it remains one of the key factors driving interest and the referral of the sector to the Competition Commission. It would be significantly more proportionate to apply a more balanced measure such as true cost of credit applied across all account types available in the short-term sector. This could include the cost of overdrafts, authorised and unauthorised, credit card (purchases, balance transfers and cash advances) and short-term loans, including those where rollovers and extensions are part of the offering and those offered by companies such as MYJAR, where such irresponsible practices are not permitted.

The average loan made by MYJAR is between £165 and £170 and we therefore sought to compare the cost of borrowing by customers of a nominal amount of say £200 from us and by way of unauthorised overdraft from a number of High Street banks. The comparison showed that customers taking a loan from us and not paying it back for one month would pay charges and interest to us of £114, whereas they would pay between £28 and £192 (the average charge being £117) on an unauthorised overdraft. These figures suggest that APR is, and continues to be, a poor measure of cost.

Bringing the cost of credit card cash advances and unauthorised overdrafts into the inquiry would also enable the comparison to be made between lenders' preparedness to offer forbearance. The great majority of short-term lenders stop all interest and other charges accruing typically after 60 days from default (we stop after 43 days). Other retail lenders do not offer such concessions and these are key elements to be taken into account when considering the competitiveness and fairness within the market.

Paragraph 44

The issues statement refers also to barriers to entry to the market. Due to the more general reluctance of banking and payment services providers to be associated with short-term lenders, it is intensely difficult for properly authorised and licenced participants in the sector to trade. The limited number of service providers, in some cases apparently cowed by public opinion, could in itself act as a severely anti-competitive pressure. If genuine short-term lenders who wish to operate to high ethical standards are unable to obtain resilient banking and payment services, they will quickly be unable to trade and customers who choose to borrow from short-term lenders will suffer reduced choice and perhaps be forced to borrow from unlicensed and unethical participants; there is no indications that the High Street banks are prepared even to compete in let alone fill the gap left by a reduced number of short-term lenders.

A further strongly anti-competitive feature is that retail banks and mortgage providers are actively using credit reference agency data not to lend to people that have searches from short-term lenders registered. Not only does this reduce the choice for borrowers but it also entrenches them in short-term lending solutions and potentially excludes them from more suitable medium- and longer-term products.

We would be pleased to discuss these issues if the opportunity were available and can provide you with further information supporting our concerns if required.

Yours sincerely,

Paul Smith
Group Compliance Director