COMPETITION COMMISSION
PAYDAY LENDING MARKET INVESTIGATION

Notes of a multilateral hearing held at Competition Commission, Southampton Row, London on Thursday 17 October 2013

PRESENT:

FOR THE COMPETITION COMMISSION

Simon Polito	- Chairman
John Harley	- Member
Katherine Holmes	- Member
Ray King	- Member
Tim Tutton	- Member

FOR THE STAFF

Tim Jarvis	- Inquiry Director
Andy Toner	- Inquiry Co-ordinator
Sue Aspinall	- Inquiry Manager
Matthew Rees	- Director, Remedies and Business Analysis
Adam Land	- Director, Finance and Business Analysis
Sally Ronald	- Director, Finance and Business Analysis
Grahame Reeve	- Economic Adviser
Robert Ryan	- Economic Adviser
Sarah Subremon	- Legal Adviser
Samir Lecheheb	- Legal Researcher
Sheila Robinson	- Statistician

FOR CONSUMER AND DEBT SERVICES AGENCIES

Linda Isted	- Acting Communications and External Relations Manager, Debt Advice Foundation
Martyn Saville	- Principal Policy Adviser, Which?
Fraser Sutherland	- Policy Officer, Citizens Advice Scotland
Peter Tutton	- Head of Policy, Stepchange
Nick Waugh	- Senior Policy Researcher, Citizens Advice

Digital Transcription by WordWave International Limited
(a Merrill Corporation Company)
8th Floor 165 Fleet Street London EC4A 2DY
Tel No: 020 7421 4043 Fax No: 020 7424 1424
Email: mlsukclient@merrillcorp.com

THE CHAIRMAN: Good morning and welcome to the CC. We are very grateful to you for coming here and helping us in our inquiry and thank you also for the various submissions that you have sent to us already. I am very grateful for that. I think we are likely to have a fairly full-ish morning, I suspect.
What I would like to start by doing, if I may, is if we could have introductions all round so that we all know who we are and also for the purpose of the transcript. Then I will make a few opening remarks about the procedures. I think some of you have been here before in other capacities for other inquiries and perhaps the procedures, therefore, are well known to you.
Q. Anyway, so we will start with introductions on our side. If I could start off on our left, please.
Q. (Ms Aspinall) I am Sue Aspinall, Inquiry Manager for the CC.
Q. (Mr Harley) I am John Harley. I am a member.
Q. (Tim Tutton) Tim Tutton, I am a member.
Q. (Mr Jarvis) Tim Jarvis, Inquiry Director.
THE CHAIRMAN: Simon Polito. I am a deputy chair of the CC and Chair of this inquiry.
Q. (Ms Holmes) Katherine Holmes, panel member.
Q. (Mr King) Ray King, panel member.
Q. (Mr Land) I am Adam Land. I am a Director of Remedies and Business Analysis.
Q. (Mr Toner) Andy Toner, Inquiry Co-ordinator.
Q. (Mr Reeve) Graham Reeve, I am an Economic Adviser.
Q. (Ms Robinson) Sheila Robinson, Statistician.
Q. (Mr Rees) Matthew Rees, Finance and Business Adviser.
Q. (Ms Subremon) Sarah Subremon, Legal Adviser

Q. (Ms Ronald) Sally Ronald, Finance and Business Adviser.
Q. (Mr Lecheheb) Samir Lecheheb, Legal Researcher.
THE CHAIRMAN: That completes the ranks on our side. Martyn, would you like to start?
A. (Mr Saville) I am Martyn Saville. I am Principal Policy Adviser at Which? on credit and debt issues. Before that, I spent six years on the research side, managing a team in my research group also on credit; so, I have been there for years.
A. (Mr Sutherland) I am Fraser Sutherland. I am from Citizens Advice Scotland. I am a Policy Officer and I focus on consumer policy.
A. (Mr Waugh) I am Nick Waugh. I am a Senior Policy Researcher for Citizens Advice.
A. (Peter Tutton) I am Peter Sutton. I am Head of Policy at StepChange, a debt charity.
A. (Ms Isted) I am Linda Isted. I am Acting Communications and External Relations Manager for the Debt Advice Foundation.
THE CHAIRMAN: Thank you. Just a few words about our procedures. I think we sent you an email a little while ago explaining what the procedures were for this hearing. As you will see, we are having a transcript taken of the hearing and we will hope to produce that within the next few days and then we will send that back to you. We will be very grateful if you would just check it for accuracy in so far as it relates to your own evidence. If you have anything else that you would like to say, to add or amplify anything that you say today, we would be grateful if you could do that in a separate document so we can keep the transcript as an accurate record of what is said today.
We will, in fact, publish the transcript as part of our transparency commitment

and, therefore, if there is anything that is confidential in what you say today, we would be grateful if you could identify it for us.

As regards to the stage of our inquiry, as you all know, although it has been with us for some months, it is actually still at a relatively early stage in our inquiry and we are very much in information gathering mode. We have sent out questionnaires to parties. Some of these are back with us and that process is ongoing at the moment. We will be having further hearings with them and then, as I think you know, we will be issuing in due course our provisional findings which I think we are hoping to do in May/June next year. That, of course, will set out our provisional view as to whether or not there is a problem in this market and also what that problem is. If we do identify problems, then obviously we will be issuing some provisional ideas and what remedies we think might be appropriate.

I am putting that in context merely to indicate that we are still at a relatively early stage in this inquiry and we may have some views but we certainly do not have any conclusions at this stage. If, in asking questions today, it sounds as if we are expressing particular views, please treat those as we are framing them in that way really to try to illicit views and information from you rather than indicating any confirmed views of our own at this stage.

Finally, and at the risk of sounding rather heavy-handed, I am required to remind you that it is a criminal offence under the Enterprise Act to give the CC information which you know is false or misleading in a material respect. I always find that a rather unhappy way to finish off the introductions but there we are!

Just in terms of the way in which we conduct this today, you obviously have a particular angle, each of you, in relation to this market and a particular view on this and you have particular experiences of payday lending and those who run into difficulties. I suspect that in some of the questions we ask, some of the answers may be quite similar. What I was going to suggest, if this is all right with you, given that we have a relatively short time, is that I ask one of you to start, to give an initial answer, and then to go along the row and see if there is anything else that you would like to say. I think if we could try to avoid simple repetition of points that have already been made by someone else that is going to help.

I am probably going to start with you, Martyn, just to give you advance warning. Then the next question will come to you, Fraser, and I will just work along the row, if that is all right with you.

I am going to kick off with some questions. That is not going to inhibit any of my colleagues from dipping in and asking questions as well, I am sure. I just wanted to set the scene really a little bit in terms of technically looking at the way in which we define the market and particular market characteristics. Just to get clear, if only for the record really, what is your involvement really in payday lending and why is it that people come to you and what is the sort of advice that you try to give them. Martyn, if I can throw that one at you.

A. (Mr Saville) Yes, I am probably the odd one out here, almost, in that we do not deal with consumers directly with payday loans very often, just because there are other organisations that do it better on the ground. So, we tend to be signposting.

But a lot of what we do is a huge amount of survey work, so actually speaking to consumers as a mass, but also mystery shopping; the typical sort of Which? activities.

Just as a bit of background I can give almost our key stats on the market. We estimate about a million people a month use payday loans, so it is about four per cent. That has stayed fairly steady for the last year while we have been doing this poll.

In terms of who used it, we found that 53 per cent of people using payday loans run out of money every month before the end of the month; so, just in terms of setting that scene for the desperation of some people that are using it. A further 20 per cent run out of money every 2 to 3 months before the end of the month.

There is one thing I want to say, there is almost that image of payday loan users as just buying shoes or holidays. That is not what we find at all from the people polled. So, things like people paying regular bills, emergencies, rent, mortgage, sort of, food, fuel - all those real day-to-day essentials. About a quarter of people are using payday loans to repay other credit, which I am sure we will come back to later, but that was a quite shocking finding for us. I guess that is the market

I hope you do not mind but I would like to give you a really personal example of payday loans. I took out a payday loan a while ago for the research for Which? So, it was one payday loan, £100, and everything that could possibly have gone wrong pretty much did. So, it turned out I was dealing with a broker rather than the lender, which I did not know at the time.

Within a week, I had received 47 emails from third parties offering me further loans and a lot of them were US-based, so not even regulated in the UK. I received 60 emails from that lender offering me rollovers, further loans, increases. I was absolutely bombarded by extra emails.

One of the first emails I received said, “Don’t worry if you can’t pay your loan back, you’ve got five automatic rollovers available to you”. The next email said, "You've borrowed £100. As long as you pay it back on time, you're pre-approved for £1,200 next time". We talk about detriment in the market but actually just from one loan, I experienced pretty much the whole range of detriment. They were ringing me at home late in the evening. They were ringing me on my mobile. It was all that poor behaviour I experienced myself. So, yes, it is those two extremes. It is the whole market but also personal experience that backs each other up.

Q. Can I just ask in terms of the survey which you conducted, how do you identify the people who are being surveyed?

A. (Mr Saville) We use Populus. It is a monthly survey, general public survey. It is the general public. Then within that we narrow it down to credit users and then we ask people what credit products they use, so we can identify payday users over just users. Then it is the usual sort of commercially representative sample. That is on a rolling basis.

Q. Thank you very much. Fraser, you do have direct contact with the consumer.

A. (Mr Sutherland) Yes, we do. So, obviously we run the Bureau service in Scotland but we also have the consumer phone line service as well that people can come to for advice and help; that they can phone up, a service they can use.

But for payday loans, the biggest contact that we have with people who have had problems is through the Bureau service. In the first quarter in this financial year, that is this year, there were 1,047 clients that we saw with problems with payday loans which is a big increase year on year from last time, indeed, across the entire service;, so that is both the phone line and the Bureau service. There isn't a bigger consumer issue for us than payday loans. That is the biggest issue we see.

So, of all the other different types of consumer problems people might come to us with, payday loans is by far the biggest issue that clients are seeking help.

Why are they coming to us? Well, I think the biggest reason is actually the inability to repay the debt. They have this debt with a payday loan and they cannot afford to repay it. Other reasons are people are left with no money because the payday loan company has used a continuous payment authority to take all of the money out of the bank account and they are in a dire situation, essentially, where they cannot afford basic provisions. So, they end up coming to us because they do not know where else to turn and often that ends up being referred on to Food Bank or other emergency forms of help to see themselves through, for food or electricity and stuff like that.

Other reasons that people come to us are the inability for some of the - or unwillingness I think is the word - creditors to negotiate with the clients. People who maybe have that problem and they are in financial difficulty, to try to negotiate themselves with the payday lender and they do not have any success there. So, they will say, “Look, I can't afford to do this”. I think most of the reaction in a lot of the cases, as what Martin was saying, is, “We can roll it over and we can provide you with more credit” rather than looking at an affordable payment plan. Sometimes, when people come to us, we can help them on their behalf and then start negotiating a better, affordable payment plan for them.

That is one of the sad things that we are seeing at the Bureau is that a lot of the companies are willing to negotiate once the Bureau service gets involved, so it is difficult for us to understand why are they not negotiating in the first place with the client? Is it just because there is somebody backing them up?

That is a real problem, I think.

Q Thank you.

A. (Mr Waugh) I absolutely reiterate everything Fraser said. We see the exact same trends down here and we have had an explosion over the past four years in the number of clients who come to us with debt problems having a payday loan in the mix. It has gone from one per cent in 2009/10 to around ten per cent at the moment. It has been pretty quick.

It tends to be people come to us when they have run out of other options as well. They have exhausted every other opportunity they have got to seek help or get any other forms of credit as well. So, they tend to be in quite dire circumstances. It is very often quite a large straw but a straw that has broken the camel's back.

What we try to do is we will help them agree repayment plans, we will refer them to other agencies who can do the same. We also offer advice online through Adviceguide and we have been trying to encourage people to make complaints to the Ombudsman through our website. It is quite easy to do and the Ombudsman can then get in touch with people directly to do that.

From looking at the cases we get to the consumer helpline, we reckon around 75 per cent of the payday loans would have a case for complaint to the Ombudsman. There is quite a lot of misconduct within the cases that we see coming to us.

Q. Can I just pick up on that? You have talked about this explosion in payday loans. What do you think that is caused by? Is it the withdrawal of credit lines from banks or is it simply the economic circumstances, rise in prices, reduction in income?

A. (Mr Waugh) It is a combination of all the things you cite. I think the coincidence of the financial crisis and the explosion in the payday lending market overall, that is not a coincidence. With living costs having risen steeply in the last couple of years, stagnant wages and the pressure on people who had fairly tight budgets in the first place is particularly acute. For some of those people, they get to the point where either a payday loan is their only option because they are not particularly creditworthy and payday lenders are more willing to lend to people in that circumstance, or they have used every other kind of credit they could possibly use.

A. (Mr Peter Tutton) Similarly to Nick, we are a debt advice charity. We operate in all four UK nations. We are called by about 400,000 people a year looking for help with their debts. Like Citizens Advice and Citizens Advice Scotland, we have seen an explosion in payday debts, even bigger in fact. We have gone from 2 per cent in 2009 to probably something like 20 per cent, maybe even higher, this year. We have seen more people with payday debts. We have seen the number of people with multiple payday debts grow. So, we are now seeing one in five of those people we see with one or more payday debts will have five or more payday debts. We have seen balances increase steadily.

We are now in a place where the average payday loan debt of our clients with one or more payday loans is about £1,600. Their average income is about £1,200-odd. These are monthly repayments. People have outstanding amounts more than their entire net household monthly income. So, clearly they are stuck in a debt trap.

We have seen the average payday loan debts go up by about 40 per cent since 2009. It was just over £1,000. Now, it is about £1,600.

What is driving this? Incomes and cost of living, yes. On average, all the people we see are in severe financial difficulties, we are a debt charity. Things driving payday loans: income is important. The average income of our clients has fallen by about four per cent since 2009. So, this, kind of, squeeze on incomes as widely reported is, as you would expect, felt particularly strongly by people in financial difficulty.

We are seeing a reduction in mainstream credit, so the average debts of people we see with mainstream credit has declined but it is still at around £17,500. That may be one of the drivers, there is less credit, but people are still using credit to get by and to pay down other credit.

I guess one of the big drivers with the multiples of payday loan use we see is other payday loan use. So, among those people we see with one or more payday loans, 65 per cent of them, their contractual debt repayments in all are over 100 per cent of their monthly income.

So, we are seeing people that have got into a cycle of borrowing that has become more and more onerous and more and more difficult to mange. They then get into -- it’s the, sort of, robbing Peter to pay Paul but on steroids, a sort of massive version of that where you are in a hole that you are never going to get out of.

As a consequence, we see people with payday loans are more likely to have rent arrears, more likely to have fuel debt arrears and more likely to have arrears with council tax debt. There are people we see also in severe financial difficulties but do not have payday lending.

So, the argument that, sort of, payday loans are used by people in financial difficulty to manage through, there is a strong counter to that actually using a payday loan to deal with financial difficulty is a sure way for many clients to get yourself in worse financial difficulty.

In terms of demand for payday loans, as well as lending itself, I guess there is question there of to what extent, if you are struggling to pay a fuel bill or struggling to pay your rent, are you taking high cost credit because you are worried about what will happen. The right thing to do would probably be to go and talk to your fuel provider or your landlord and get time to pay.

So, if people are using high cost credit because they are scared of other things, what we see is that drives a cycle of behaviour that gets worse and worse and worse and eventually they fall over - that is the typical phrase we say - and they come and see us.

Sometimes, we are able to get them on an even keel but, like my colleagues from Citizens Advice and Citizens Advice Scotland, we do see the conduct of payday lenders making that worse, refusing to negotiate, aggressive debt collection, dipping into people's bank accounts by the use of CPA and taking all their money and leaving people without money for food or paying their rent. So, there are some conduct issues in there as well which makes it harder for us to deal with people once they are in trouble.

Q. Can I just pick up on one point you mentioned which I think is the average payday loan debt of the customers that you see, you say was £1,600.

A. (Peter Tutton) That is the total balance. So, the average total balance where we see people -- many of our -- most of our -- 66 per cent have more than 1 and 1 in 5, 20 per cent, have 5 or more. That is their total balance. The average individual payday loan debt is about £550. But those with only one payday loan it is about £600-smomething. I think the OFT found market average of about £250.

So, people who are in financial difficulty, the more access, the bigger your credit is and I think this was low and grow. Martyn's experience of you get one and then they ask you for more. So, people who are, kind of, once you are in the system, you get more and more and more. So, in a sense, those people who have got better access or given more payday loans are more likely to be in financial difficulty.

Q. (Mr Harley) Can I just ask one question? There is an interesting comment you made about the fact that they have got rent arrears, council tax arrears, et cetera. Is it your experience that they go to the payday lenders because they can easily get finance rather than if they go to the council to discuss a delay in payments or an energy provider that takes a long time to resolve?

A. (Peter Tutton) I am not quite sure on the sequencing. You may be right there. Certainly if you look at the document the Payday Lending Trade Association produced, and a number of people citing reasons for using payday loans will be things like bill payments. So, I think they maybe think that people are worried, "I can't pay my bill, I can't pay my rent. What do I do? I'll take some credit to help me manage" rather than going to ask them to help. So, people coming to us, we ask our clients, "How long have you been worrying about your debts before you came and sought help?" 40 per cent of people say a year or more. So, there are some significant barriers and we do not fully understand what they are.

I do not think it is necessary that it will take -- say if you go to the council and say, "I'm struggling with my council tax" it will not -- or you go to the gas company and say, "I'm struggling with my gas bill" or the landlord, it will not necessarily take a long time to sort it out. It may be that people are worried that they will not sort it out and you will get a brusque reception, "Cough up or else". There may be reasons that people do not come for debt advice quickly because people are worried if you go for debt advice you, sort of, get picked from being, as it were, a consumer to a debtor.

So, I think there are some serious barriers to why people do not seek to deal with their financial difficulties in a way that will be less destructive in the long term. That is a key issue and getting to the bottom of that is a very, very important issue. We do not fully understand why.

Q. (Mr Harley) That is very helpful.

THE CHAIRMAN: Thank you. Linda?

A. (Ms Isted) Yes, well clearly there is a lot of stuff there. I would say we are quite a small debt charity but we are a specialist debt advice charity -- we do not deal in the kind of numbers of other organisations, so I am not going to quote stats at you because we do not have that level of robustness that Stepchange has to produce those. I am very close to our advisers, so, I can bring you some frontline feeling.

One thing that I would say, first of all, the point about people taking out several payday loans, that is absolutely true. We almost never, I was told we almost never see anybody with just one. Seven, 8, 9, 14 on a canvass of the office was the most anybody could remember.

We are now seeing, just in the past six months or so, a new development which is a new breed of borrower who are going straight to the payday lenders. Now, again, we have done no research as to why they are doing that but I am sure the weight of advertising and general publicity about it is actually the cause. In a way, we are almost as guilty because we are all talking about it and people are aware of them. But we are now getting people that are coming to us just with payday loans.

Now, six months ago, possibly even less than that, I would have said exactly the same as everybody else. It is the loan of last resort, the desperation measure. But we are now getting people who have only got payday loans because they have self-selected. They have seen this as a credit option. It looks friendly, it looks cuddly. Grannies are knitting breakfast cereal, grannies are selling loans and they have gone straight for that. Then they have gone into the same cycle as has been described where you take out more and more. But, as I say, this is really quite new.

As a result, we are seeing a separation from mainstream credit. We cannot say, actually, that these people have been refused credit elsewhere. They have not bothered to ask. Now, we have not looked into it as yet. We are about to start doing that but we have not looked into as yet why they have taken that choice. We think that it is partly the attractiveness of the advertising. We suspect that it is partly to do with an assumption that they would not get credit even if they asked for it because there is a certain amount, as I say, of self-selection. But, you know, others may well have been looking for this as well. This is a clear change.

This links into the point that you were just making about debts and taking out payday loans to pay off existing bills. We are also always aware of the fact that there is a complete -- not a complete but a very strong disconnect between bills and debts. People that take out payday loans do not think they are taking out -- in our experience they do not seem to think, and forgive me, I am going to use words like “seem” because this is from conversations with people when they are questioned, rather than the hard numbers. They seem to borrow from a payday lender to buy something specific. They do not seem to think, “I have debts over here. I’ll borrow here to pay that debt”. It is, “How am I going to buy the groceries this week? I need to borrow, I need some money, I can get money in my wallet from a payday lender”. It is a very clear, very simple line of understanding. It is very easy to understand, "If I go to a payday lender, they will give me money. I can buy stuff" which is not the same as having this great pile of bills, council tax and so on.

The other thing that seems to have an effect on us is the length of the payday loan. Because it is only for a month, it feels less serious but it also feels more urgent. That is something else that we are getting. I do not know if anybody else has got the same. But because of the kind of pressures that Martyn described so well, people want to pay that off. They have no sense of perspective -- very few people realise the seriousness of not paying your council tax, for example, and we all know the clue is in the word, it is a tax. But to most people it is long term, it is always there, councils are always with us, we will be able to sort that out one way or another in the same way as you might think, "Well, my mortgage is over 25 years. I'll be able to sort that out eventually". A payday loan is now, three weeks, four weeks.

So, you have this very different approach. As I say, that is coming through and it is quite new.

Q. I want to try to keep this at a high level at the moment. Do you see a significant difference between the online market and the retail market and there being big operators in the market and the smaller operators? Let us just start through with online retail. Fraser, can I ask you to kick off on that one?

A. (Mr Sutherland) Yes, in terms of the difference between the two, I think for us, obviously we see people that once they have a serious problem with their debt, and we are seeing the same kind of issues no matter whether they have got the debt through an online lender or through an on the street lender, they get the same kind of problems, same kind of issues. As to whether there is a difference in the type of consumer that uses online and on the street, that is not something that we are necessarily we are aware of. There might be but we do not have evidence really to support that.

I think one of the main things, though, is we could say some of the worst cases show that people have both. So, when they have multiple payday loan debts, they will have debts with an online lender and also with an on the street lender.

Q. (Mr King) Is that only for the worst cases or would that be generally?

A. (Mr Sutherland) I suppose it depends how many loans they have got. Obviously if they only have one or two, they might be from the same lender or from the same type. But if they have got -- I suppose the thing is the more they have got, the more chances that they have got both.

Bizarrely, the cases that we have seen which have involved -- this is where we go off track, but we have got evidence of quite a few cases of where children have managed to get loans. Actually, the cases that we have got are actually on the street lenders which might be surprising given that we would think it would be much easier to get it over the Internet. Maybe it is because if you do it over the Internet it is getting paid into a bank account and, therefore, the bank account, they know what kind of bank account you have got and you need to be an adult to get that whereas if it is on the street lending, it is cash in hand. Okay, they are meant to do age checks but in some of the cases that we have seen, that has not happened:

THE CHAIRMAN: But in terms of quantum, it is not as if there is an obvious, a greater number of retail or online customers who are in difficulty?

A. (Mr Sutherland) Maybe the others could say but not to us.

A. (Mr Waugh) Unfortunately it is difficult for us tease out the difference between the two and the clients because of the way our data is recorded. We can try to do it with some of our consumer service data if the lender's name -- if there is more than one lender, they might not be named. We would have to do it by hand, so we do not really know. We, kind of, go with the BIS survey which found there were differences in the demographics. The retail borrowers tended to be slightly older and they had lower incomes than online. The gender balance was fairly even online. Online borrowers tended to be slightly more likely to be male and have a slightly higher income. We do not have any of our own stats on that unfortunately.

A. (Peter Tutton) I only got the questions yesterday and our database, we do have lenders, so we can identify lenders that are primarily shop-based. I did quickly have a look at this. The problem we had, of course, is that so many of our have multiple and they have both. It may be, with a bit of time, possible to look at those with one and see if there is any difference in demographics. We would be very happy if you guys want to poke around in our data, we are only just up the road and we can clean a data set up and have a look. We have got 200,000 a year, so it is a big data set. We would be more than happy to help but I cannot tell you now. I suspect that the differences will not be that marked.

Q. I think that is the point really that I was trying to get at, unless anybody thought there was a different issue here. It is partly demographics but it is also just sheer quantum as to whether the problem is more in the retail sector or not.

A. (Peter Tutton) Both.

A. (Ms Isted) Our experience is the same, yes.

A. (Mr Saville) Yes, the only point to just make is the people we spoke to in poll interviews were very clear that they did not view high street stores as being banks as such. So, there was this message of -- quite a lot of people said they appreciated the human face, the understanding, whereas other people said they went online because it was quick and it was anonymous. So, I think it almost depends on that person's almost state of mind as much as their need.

I think also there is the difference that it is actually cash in hand, so you have got people that operate in a cash environment. On the high street, we are more likely to go to the high street one because it is cash whereas the online one might go straight into the bank account and pays off an overdraft.

So, we do not evidence about detriment as such but I think the mindset is probably different between the two.

Q. Nick, I think you said that you do not keep data on this particular issue, so I suspect you will not be able to answer this one either, as to whether there was a significant difference between the practices and/or experiences of consumers with the larger operators and the smaller operators, whether there is a discernible pattern here?

A. (Mr Waugh) It is difficult to quantify it. But we have had a survey running since last November online and in paper form as well asking people who have used payday loans to fill out a large number of questions. BIS recently ran a very similar survey based on our questions and from the findings in there, BIS found that the larger lenders were slightly better behaved but still not perfect. There were no lenders that came out with a shiny tick and a gold star.

We, anecdotally, do not find that either. We find the same. We do not see any particular lenders having a squeaky clean bill of health. They all cause significant levels of detriment and within that survey, which we have been running since last November, half of the cases or half of the respondents are

accounted for by the largest payday lender and the largest trade body, or the trade body that accounts for the largest number -- the largest proportion of the market. So, we do see the larger lenders fairly heavily represented.
Whether that is a function of being -- accounting for a large part of the market, I cannot answer that.

Q (Mr King) Have you noticed any impact of the industry Code of Practice that came out at the end of the last year?

A. (Mr Waugh) We have not noticed any discernible impact but we have only been asking the questions since last November so it is too difficult to say whether there has been a difference. We do find that, on the whole, the lenders are not meeting the Code of Practice.

A. (Peter Tutton) Similarly, where -- it is a question of, sort of, how egregious you get into the differences. So, in terms of things like what we would call poor lending factors, people with multiple debts, people with payday loan balances they are never going to be able to clear, this is the big ones and the little ones, they are all in the cocktail. In terms of some of the practice problems, the same.
We tend to find a lot of these markets, high cost credit and similarly with some of the commercial debt management, these kind of markets, they are particular targeted towards financially vulnerable people.
You tend to get problems across the market. You tend to get in terms of conduct problems, the bigger lenders, there are some conduct problems but then you have a tail, the smaller lenders, and what you see in smaller lenders is some really, really egregious conduct problems.
So, the difference is no one is squeaky clean. There are problems everywhere. There is a tail in the market that is so far beyond the pale that

you wonder why they are in business in the first place and, more pertinently, why they have not been absolutely hammered by the regulators.

So, we are seeing practices that we thought had died off in the credit industry ten years ago, firms pretending they are debt collectors and bailiffs and threatening people with enforcement powers they do not have, firms continuing to make charges that inflate a debt of £100 to many hundreds of pounds, charging for CPA - a firm using CPA, going into someone’s account three times a day every day of the month and charging £5 for each time they do it.

These are practices which are utterly unacceptable in the credit market and yet they are going on. They are things that we hoped we had got rid of in the past.

So, we see more of that in the tail, so I think there is a difference between big and small. No one is good. There are some real ogres in the tail of the market. But there are structural problems in the big end of the market as well.

A. (Ms Isted) I would support that and say that, ironically, as the bigger lenders are improving their PR, they are cleaning up their act, they are complying and so on, there is an assumption that that approach is throughout the industry. Then we have got all of the tail which, as Peter was saying, it is just outrageous. You could not imagine it.

A. (Ms Isted) There is a smoke screen. They are actually providing the marketing for everybody, including all of these lenders. They are just flying on the coattails and they are also providing a smoke screen for others.

Q. I think we sent you some questions in advance and one of the questions we asked there was really whether we are correctly identifying what we mean by payday loan and you have seen the terms of reference. Within our issues statement I think we expressed that rather more broadly and coupled it up with what we know about payday, but it seems to us there are now lots of different models developing in the market place and actually there is a much more diverse product than we had -- at least than I had understood when we first came across it.

The definition that we have is, effectively, something that is taken out for a short period, generally less than 12 months, generally less than £1,000. As you know, the reference that has come across excludes from our terms of reference, although not from our consideration, other forms of unsecured lending. Does that seem an appropriate definition of a payday loan for the purposes of our inquiry?

A. (Peter Tutton) I think we would be broadly happy with that. I think it is good that you have gone just above the "just a month" thing because, as you say, we are starting to see products perhaps anticipating further restrictions on rollovers, so we are seeing longer terms. So, I think that is right to go a bit longer.

One of the questions that might exercise you is there are other short-term credit products such as overdrafts which are in the same space but are different to payday loans. You might want to look at the relationship but without -- there are specific issues with the short-term term loans particularly about the acuteness of payment difficulty and the way that debts -- a lot of debts are swallowed up with overdrafts, but particularly the acute payment difficulties which seem to be a particular feature of payday loans. So, I think you are pretty much in the right place.

A. (Ms Isted) Yes, I agree but I do think it is seriously important given your timeframe. These people can change in a flash and they are built to flex and change. These are salespeople. That is the area where I think you need to keep watching. The terms are absolutely fine but there will be Lord knows how many different models in 6 months, let alone 18 months. So, I think that is the key thing; that your research team is absolutely on top of the variations which spring up on a daily basis.

Q. Martyn, I think Which? has a particular perspective on this.

A. (Mr Saville) I would reiterate Peter's point about overdrafts just being a direct alternative and is outside the scope. They are just as expensive. Actually, a lot of the practices in there carry over. So, things like when you have rollovers in payday loans, actually an overdraft facility is, in effect, a permanent rollover. So, I think just in terms of that scope.

But just a couple of specific points, just on the £1,000 limit, I think two points there. One is let us look at individual loans but we have heard people are taking out multiple loans. So, the whole thing about looking at the individual's financial situation and a lot of people are going to have debts of a lot more than £1,000. Also my own experience of saying, actually, maybe most initial loans are below £1,000 but, actually, payday lenders let you borrow more than £1,000.

Just as an example, QuickQuid give existing customers loans of up to £1,500. So, I just want to make sure that there is that flexibility in the scope there.

One point, I know payday is technically an unsecured loan but, actually, I would view it more as a secured loan on income because the amount of knowledge that payday lenders have about -- well, by nature, they know when you are going to get paid. So, in effect, they have first dibs on your income when it goes into the bank. The misuse of CPAs, keep going until you get the payment out, keep going with smaller amounts until you get the payments.

In effect, you are securing that loan against income in a way that other bills cannot because direct debits are on a fixed date. I think payday lenders have a disproportionate power that it is still unsecured but it is blurry on that line.

Q. Do you want to take that on?

A. (Mr Sutherland) I think that is absolutely the right kind of terms. Just the same kind of thing that Martyn said; that obviously £1,000 might be a bit of a low ceiling, given that you can get products -- but if you are a first-time customer, you are limited to £1,000 but given that we might expect people to go back for a second or third time, the debt may be higher.

A. (Mr Waugh) Yes, I have nothing to add to that.

Q Just another thing I wanted to ask was whether you are aware of any regional differences in the practices here; online probably not, by definition, but whether, for example, in retail you see any regional differences in practice.

A. (Ms Isted) Others will have robust stats but I am sorry, somebody has to say it, they target people with low incomes. So, we could all draw the map and that is where they target. You see it with their marketing just the same as you see it with their sponsorships. This is their market and some areas respond better than others.

I live in Bolton and I was terribly proud that Bolton came out very strongly with all guns blazing against a payday lender sponsoring their football team. But you could see absolutely why they had targeted the town, obviously. But, as I say, you will have some numbers to back that up.

A. (Mr Sutherland) What we are seeing, I would say, very much mirrors what Nick would see at Citizens Advice in terms of across the UK. I think it is very similar but definitely the point that Linda was hitting on there is in areas where you might expect people with low incomes or areas of deprivation is maybe where we see in the bureaux a lot more clients with these issues. So, people who are in the poorest areas of society are maybe hardest hit.

I think another point that Linda made very clearly is the link in there with sports is actually quite a big thing. Especially, it plays on people's loyalties to their football. People are very passionate about their support for their football club. Linking that in brings the acceptability level of the payday loan company up a lot more.

Last or this season, Hearts Football Club are sponsored by one of the big payday lenders. Actually, they ran a scheme through the football club itself where you could pay for your season ticket using a payday loan for people who could not afford to pay for that upfront, which is, you know, not a great thing for the Hearts' fans out there, especially when the football club is in a lot of financial difficulty themselves, encouraging people to take out loans.

I do think there is this advertising bubble that makes it a very acceptable method of loaning. It is maybe something that you could look at because it may not be the best product for that person's needs but because they have that link to what they feel passionate about in their football club or whatever else, maybe if they are watching TV a lot and they see it all the time, it, kind of, comes into their conscience, the front of their mind that this is the best person to go for money, even though, in their own circumstances, it might not be a very good product for them at all.

But in terms of national differences, Nick can say, but I think we see the same kind of problems that we see in the UK.

A. (Mr Waugh) We have not done any particular analysis of regional differences but, anecdotally, for example Gillingham in Kent is one of the most indebted parts of the country and it has an extraordinary number of payday lenders on the high street. I think they said 26 on 2 high streets that they have there, just by way of illustration. If you looked, you probably would find a correlation.

A. (<u>Mr Peter Tutton</u>) Again, we can dig it out. We have done some regional analysis. There are some differences but patterns are not always clear. We can look at some more.

So, the proposed FCA rules on product data include postcode reporting; that they are proposing to look at loan(?) credit and payday and short-term high cost loans. It would be very interesting to put that data against the, sort of, bank lending data to see the patterns. So, getting that quickly would help everyone to understand to what extent payday is targeted at areas of deprivation, to what extent that is the result of a lack of suitable alternatives from mainstream credit. That is something, if we get that quickly, that might help.

A. (<u>Ms Isted</u>) Are you are going to come back just in terms of relationships and questions of loyalty and so on?

Q. Yes. We have some more detailed questions. This is at quite a high level at the moment and whilst I am still at a high level, you mentioned the FCA and it may be too early, really, for you to have a view on the changes that they have proposed in this particular space. If you feel it is difficult to comment on them at the moment, I would quite understand that.

But do you have views about that proposal, in particular on the numbers of rollovers, for example, and the number of times they can use a continuous payment authority. Martyn, do you feel able, at this stage, to comment on the FCA proposals?

A. (<u>Mr Saville</u>) Yes, I think so. To put a figure on that, I would say it is probably 80 per cent there. So, the things on partial CPAs, a limit on the number of actual CPAs as long as any routes round that are plugged. So, yes, there are arguably ways around -- things like -- I've actually lost my train of thought there … a lot of it is there, so they are proposing -- there are things missing. The two big things that I think are missing, one is looking at overdrafts because it is such a big area, they are just as expensive. A lot of the practices are similar, I have said that already, but it is such a big omission, I think. Linked to that is default fees, so there is no mention of instant action on capping default fees.

There is a lot of talk about capping interest rates, capping - and actually that is going to be useless unless you can actually cap the practices. I am sure we will come back to being able to compare different deals when somebody is picking a payday loan. If you can do it on price, but then you do not know what is going to happen because people have this optimism bias, they assume they are going to be able to repay on time. Nobody looks at default fees, so actually the firms can get away with whatever they like once things go wrong. Peter talked about fees every time a CPA is presented, that is soon going to rack up huge fees.

Q. (Tim Tutton) Isn't that the point, in a sense that -- it is the wider importance. The point is you have a whole range of existing charges and potentially new charges and that has all sorts of implications or whatever. In a sense, I think you are saying that is actually true but it is a much bigger problem.

A. (Mr Saville) Yes, it is. I think it is looking at all the different elements that altogether result in a different real price.

THE CHAIRMAN: Also what other things they might devise in the future.

A. (Mr Saville) Yes and take it away from actual cost as well and the practices are probably the most important there. So, things like the limits on CPAs is probably a good thing. A limit on rollovers, we would like to see a limit of one rollover but actually two is a huge step in the right direction.

My initial reaction is the FSA's mindset is in the right place but there are things missing, I would say.

I add that I reserve the right to change my mind when we actually go through the details in the next couple of months.

Q. Do you want to add anything, Fraser?

A. (Mr Sutherland) Yes, I think, again, it is, kind of, generally a step in the right direction. We have essentially gone from a free-for-all if you like. The Charter was mentioned but, quite frankly, I do not think the Charter has made a bit of difference at all. I think I have seen exactly the same things from even the biggest loan companies as we did 12 months ago even though they are now saying that this Charter -- one of the key things is, "We'll never loan to someone who cannot afford to repay it back". People who are dealing with folk on the front line, that is quite laughable, to be honest, because people are getting loans, even though they have little or very low incomes and there is no way they are going to pay that back at the end of the month. So, I think affordability has to be one of the keys aims now.

I know the FCA touched on that. How that is going to be done, well, we will see. What Martyn touched on with the CPA is, I think it is going to be limited to two. The way that the CPA acts is actually, essentially, the payday lender becomes the preferred creditor and they can go into their bank account and take out the money themselves.

Other creditors, in Scottish law, if you go through a bank arrestment through the courts and enforce the debt, they have to leave a Protected Minimum Balance of £460. So, you are secure and that £460, even though you have gone through a court and the debt has been enforced and that company or whoever enforces that debt on your bank for bank arrestment, they have to leave £460 in that bank. That is under Scottish law. But if you are a payday loan company and you have the right of a CPA, they can clear it out and leave someone with nothing.

There is the legal process that someone has gone through and been found, essentially, guilty, if you like, of defaulting on the loan and they are allowed to keep some money to live on, whereas a CPA, they can just take it.

Q. (Tim Tutton) Can I just pick up one point, you mentioned the Charter says only if it can be afforded will it be approved, but do you have much of a feel for the information, the people you deal with, how accurate the information they have provided to the payday lenders in the first place? Is it, by and large, the payday lenders in your view have got the right information and simply have chosen to press ahead or have they actually been, in some cases, provided with incorrect information by the lenders and so on, for example?

A. (Mr Sutherland) I certainly do not think that they get the right kind of information because I do not see how it could be possible to give someone a loan on an affordable basis within 15 minutes. I do not think you could have done the proper checks and balances within that timeframe which is what some of them are doing. How can you establish what someone's incomes and outgoings are?

I mean, if someone comes into the Bureau and they are looking for debt help, then that Bureau adviser will sit down with them and they will go through all their incomings and all of their outgoings to see what is affordable and all the rest of it. That could take half an hour, 45 minutes in some cases. How can they do that within 10 or 15 minutes? It is just not possible.

So, in terms of affordability, maybe the information they are collecting is not good enough or whatever but they are certainly not making sure that they know that that person can afford it at the end of the month.

THE CHAIRMAN: It is certainly suggested that it is quite difficult to verify that particular information whereas it is easier to make a credit risk assessment. Nick, do you have a view on the FCA proposals?

A. (Mr Waugh) Yes, I think the FCA proposals are, like Martyn says, about 80 per cent there and the devil is always in the detail. It is about what wriggle room there might be for payday lenders, what loopholes we might identify, what ways they might innovate their way around the rules.

But compared to where we are just now, it is a massive step forward. It is not just about the rules; it is about the FCA itself and its regulatory approach. It is such a striking difference to the OFT; through no fault of the OFT, they had the tools that it has.

But we expect that the FCA, even through the authorisation process, will see a fairly sizeable chunk of that long tail Peter referred to earlier disappear from the market, even just purely from having gone through that process. It will not resolve all the issues in the payday lending market overnight but it is progress and we really welcome what they propose.

Actually picking up on your question, I think the affordability assessment is so key to all of this because if the affordability assessment is reasonably accurate, then rollovers cease to be so much of an issue because you would not, in theory, need one and there would be no incentive for companies to lend to people they think might need to roll over.

Which, kind of, leads me on a little bit to a suspicion we have got that we cannot prove, it is just purely a hunch, but sometimes it feels like some of the firms who are very sophisticated in their assessment of their customers are able to judge who might have difficulty repaying to an extent and are keen to lend to them. So, it is not just by accident. There is a measure of design in there as well.

So, getting the affordability assessment quite tightly defined or at least provided for in the FCA rules is really important to stop that, I think.

Q. We look forward to seeing what they are proposing. As you say, we have no detail on that.

A. (Peter Tutton) My colleagues' comments I agree with. The regime itself has not made a lot of difference. Interesting they have threshold conditions as they go through authorisation. Should look at the business model. So, the idea of where a firm's business models are predicated on default, predicated on default charges, trapping people in financial difficulty, we are expecting the regulator to be spotting that and getting some of that out of the market.

I agree with Martyn, rollovers we prefer one. There is some stuff in there on default fees and charges. I think in the 7s, if you delve through the 600 pages, there is a rule on default fees and charges and what is reasonable which, kind of, reads over the month of their terms.

But they have put a thing from the Lending Code in which says that if someone is obviously in financial difficulty, we should freeze interest and charges. Now, that has never worked particularly well when it was a Lending Code provision but it is a good provision to be there. The FCA have it as guidance rather than a rule. So, is it tough enough, do they need to go a little bit further? Do they need to be particular about payday?

Responsible lending, I think, is a key thing. The question you asked about do they have the right data and carry on or are borrowers giving them duff data.

Borrowers are obviously credit hungry, so that is possible when people are in financial difficulty.

I guess the answer to that is, of course, that payday lenders can do things, can look at the credit reference data and see that people are massive amounts -- you know, can they see at the moment -- two questions. The first is they can see that people have a massive amount of debt and may be in difficulty and a loan might not be the right thing. Secondly there is a question that currently they cannot see in real time how many other payday loans you have out. So, the situation we see of someone with more than five, £1,600 outstanding, how is someone going to be able to pay off another payday loan within a month, it is impossible. They are not spotting that. Some of them probably can but they are choosing not to use the data.

This goes to affordable lending. The FCA rules, kind of, codify the previous OFT rules but have not been successful in stopping these kinds of lending practices. High level affordable lending rules, mixed history. If you look at other areas of FCA regulation, like the mortgage market, there, MCOB 11, if my memory strikes me right, is responsible lending.

In 2004, all mortgage lenders were required to have responsible lending policies. Then we had sub-prime lending. When the FSA started up, then the FSA started reviewing it and they found that for some lenders the policy was useless in practice.

That led to the Mortgage Market Review where they came out with some rather more prescriptive requirements on lenders about how they assess affordability.

One of the questions that I think the FCA still needs to answer is in terms of responsible lending. Their rules are largely aimed, and, colleagues, if I have got this wrong, across the whole of the market. At some point we think they need going to start drilling down into the specifics. Because payday is short term, because it creates such acute payment difficulties, is there an argument for more specific rules on how they go about affordable lending?

Then there is a question of supervision. How are they going to actually make sure that lenders comply with these rules? If you look at, kind of, the situation in America where they have things like regulatory databases where you can have some product intervention rules and then the regulator can look in real time to see a firm's compliance.

I think there is a lot to be investigated there because all these loans, 200 and something payday lenders, they will be classed in the lower level of supervision tier, I think, in the FCA model possibly. So, how are they going to get round them?

There are some real questions there about how we are going to get it changed in responsible lending practices. That is one of the areas where I think you could do more work on.

Q. Access to real time data is a key to that?

A. (Peter Tutton) Is a key a part.

Q. Yes.

A. (Peter Tutton) Both for regulation and also for lenders themselves in terms of their credit risks assessments, yes.

A. (Ms Isted) That last one, was a point I found particularly interesting. There is clearly a big hole in all of this. It is the policing of it. I am sorry, there were just too many of them, it was happening too fast, it is online. The regulations can say what they like but you have to be on top of them and you have to be on top of the overseas operators. These relationships - which I hold my hand up and say that I do not really understand because we have never drilled down into it - between the lead generators, the overseas operators, that whole murky area which one never sees any evidence about.

My apologies for banging on about marketing but I do feel that I have not seen strong enough proposals on the marketing of these loans. At the back of my head, I always come back to this comparison with smoking and the campaign over the years against smoking. We have compressed the timeframe but the pattern is similar and I do feel that until somebody really gets hold of the marketing of these things online and the relationships between the marketeers, the providers, the lead generators, the brokers and so on, and puts some strict controls in there, that they have still got huge amounts of wriggling.

Q. (Tim Tutton) It is always dangerous arguing by analogy of course, as you recognise. The smoking one, sure you might want warnings or an advert which says, "This could seriously damage your finances" or whatever, that might be one analogy you might be okay with.

But my recollection of smoking was basically about restricting information flows and product differentiation, the advertising of that, you presumably because you would not go there.

A. (Ms Isted) It is about the level of advertising, where you can advertise and where you have to go to seek information -- no, you are absolutely right. As I say, that we have gone through this case to make the comparisons on that level but my point is that there is the back story to all of this. Behind all of us here, and we are trying very hard not to say it, is that these things are not good for people. They are being touted in a way which suggests that they are easy, comfortable, a solution, cosy, cuddly and not frightening. Whereas, in fact, credit is very serious, very difficult to understand, should not be taken on lightly. The way these loans are presented is, "Don't worry yourself about that. All you have to think about is here's the money and you can take it away".

I do not have a detailed case, in answer to your question. I am just concerned that the way these things are marketed to ordinary people should at least be looked at, I think, much more seriously and in much detail than it is at the moment.

I think that is something that is missing here. It may well be that the FCA -- it is not necessarily its remit but it has been missed out.

THE CHAIRMAN: So, it is not necessarily payday loans specifically there is a more general problem about ease of access to credit?

A. (Ms Isted) I think that they are the people who have taken the marketing to this particular level of implied easiness. There are others that use cartoon characters. The example I used in our response to yourselves was actually a leads generator or a broker and the top line was, "Get cash here" and at the bottom of the screen it says, "We love pandas". Well, that is not a typical piece, but it is an example of how they try to make it warm and cuddly and approachable. We are coming back to the building of a relationship again which is probably a different area of discussion but these people want to be your friend. They want to be the trusted person and there is a very long history of that in the credit business. When we are talking to people who had debts with the Provident and other similar organisations, they very often referred to them as, "My friend". They are perceived as friends. I think that is a relationship, an area of the market that payday lenders are aiming at. That is the kind of relationship we are looking at.

Q. (Ms Holmes) I will just pick up something Linda Isted said earlier, that you are now seeing a new breed of borrower going straight to the payday lender. You said they have self-selected. You could not say whether they had been refused credit elsewhere but they had evidently looked at whatever the marketing or advertising had been in the retail high street and decided to take out a loan.
I would be interested to know whether there is a general trend towards people who have decided, investigated the product and thought it was attractive, as you said, for a short period of time, or whether we are still seeing a large number of borrowers who are those for whom other credit options simply are not available, which I think was the colour I had from some of the others' comments.
A. (Ms Isted) We are dealing with a small number of people and they are coming to us with multiple debt problems. But clearly there is just no comparison between the size of the debts to payday lenders and the size of the debts to credit cards, for example. Forgive me, I have not got the numbers in front of me but we did provide a snapshot to you and those figures make it plain – and everybody else will have those numbers as well. Of course, it is perfectly possible to run your credit card and to retire and then still have a balance. If you have only paid off the minimum amount, you have a great credit record and you have this vast debt still when you no longer have income.
I think, as much as it pains me to say this, we do have to keep a bit proportionality. From our point of view, dealing with people with unmanageable debt, you do have to keep a bit of proportionality here. But certainly with regard to payday lending, we are seeing people who are just

going in and they are not thinking about the rest.

Like I said, we have not investigated why. Whether they have assumed they would not get credit or whether they just have not bothered. This is a new generation of young people. There are all sorts of things which that younger generation are not doing which are different; the way they use mobile phones, and not owning televisions. I know quite a few people now who do not have to buy a television licence because that is not how they consume media and watch films or whatever.

So, it is a different approach and, like I said, it needs looking at. They are just seeing this as a way of getting the credit that they need for this particular item.

Q. (Ms Holmes) The second question I had was that we had some views that quite a high proportion of payday loans are paid back on time. There is some uncertainty about what that means. That may mean payback on time in an agreed schedule. There may be an instalment payment or something.

Quite a significant proportion pay back on time. I am just wondering whether there is a certain amount of tarring with the same brush, if I can put it that way; in other words although some consumers obviously find them useful, they do pay back on time, it gives them money when they require, but there is a lot of criticism just across the industry.

A. (Ms Isted) Well, if we have somebody who has had 14 payday loans, then somebody else can do the stats/maths but that means that 13 of those have quite possibly been paid back on time. It is only the last one that they are struggling with.

THE CHAIRMAN: One of the unusual features here is that actually there is very high consumer satisfaction if you look at the Bristol report. They are exceptionally high, certainly by reference to other areas of financial services. They score very well. So, I am rather assuming we are looking at the small category where they are much less satisfied and whatever the 13 or whatever it was per cent.

A. (Ms Isted) They see it as a one off and they feel that they need to do something about that one now. They are people who come to us with vast amounts of debt, terrifying amounts of debt and the only thing they are worried about -- they are worried about two things. They are worried about the payday loan because, as Martyn said, they are getting phone calls and grief. They are also worried about the guarantor loans because Granny guaranteed the loan and they are not going to not pay the guarantor loan ahead of everything else. This is a different issue because if you are in the debt management business, you cannot do anything about that.

A. (Mr Saville) One of the things we found when we did follow-up interviews was the number of cases, the number of people who we spoke to where they said, "I want to protect my credit rating". I was really surprised, it was a shocking thing. Because actually these were people with completely unmanageable debt and they had tried to carry on, just to take out payday loans to service other debts out of fear of what would happen, and then that would have a knock-on effect on their ability later on to access mainstream credit.

So, people were borrowing from family and friends, they were taking out payday loans just to protect that credit file. Actually, I think there is -- I do not know if this is a very British thing, but people do not want to default. There is that sense of duty that people say, "I've borrowed this money. I want to pay it back". It is almost challenging that mindset that at some point you have to say, "I can't afford it". The problem is there are too many payday lenders exploiting people's real willingness to pay back a loan just by offering a bigger loan.

Q. (Tim Tutton) How do credit ratings work - you are protected by not defaulting but then there is the real time problem. But let us say you go to someone's credit file, and they have got a whole lot of loans outstanding. Does that not affect their rating?

A. (Peter Tutton) It depends on the loans and how the lender uses it.

Q. (Ms Holmes) It depends whether they are in default or not.

A. (Peter Tutton) There are some lenders, more famously some mortgage lenders who say they will not give someone a mortgage if you have evidence of a payday loan on your record.

If we go back to credit cards, say, when credit cards were just using negative data, we would see people on long-term low income who would be able to run up £150,000 over 20 credit cards because they never showed a default. The lenders were not taking any notice of the fact that each month balances on more and more credit cards were going up and up.

Q. (Tim Tutton) Even though they could see that information?

A. (Peter Tutton) Even though they could see that information. So, this is a key point really about lending. It is not just what data the lenders have; it is about how lenders choose to use that data. Is the decision on how they use it totally up to them as a commercial decision, so you can say we are willing to stand this level of default because it is still profitable and we are not going to be worried that it pitches all these people into debt? Or does the regulator say that there is a level of risk they are willing to tolerate in terms of how your practice can affect people who are financially vulnerable?

That is a key argument and debate about credit scoring and the way credit scoring works. They can have the data but how do they use the data.

A. (<u>Mr Saville</u>) I spoke to all three credit reference agencies a couple of weeks ago and they could not agree between them. One them said, "Payday has no effect on your credit rating because the amounts are so small". One of them said, "Actually, it is a good route to build your credit rating because it has built up evidence of repayment". Then the other one said, "No, mainstream lenders will not touch you if you have used payday because it shows that you cannot manage your budget". That was each of the three in turn, and they did not know.

I do not think the individual even thinks about that. They just think it is a big mythical credit score that does not even exist, but they are so worried about trashing it that they will take action to avoid going into default. I do not think they realise most payday lenders do not actually report to credit reference agencies or have not in the past. It is just this mythic fear.

A. (<u>Peter Tutton</u>) I think this links to the point on advertising that where -- what we see, we can give you the stats. We do see some people with only payday loans. We see some other people that have only got payday and other high cost. The majority of them have a number of different mainstream credit products; not as many as people without payday, so there's a bit of, kind of, different behaviour. But often they are using the payday to try, as Martyn says, to keep the show on the road but it makes the problem worse,

Now, to what extent -- suggest that payday lenders, their business models are not taking account of people who are already in financial difficulty and they are advertising, struggling with bills, need emergency cash, will lend to you. How do they sort out people that are in temporary difficulty that maybe that lending will get you back on track and the people that are in structural difficulties that actually they need advice rather than more credit? This goes to the advertising point. One thing we have all noticed is that consumers tend to be a fairly bad consumer satisfaction point. Consumers tend to be fairly bad at recognising when they are in the early signs of financial difficultly.

So, when we ask people and when we look at the patterns of borrowing, particularly if you are a credit user, if you hit a bump on the road, what are you likely to do? Use more credit. Be optimistic that things are going to get better. But it does not and that is how these problems and debt spirals happen.

So, what we might expect and we certainly -- some of the mainstream lenders who do what you they call pre-arrears work and a number of the banks with the data they have, they will look and they will say that they can spot people in the early signs of financial difficulty and some of them have piloted approaches at contacting people sand saying, “Look, we think you’re about to get into trouble and how can we help?” That has been relatively successful in some cases. In a sense, payday loans are doing the opposite. Is their advertising, in a sense, giving the message that if you are in difficulty, have some expensive credit to get over that difficulty.

The OFT, the FCA rules has a thing about a risk warning. We do not know if that will be particularly effective and the BIS research suggests that it will not necessarily be that effective. I think the approach of the regulator saying let us look at the advertising, what should be done, as lenders, targeting people who may be in financial difficulty, to give a message to say really strongly and repeatedly that credit use and credit hit may be the wrong thing to do and actually you may be in difficulty and need advice.

Are lenders doing that? What can the regulator do to make them do that? That seems to be one of the key questions about advertising promotions.

THE CHAIRMAN: Thank you very much. Can I just move on, I think, possibly at this stage. We want to look at some particular questions about the ability of consumers and borrowers to access information about the cost of borrowing. I am going to ask Ray to do that.

Q. (Mr King) So, we have talked very helpfully at a high level about the payday loans market overall. Now, we are going to look at the two theories of harm. The first theory of harm, as you will recall, is all to do with customers' ability to search out and find the best value products and switch suppliers. There are three elements to it. One, are there barriers to customers getting relevant information? Then, we will come on to barriers on customers identifying, from the information, the best offers for them. Then, finally, barriers to switching between suppliers.

I want to kick off by exploring barriers to accessing relevant information. Obviously we have touched on this to a degree so far but if we can just begin to go into it a little bit further.

Could I kick off by asking what your perspective is on the availability to potential borrowers -- the availability of an understanding of the total cost that they would be facing when they borrow and comparing that against other forms of short-term borrowing that they might go for.

A. (Mr Saville) It is a really strange one because actually the cost, the upfront cost, in interest terms, of payday loans quite often is transparent. They make a big thing of it and you compare that to alternatives. I will mention overdrafts again just because they are almost impossible to compare the costs of. We did the test, I think it was last year, asking people to work out the cost of an overdraft. One of the people we asked to test was a maths PhD student and he got the answer wrong. So, we said that if he cannot do it, who can.

But then, just in terms of how information is presented, yes they were very upfront about how much it cost. And yet, I had a look this morning and found, say, someone like Wonga says -- they show the costs of borrowing £150 for 18 days, QuickQuid £200 for 28 days, Payday UK, £275 for 28 days. There seems to be no equivalence between them.
Q. (Tim Tutton) You can move the slider around to get those numbers.
A. (Mr Saville) That was in -- some of them have a slider, some do not but that was just a representative example. Even the regulatory requirement does not ensure comparability between different lenders.
I think I mentioned that whole optimism bias. There is probably my favourite stat in our work was 29 per cent of payday loan users were taking out credit knowing they would not be able to repay it, or suspecting that they would not be able to. But 48 per cent had taken out credit that it turned out they could not repay.
So, that whole mismatch between people just thinking that they will not get into trouble, I will be able to repay it, or not even thinking about it, because it is a month away means yes, you can compare the costs of a loan if everything goes right. But we know that firms make their money out of default fees and out of rollovers. So, in reality you cannot compare.
Q. (Mr King) So, standardisation, do you think a lack of standardisation is a particularly significant issue?
A. (Mr Saville) Yes, I think definitely.
A. (Mr Sutherland) Yes, I mean I think to start off with then, definitely the representative examples are different depending on what site you go on, and even though it is a, kind of, regulated thing, they happen to have on the website, it depends which one you go on what value they give you for and for

how many days. So, there is not a, kind of, standard. It might be easier if they all just stuck with £100 for 30 days and then you could actually compare the cost.

I know maybe they charge different amounts depending on how much you loan for how long which might make it more difficult. But if there is that kind of standard, it might allow people to compare. But the big problem is it is not obvious to people upfront what kind of charges they might face if they default on the loan. Okay, they might know that if everything is hunky dory and you can pay back at the end of month or whatever, you know how much you are going to pay because they tell you upfront or most of them tell you upfront and they make a big deal, as Martyn was saying, about that.

I think there is also a case -- and actually at Stepchange there is written evidence. They had a new case study where there was a chap took out a £120 loan and ended up with £1,800-worth of fees, not interest, fees because they charged so much every time they tried to take money out of the guy's account. So, I am sure when he took out the loan, he had no idea that that is how it could balloon to.

I think there is also a case of people's financial literacy and what they understand and how that impacts on what they might take out. Actually, the University of Nottingham did some research through their Centre for Finance, Credit and Macroeconomics. It showed that those with a poor understanding of financial products and terms had a much higher amount of high-cost credit.

So, people who maybe do not understand, they do not have the skills, maybe, the skill set to understand different financial terms and rates and what that means in reality, means that they maybe do not look to alternative products that might actually suit them a lot better because they might be able to go their Credit Union or to their bank even and get something that would suit them much better. But because maybe they do not understand what APRs and what everything else means, they just go with what is the easiest rather than what it actually costs them.

A. (Mr Waugh) I absolutely agree with what has been said. We tend to find our clients do not really pay much attention to the APR because it is meaningless. They are interested in the cost to borrow whatever it is they are borrowing for whatever period of time. The representative examples on websites are not hugely helpful unless you are seeking to borrow a large sum of money.

You can move the sliders around and you can work it out yourself and say, "Okay, you are borrowing £200 and it's going to cost me £260, so that is costing £30 per hundred" but it is then sometimes quite difficult to then compare with another lender if they do not have the same sliders. It gets complicated quite quickly. Then there is the optimism bias. There are so many permutations and fees and charges and everything else that you could end up. They are not particularly transparent and even if they were, people might not pay that much attention to them anyway.

There is an example again, or an analogy again, in overdrafts where the overdraft fees and charges, as Martyn says, are very complicated. They are reasonably upfront with those, banks now, because they have to be. People still do not understand about them or pay any attention to them. You see the same kind of dynamic happening in this market. It leads to problems.

Q. (Mr King) Do clients show evidence of having tried to compare the cost with other sources of credit or not?

A. (Mr Waugh) We do not have any particularly robust data on that but based on the case studies that we get, yes, they do quite often compare but it's not --

it's one of a number of things they are looking for from a lender. They might be looking for speed, willingness to lend to them, the repayment terms. We have seen payday lenders moving to slightly longer terms as well. So, there is an effort to do that, yes.

A. (Peter Tutton) Yes, I agree with all of this. The issue of contingent charges is not unique to payday. I remember the Competition Commission looked at store cards before when there had been an issue with credit card charges, overdrafts. So whenever you get contingent charges on credit products, it makes understanding what it would cost you very difficult to do.

I think the APR issue is an issue that payday lenders are making a big deal about at the moment. They are campaigning that for payday it is not a good measure. They are probably right but they would be much better off concentrating on doing things like ensuring they are not lending multiple loans to people rather than having a campaign on something that is a peripheral issue actually.

I mean, APR is not a good measure for this. There are two questions: how do you tell between payday loans, X per 100 standardisation there may help. But then how do you tell between a payday loan and, say, an overdraft or something else, which is another question, which is do we need the banks to have something like an X per 100 or something like that.

However, given all that, what we see in the way that people get in trouble with payday loans is this question of people's willingness to pay. So, even if we had more price transparency where people are taking out credit because the devil is at their back driving them, then how much are they going to be price sensitive?

So, is it a question about transparency or more the reasons why people are demanding payday loans?

A. (Ms Isted) I think we are making some huge assumptions here. The first assumption -- two clear ones, well three, actually -- the first one is that most people understand their own financial circumstances. Most people do not and that is without bringing the blinkers down because you do not want to know. You could stop any number of people in the street outside and they will not be able to tell you what their total monthly outgoings are, they will not remember how much they are paying for their car, or they will not know what their monthly food bill is. It is a very tricky thing to do.

The first thing our advisers do with a client is a financial statement. We set aside an hour to do that, as somebody said before, and it very often takes two or three calls because people come with a load of information and then they will say, "Oh no, I don't know about that. I'll need to check that". We are all capable of being like that.

So, that is one assumption, that people know their own financial circumstances. The vast majority do not. The vast majority do not even know what to include in that equation. The one that always give me pause is the question when they get to the pets. Nobody ever includes dog food or --

Q. Can you just clarify when you say "vast majority", is this the vast majority of people you see?

A. (Ms Isted) Coming to us with debt problems, yes, or calling in to us. That is the basis. I am trying really hard not to talk beyond that, so we are talking about people from Debt Advice.

But the other side of what we do as a charity is financial education in schools. That is a growing programme, a good, award-winning programme -- it is secondary schoolchildren who teach primary schoolchildren – and whenever we have parents who see this, they always ask if we can run a class in the school for the parents.

Anyway, so people do not understand their own financial situation. Then, there is the education point. They have almost certainly had no financial education in credit products because even where there has been some financial education in schools, it has not been at that kind of level, it has not been about the principles of this. So, they do not understand their own situation, very many of them. They have had precious little access to education whatever their own personal capabilities of understanding complex financial processes. Then, of course, the point others have made, do they care when actually what they need just now is £500 to resolve a particular problem or to get somebody off their back, well then we can worry about the rest tomorrow.

I do think that we can start focusing on quite tight points without understanding the background that they are coming from.

Q. (Mr King) You have actually almost pre-empted my next question. I would like to explore the mindset of the customer and actually then going for a loan. Is there a degree to which they are looking at alternatives, other payday lenders? What sort of things are they going for? What is the hierarchy beyond, "I must have £500 now"? Do they do what you said, what is happening in the next six months just to scrape through, some of them recognise it and that is it, or do they show evidence of trying to compare and contrast and what sort of hierarchy would they have on need versus price, for example?

A. (Ms Isted) I have to say we have not got any research into that and our figures -- we do not ask those kind of questions, I am afraid. So, while, like everybody else working in this field, one can make assumptions on, we do not have those statistics.

What I would say though is that if you go online and search for payday loans, a great deal of it is indecipherable. You know, I am back to my point about the lead generators and so on. I did look at one so-called payday lending comparison site which is clearly just a marketing site, and there was no differentiation there between UK lenders and lead generators, brokers, overseas lenders. It was just -- wherever they had done deals on the site, it was there. There was no way of differentiating. I would be astounded, personally, if the choice was not usually done on word of mouth and what you see in your house.

People assume that if you are a big company, you advertise on TV, you will be regulated because you will be checked up on and, therefore, you must be one of the good guys. But, as I say, we have not done an investigation but it is something that we are trying to see how we could gather that information.

Q. (Mr King) Peter, what is your perspective on the customer's hierarchy of priorities and how it influences where they go?

A. (Peter Tutton) Do not know, is the answer. Two things: we could ask our clients and so we could try to find out for you and see if people tell us. We see, it will be interesting to see people. We see obviously a cocktail of different payday lenders. We are not quite sure of the sequencing. I doubt that the sequencing is the same on each case. I think that, bearing in mind we are seeing people who are in financial difficulty, I am guessing that speed and access are going to be important. Things that might be important -- when you put in payday loan, what comes up on Google search, that might be important. Unsolicited marketing is important. A lot of our clients tell us that they have received unsolicited marketing; Martyn's example of being bombarded with emails.

Also in the equation that people are not necessarily actively shopping around, they are being shopped at. So, the lenders are actively shopping around for customers. So, people may take what they can get.

So, that is a lot of our experience, that it is any port in a storm; so how much people are actively searching. If you want to throw in some questions, we could try to ask our clients.

Q. (Mr King) Is there any evidence of shopping around on the retail side on the high street. You can imagine it is pretty easy to shop around on a computer if you are inclined to do that. On the high street, do you get any difference in approach?

A. (Peter Tutton) I do not know.

A. (Mr Saville) To pick up a point Linda made earlier on just about how people access or look for loans. So, things like payday loans are much better at making their products look attractive online whereas banks, I think, are still quite forbidding. We had looked at things like cash back websites. We found 74 cash back deals offering payday loan deals. These are the sites that people use. We are seeing things like "Refer a Friend" deals popping up, so that whole word of mouth issue.

Actually, I think if I had a high cost loan and they say to me, "All right, we will give you a fiver for every friend you sign up" actually I do not really care if my friend is going to end up paying hundreds of pounds, that is an extra fiver that I am going to get.

One of the lenders I saw last night is now offering £5 cash back on its own site to people taking out a loan which just seems bizarre because it is saying, "We will lend you £100 and actually we will give you £105 but you are still going to have to repay us £130". So it is playing with those price structures. So, you still end up paying pretty much the same as you would but you have this imaginary £5 extra in your pocket. It is just engaging people through that -- it is actually how they work nowadays, the Smartphone generation if you like.

Q. (Mr King) We talked about penalties for not repaying, et cetera. To what degree do your customers -- do you think they have internalised that at the point they take out a contract? Is it something they get through into their minds or not?

A. (Mr Sutherland) I do not know, is the answer to that. I think when they take out the loan, it is their present need, their bias to the present day and their present absolute need because they could be facing destitution quite frankly and so this is the point of access. They really need something because they cannot afford to feed their family or their pre-payment for the electricity has run out and they do not have any money to top it up.

So, I think the thought then of how much do I need to pay back and what are the default charges, et cetera, is 30 days away. To them that is a life saver because they can feed their family that week on that money and do you know what, I do not really care a month down the line because this is so desperate now today that really what is going to happen in the future just …

A. (Mr Waugh) It is very difficult to say. I suspect they do not internalise that kind of information. I cannot give you anything particularly robust on it.

A. (Peter Tutton) There was some literature on things like home credit and various bit of literature about why do people use some products and not others. Online credit is one of the things that people are attracted to, it is a certain amount of control. So, people may have a payday loan but they may also have credit cards but they tend not to use their credit card because they were worried about default fees and all the problems. The structure of home credit, although their headline price is more, there were no default fees. Payday lenders will say at length, I guess, that one of the reasons people use them is that there is more control on an overdraft or more trouble with a credit card where you get stuck on them and the payment goes up and up. There may be some truth on that. People may be making some calculations and certainly there is some evidence that in other products people do make some calculations about control.

But given the charging structures of payday loans, it is also not clear that people's -- the mix of things going on in your head about access to credit, the need that Fraser talked about, control of if I use my credit card up, I will get into long-term debt as against if I use this payday loan, I could get into immediate debt. It is not clear how people weigh those balances up.

So, there probably is some mental arithmetic going on. I think it is very hard for people to come to clear solutions. Also of course a lot of our people we see who use payday loans will be in trouble with other credit, so they will have experience of default charges from elsewhere. So, they may be using payday, thinking, "If I do not pay this bill off, this credit card, I'm going to get hit with this default charge, so it may be cheaper to use a payday loan". So, there are all sorts of calculus in there.

Whether it is easy to do, and whether it leads to someone being better off or not better off is an interesting question. So, people who are doing the maths but it may not be the maths that helps them in the long term.

A. (Mr Sutherland) It could also be used as a method to get collection agencies off people's back. So, I mean, the collectors can be quite harassing in the way they collect debts. So, if I can take out a payday loan for £120 and pay off whoever, then they will stop harassing me.

A. (<u>Mr Waugh</u>) I think that kind of mental calculus, if I very, very briefly just say, is really important and I think there is a lot of misplaced assumptions in models of consumer behaviour in general. We tend to look first at what makes people better off financially when that is not -- very often it is not the primary thing. People sometimes know they are paying more.

A. (<u>Ms Isted</u>) This is the kind of area that I was moving into before, which is about a relationship and trust with the lender. So, historically, people in lower income areas, they were dealing with the door-to-door people with the catalogues, and the door-to-door retailers. They felt comfortable with those because they had always been there. Granny had them, parents had them, we have all had them. That relationship, I feel -- whether it has been as calculated as this or not, I do not know, but that is the kind of relationship that it would appear that the payday lenders are going for.

I think it is not a coincidence that these things did start with the money shops and it was quite some time ago when you could go down some of our poorer high streets in the north, the north east and so on, and see the resurgence of the pawnbrokers. You would have your money shop (in lower case, because I am not talking brands here), and you would see the pattern repeated all the way along. Gillingham is a fine example. But you will have a clothing, "Sell your old clothes shop". I am not talking about charity shops. I am talking about the paid recycling, the money shop, the pawn broker, the pound shop and the bookies.

I have stood in the middle of Bolton and seen people come out of a payday lender and go into the bookies -- and in our town, interestingly, the format of the town is such that there is one particular road leading off the centre of town where all this activity happens. That is where the pound shops are, that is where the cheap shops are, that is where the payday lenders are and it is just off the main street, but that is where they are grouped.

So, traditionally that happened and there is still that feeling that these people understand us, they know what we need, they know we do not want to get involved in highfalutin finance but we need to pay this or we need to buy this and they are going to lend us the money, and they are going to lend me £200 and they are going to want £70 on top of that. That is straightforward.

There is a misplaced trust in there and I have to say, of course, I would reiterate that because we are dealing with people with debt, we are not dealing with people who are, as I say, going into a payday lender on the high street and then going into their favourite shops two doors down. That is where the positive responses obviously are coming out for payday lending. We are talking about people who are being desperately damaged by all of this.

Q. (Mr Harley) Ray, can I just ask one question on that, just picking up the meaning of "high street". Has that all come in since 2009, 2010, 2011 as other traditional stores have closed down? Are these money shops, betting shops coming into that environment are all now closely aligned?

A. (Ms Isted) I do not know. Certainly in my personal experience, a couple of towns that I know well, actually the payday lenders moved into premises which were vacated by the mainstream banks. Right in the centre of Bolton there is a crossroads. One of those is Marks & Spencer's. There used to be a building society, bank and Woolworths, which was pretty typical for a town.

It is now Marks & Spencer's, one corner is empty, the bank is now a payday lender and Woolworths is now something else that does the same job as Woolworths, I cannot remember what it is called now.

I noticed it, the first time I really became aware of the mainstreaming of payday lenders was actually in the business district in Manchester and one of them had taken offices just round the corner where all the main banks are in the financial area there. I saw this particular outfit and I thought we would have to go to - I will not name the places - but some really quite poor places to see those and they suddenly materialised right in the centre of the financial district. As I say, it has rolled on from there.

The thing about the costing of bookmakers and payday lenders and so on, I do not know about that. My son is in commercial property and from what he says I suspect that there are drivers which are not just what we are talking about here, about the rates and policies of owners and so on. So I would not like to make any assumptions on that.

A. (<u>Mr Sutherland</u>) If could just add a wee bit about the high street. In Scottish planning regulations payday are classed and they use class as a financial place, so you would need to be under planning rules in a place that was previously a bank-owned site.

A. (<u>Ms Isted</u>) That is the same in England.

A. (<u>Mr Sutherland</u>) Exactly the same in England. That makes it a wee bit difficult and maybe the council or the planning authorities maybe object to them if there is a high concentration because if they are going into a shop, they would have to then object to a bank on the same grounds. The reason for the increase in betting shops, if that is related, is they are limited in the number of the betting terminals that are allowed per shop floor. So, they are only allowed these fixed betting terminals, which are a machine that you can bet as much money on, potentially a high stakes gambling machine, you are only allowed, I think, it is four per shop. So, there are more of them because you might see, you might walk along, for example, in Aberdeen and I was there last week, there are two of the same brand right next door to each other. It is not because there is a queue of people who want to put a bet on a horse; it is because there's people wanting to use these machines, so they have to two premises to have more than four machines.

Q. (Mr King) The last area I would like to explore in this section is the role of credit brokers and lead generators and how that influences the choices that customers can make. As I say, it is an area that most people have got an opinion on but I would I would be very interested to hear what your perspectives are.

A. (Mr Saville) Just to go back to the very beginning, my personal experience of not even realising I was dealing with a broker or lead generator. In that case, the lender was part of the group of the lead generator but they seemed to push everything through the broker, the lead generator, to then be able to sell my details on as well as give me the loan from the group. There was no transparency there at all.

Obviously, we have got a cold-calling campaign at the moment. Once you are on one person's list, once it is out of the country, that is it, it is unlimited. I was absolutely bombarded with a whole host of information.

Q. (Mr King) Are there any websites that you think are more objective than others? Would you point people to particular websites to find more reliable information?

A. (Mr Saville) It is not something we have really looked at, to be honest. I think the other issue, the really big issue with brokers is back to that representative example that if they do not know which lender you are going to end up getting a loan form, they cannot tell you what APR or what interest rate you are going to be offered.

So, we are increasingly seeing representative examples, saying, “You will be offered between 20 per cent and 29 per cent” or whatever, or, “1,000 and 3,000 per cent” whatever it is depending on your -- and they say, “Depending on your credit score” and actually what they really mean is, “Depending who we sell your details to”.

You, as an individual, have no way of controlling whether you are getting the best deal or are they passing me to the person that they get the biggest kick-back from? It is just this whole murky environment behind it that the consumer does not engage with. If you are desperate for a loan and one of them comes back and says, “Have a loan” it is what you wanted.

I think, in a way, brokers should open up the market and allow you to compare and get the best deal. But actually they have shut the market down and probably stopped you comparing because you think that you are comparing.

Q. Thank you very much. Fraser, again same question but in terms of the cases that you are looking at, do you have any feel for the percentage of cases that involve broker issues?

A. (<u>Mr Sutherland</u>) We do not really have that breakdown but in the last year, up to April 2013, the phone line service that we run, half of the complaints or half of the calls about credit brokers regarded misleading claims or unfair business practices. That includes things like brokerage fees, people mis-selling, they do not realise what they are signing themselves up to, or multiple brokerage fees where people have been passed from one brokerage company to another. There are a lot of cases where we see people who actually have not even taken out a payday loan at all, until they have put their details into a website and are charged £27, £42, £34 or something, small amounts but these are the brokerage fees and they have not actually even got the product at all but they were charged a fee.

The other thing about the brokerage firms, we have had a very small review, so hardly scientific, but just looking at the website. Four out of the ten brokerage websites I looked at, the main ones that come up just at the top where you type in "payday loan" did not make it clear that they were not a payday lender themselves. It looked like you were borrowing from them, not that they were going out and finding you a loan.

All of the ten that I looked at did not provide any detail at all as to who they were searching. They did not say if they were searching the whole of the market or a specific number of lenders or maybe even just one lender they acted on behalf of.

So, how is the consumer meant to know what that person is doing on their behalf? I do not know what their market share is but they were the first ten that came up on the website. None of them make it clear who they act on behalf of and so that is definitely a barrier.

Q. (Mr Land) I do not use payday brokerage sites myself but do sometimes use similar sites when, for example, hiring a car. Are payday brokerage sites appreciably worse in terms of transparency in this sector compared to other sectors. I noticed that you and Martyn compare it with other sectors in terms of the ease of finding out what your deal is and what to take out.

A. (Mr Saville) I think so because usually it is the same as looking for car insurance, you go to a broker. They will usually publish details of who their panel is or they will say the whole of the market. They usually are quite upfront about it. This just seems to be a particularly bad sector for lack of transparency.

A. (Mr Waugh) We see the same issues as Fraser and we have done some analysis of the consumer service calls we get around credit brokers. Within our coding system, there is actually a code for brokers. But when we looked through the actual case notes for all the calls in June and July within the, kind of, higher tier within the coding system, we found twice as many cases as had actually been coded precisely because of this confusion, the brokers are not clear, but they are brokers and it is very difficult to tell.

Even for us, when we were going through checking the trading styles and looking at their websites, it is really difficult to work out sometimes what they are. Quite often we only identify them because of the way they have conducted themselves. They have taken someone's card details and they have taken an upfront fee. We very often see that happening without people being told there is an upfront fee or we see being told, "There is an upfront fee but you will not pay that until a loan has been arranged" and then it is charged instantly. We see people's details being passed around other brokers, sometimes within the same group who all charge money.

It is difficult to tell sometimes to what extent that is a symptom of people being a victim of card fraud and to what extent that is details being passed around. But details are certainly being passed around particularly if it is within the same group. It seems like it would be an odd coincidence if a fraudster only went after brokers who were within that group.

Very few people who come to us with issues about credit brokers have actually received a loan. It is a tiny proportion, three or four per cent. It is an enormous problem for us.

A. (Peter Tutton) I agree with all of that. Credit broking has been a problem for years in various different manifestations. You go back to the kind of people leafleting around housing estates where people would send off £50 and not get the £50 back or the loan, to the online version and we are now on to payday lending, broker sites, people who do not about broker sites. So, I agree with all of that.

We did some polling on unsolicited calling that will be published in a couple of weeks. Off the top of my head, the stat is something like it scales up to about 15 million people who have received unsolicited phone calls for payday loans. There is a huge amount of unsolicited marketing going on there.

I think the point has been made by Fraser or Martyn that you do not know when you go on these sites necessarily who you are going to deal with, who the lenders are and there is very little control in either credit regulation or, indeed, with thinking data protection legislation on how the firms sell your data on.

Once your details are in the computer, there seems to be a shadow market that consumers have got no power on, on their data. We know this is also a problem in other sectors like debt management and we know that in a lot of these industries, key competition between firms is on client acquisition. Client acquisition costs are key because you have got financially vulnerable consumers, their willingness to pay. Firms are willing to pay big money for these leads. The consumers have got no control or very little control on how their data is being used. It is almost like a whole shadow market in client acquisition. In some sense it is driving the way that lenders are getting to people. It is nothing to do with consumer choice. It is all to do with lenders' business models about how we get the clients.

A. (Ms Isted) Yes, the lead generators are working in an entirely different way. These are highly sophisticated - data processing online companies and they operate like that.

We were actually once inadvertently emailed by a lead generator were offering their services. They were offering us lists of leads for payday loans, PPI and accident claims; all three on the same email.

I offer that because it is important to understand that the lead generators are not interested in the credit industry. What they are doing is making money out of processing all the data and so they have an entirely different mindset. A lot of them are based overseas. They have no particular interest in being compliant -- they do not know anything about it. When you look at some of the marketing that they do, it is perfectly clear. It has disappeared now but until not very long ago, there was one glorious site, which I quoted a lot, where they did not actually know the difference between a debtor and a creditor -- I think it was something like, “Ditch the debtor”. They just had no idea of the difference. It did not have that distinctive translated-from-another-language feel about it. It read like it was originated in English.

So, these companies are not financial services companies. It is really important that when you investigate, you look at those from that point of view. That is not for the business to do.

THE CHAIRMAN: Tim, we have allocated some questions to you but I think both I and Ray, in the way we have asked our questions and the way they have answered, have probably absorbed a number of those questions already. But did you want…

A. (Tim Tutton) I just wanted to press on with one. One of the themes which comes out of several things is the information, whether it is advertising-type information or factual information that has been provided, that can cause problems or not provided in some cases.

Just flip that over and it might possibly be Martyn's perspective and all of the rest of you because there is a tail and a -- just as you pointed out the tail in the supplier sense, there is a tail issue on the borrower level. As we also know from the, sort of, energy market at the moment, trying to simplify tariffs is not without costs to reduce the offer effectively to customers by trying to get comparability on some relatively simple metric.

But assume away all of that and say you could get in principle relatively simple and comprehensive information. So, someone with an iota of ability to process these things, could process that information. The question is what difference would that make. The question is, I think, why I would like to say this, is what difference would it make across the market as a whole but specifically then what difference would it make to the sort of people arranging debt advice.

Taking your case, you said that fine, on one case it might give you £100 over 10 days or you may pay £150 over 30 days or whatever. Let us say we crank that one up and you have a spend of a few hundreds, it takes you some way, it makes some difference, helps a bit?

A. (Mr Saville) I am going to say something - I do not think it is controversial - but consumers are not always rational. You can give them the information and even if they can say one is cheaper than the other, I think two things: one is they will park that almost because it is not around how much they would have to pay because people discount to such a degree, talking about the future cost of borrowing. They are actually still going to look at how quickly they can get the loan. You have some lenders advertising saying they do not do credit checks. It is that race to the bottom of regulatory compliance, that they know how to tick consumers boxes that -- just to give an example the payday lenders used a while ago. They said, "If I lost my Travelcard and I need to borrow a tenner from a friend to get home" and I say, "All right, I'll give you a tenner back in a week and I'll buy you a pint". One friend might say, "Actually, you'll have to buy me two pints but I'll give you the money now". The other one might say, "You can buy me one pint but I can't give you the money for another hour" I am going to go to the two pint one because I need that money now and I need to get home.

So, I really think consumers are not sensitive to advice in that market. It is all around those other things like ease of access.

I sound a bit like a stuck record in a way but actually it is more around those practices that then follow when you have taken out a loan that I think are the really damaging things.

So, transparency, yes, will go so far and those, sort of, I guess, rational consumers will compare on price. But you need that backstop to actually stop lenders doing all that dodgy stuff afterwards. I am not at all convinced that consumers even look at price.

Q. (Tim Tutton) Amongst the people you are dealing with, this is a fortiori?

A. (Peter Tutton) Two things there. I think I, kind of, agree with what Martyn said, that it might make some difference. Would it make a lot of difference? I am not quite sure. The rational consumer, I would look at it in what we see people who are very constrained. The choices they have are often -- what they are going through, none of them are great. If you are constrained, they can be quite good at managing their money within those constraints but, kind of, the more financial pressure you are on, your constraint is optimised, you are quite good at it. But the more financial pressure you are under, the shorter your timeframes becomes and, kind of, the bigger the constraints become.

So, in a sense, information on remedies and costs and stuff probably will not make a lot of difference unless -- rather than price if you are shopping around, if we could make work information about, “This is the wrong product for you. Actually what you need …” and a safe route to get to advice and get back on an even keel, that would be better. That is a hard task but I think that is, kind of, where we have to go rather than -- there may be some evidence from the Competition Commission’s home credit inquiry where I think the evaluation of that showed that the remedy package dealt with about half of the detriment and the majority of that was in the changes to rollovers, as I remember. So actually what was successful was almost the product intervention, the information remedies, perhaps. I could be wrong here but I seem to remember they were less successful.

When we have looked at credit stuff before, there is this point -- I think Martyn has hit the nail on the head quite well. We have to do this and I think we need to make sure that pricing, information is transparent, is clear, is easy to understand for consumers because if that was not the case, the problems would be even worse. It is a necessary but not a sufficient condition to making the market work better for the consumers. For the most vulnerable consumers, I think more needs to be done because of those constraints.

Q. (Tim Tutton) The people you deal with, would they have behaved differently if the information had been presented transparently, whatever that means?

A. (Peter Tutton) I do not think so. If the information was just about price, no.

Even if the information was about a simple warning on the risk of default, probably not. I think there is something in terms of information about people in financial difficulty, this point about fear that was raised earlier.

So, if the reason why someone is using a payday loan is because they are worried about not being able to pay their gas bill, is information for the payday lender and maybe, better, information from the gas company about if you have financial difficulties, do not take out a payday loan, come and ask for help.

Q. (Mr King) Is there not a trend for these discussion, do you think, "Do not take out a payday loan", are you actually saying to them, "You really cannot afford, you cannot borrow. You need to work out your lifestyle so your income and outgoings balance or you need to borrow from friends" or …

A. (Peter Tutton) I think there is a point when lenders do have to say that. That is, I think, what we were seeing in some of the pre-arrears approaches in some of the banks. There is a point where, say, someone already has outstanding short-term, one-month, short-term loans that were more than their monthly income, they clearly cannot afford anything else.

So, I think there is a point where lenders have to say, "Look, if we lend to you now, it is going to do you more harm than good".

Going back to your theories of harm, in our submission we said, "Well, we, kind of, recognise these but we don't -- for our clients that is not the main harm". In a sense, for our clients, the main harm for payday is that they are -- for many of them even before they take out a payday loan, they are in severe financial difficulty. What that payday loan is doing is making it worse.

So, in a sense, they are getting no benefit from the loan, no lasting benefit, maybe a very short-term benefit, but no real benefit from that loan. So, the loan that you cannot afford is a consumer bad rather than a consumer good. In that case, thinking about what drives people to take out something that they may understand and probably do understand is going to do them harm, but they are so pressured immediately and their mental calculations are on such a short timeframe, "I need £100 because I've got to feed my kids" or, "pay the rent" unless we can do something about some of those timeframes.

Q. (Mr King) If you are facing the customer, do you have to say at the end of the day --

A. (Peter Tutton) Yes.

Q. (Mr King) -- "It really is not a financial product that is reasonably affordable"?

A. (Peter Tutton) The essence of debt advice when people come to us, their contractual payments are genuinely massively more than they can afford. Sometimes people -- and often what will drive -- two things: sometimes people have suffered, and, quite often, a large income shock and I think in terms of people understanding where they are on budgets, it takes a long time for people to adjust to an income shock.

The first thing we do when people come to us for advice is this budgeting process. Now, about ten per cent of the people we see, with some budgeting help, actually can continue to meet their credit commitments. Typically, I guess, these will be people who have had an income shock, lost hours, lost a job, something like that, and it is just that process of adjustment.

But a huge number of people we see have not enough to pay their credit commitments. About 25 per cent of them, their incomes are less than their outgoings even after budgeting advice. So, their incomes are so deficient that they cannot manage.

In that situation, people may use credit. It may get you through a month or two months but if that situation goes on, it becomes a snake that eats its own tail.

So, we do do that. The centre of money advice is rescheduling those payments, getting people to say do not concentrate on paying your credit payments first. Make sure you can pay your food, your rent, your council tax and then we will see what is ready for credit, what is left for credit.

In a sense, what payday is doing, one of the concerns about payday is that payday is giving a different message, saying if you are in trouble with the essentials, use credit to deal with that but no thought about what happens next. That is the essence of our concern with payday loans.

A. (Mr Waugh) I completely agree with that. It is something that has not been talked about very much in general about the alternative to payday lending being no credit for some people. The pre-arrears work that banks and other financial companies have been trying to do is really important there, so that rather than at that moment, when someone is in a complete crisis and gets turned down for a payday loan and suddenly has nowhere to turn, that they get help earlier. I think that is probably one of the big challenges of debt advice anyway, is trying to get in earlier.

The banks actually have some world-class data on people's financial difficulty, on what happens to them when they use payday loans, who is using payday lending. The banks also know whether or not they would lend to those customers and on what terms.

I think they are conscious of that and they are starting now to look at how they can do it. That is part of the puzzle in a big way.

A. (Ms Isted) Could I just add one thing on that? Before I came here, I spoke to one of our senior advisers who was not able to come today. I said to her, "What is the one thing that you would say that needs to be done now?" and actually she said what you have just described.

Where she was coming from was that it is all done with smoke and mirrors at the moment and we have spent all morning trying to unravel all of this which is an indication. What she would like to happen would be for these things to be very straightforward, for it to be made clear to people that you borrow an amount of money at this rate, for this period of time and it costs you this much, and that is fine if your home circumstances, your financial situation means you can afford it.

But, she said it was important to have that as a starting point to make it ordinary again because it is so fraught with emotion and fear and guilt and all the other things we have talked about, that what we actually need to do is somehow remove that from it.

Her feeling was that if you have got, as you described, clear points where you can compare, that at least is a starting point to make these outfits straightforward and ordinary. Then you can say their job is to lend you money and to make a profit, they make a profit out of their interest charges and their default fees and so on, and here is the interest charge, here is the default fees. Do you want that or do you want this here or do you want to do something different?

It is to simplify it so that, with some education and with a clearer picture of their own circumstances, people can start feeling more confident about doing these things, but it does need to start with that point of comparison.

THE CHAIRMAN: Thank you very much. We are going to turn now to Katherine. You have got some questions you would like to ask about switching.

Q. (Ms Holmes) Yes, and that leads on very neatly from the conversation we have just had. You talked earlier about borrowers making some calculations in their minds in order to protect their credit records. If you are looking just at payday lending on its own, do you have any experience of customers changing between payday lenders in order to get better terms, different terms?

A. (<u>Mr Sutherland</u>) Again, because the kind of people who are coming to us are people who are heavily indebted and have large problems. It is not the kind of thing where they are shopping around and moving money between payday lenders. They might have multiple debts and they have gone to another lender because they are a preferred lender, if you like, and maybe just the one that they have dealt with before has turned them down that time because they have already got so much money with that lender outstanding and they will not extend them any more credit. So, they might then switch. But they are not actually moving their money across.

Although the one thing, I suppose, to say about switching is there is quite a high amount of people taking out another payday loan to pay off the first one. Is that really switching? I do not really know if that is. It is just because this one started to harass them, so they go to another one and get the money to pay back the first one in the, kind of, terms that you might say switch your insurance to get a better deal, it is more getting people off their back.

Q. (<u>Ms Holmes</u>) Or they may get a better deal in terms of the interest rate they are being charged from the new supplier compared with the previous one.

A. (<u>Mr Sutherland</u>) They could, yes. I do not know if that is in people's minds as to when they make the decision. I am not convinced. I think it is just a reaction to their outstanding debt that they need it sorted today, so they go to whoever, whoever will loan them money.

Q. (Ms Holmes) So, do you see, instead, people who take out payday loans continually just going back to the previous provider?

A. (Peter Tutton) I think it is a bit more complicated than that. In terms of barriers to switching, we do not see any barriers to switching from that because if we say multiple payday loans, we see an increasing number of people that will have multiple loans at the same time with different payday lenders. We do see people that go back to the same payday lender. We do see examples of people using them to pay off another one and then go to another one and actually the amounts tend to go up. But that is more about people juggling to deal with indebtedness rather than trying to get a better price. I am not quite sure how much people would.

If you were in a position where you would, on a short-term month loan, look for a better price and you were concerned about getting a better price, in a sense would you go for another product anyway? I am not quite sure if that is really what payday lending is about. But certainly we see people swapping. We see people using one to pay off another one which is about managing as it comes up to default, and people with more than one loan. So, I do not think there are switching barriers; that people are not necessarily switching to get a better price, they are switching to get more money often because they have not got any money because of the previous payday loan.

Q. (Ms Holmes) Do you perceive any difference between those who have payday loans from high street lenders compared with those who are online?

A. (Peter Tutton) We have not looked at that. As I say, when you look at the bundle, those with multiples tend to have both, as we said before. We could look at the differences. It will get muddy because there is also that people we have with payday loans often have other credit as well and then there is the question of why are you using the payday rather than the other credit.

I think it will then start getting very muddy about the decisions that people make and are quite hard to handle. I am not sure it is a clear-cut decision where, "If I change from this one to this one, I will save -- you know, this one is charging £30 per £100, this one is charging me £28" I am not sure it is as simple as that.

Q. (Ms Holmes) So, in fact, you are forced, "I need to move to X" rather than, "X is going to offer me a better return"?

A. (Peter Tutton) I think that is what is happening with people we see. The thing is because they are borrowing and it is as things fall due you have not got the money to pay it off, where do you get the money to pay it off. The easiest and most accessible money to do that is another payday loan. So, it is a cycle of managing unmanageable borrowing rather than necessarily looking at what is the cost. We see that with people going, say, one from to another and we had some cases of people that we saw their bank statements where the payday loan is taken out one day, then cleared and another payday loan straight afterwards. It is literally this -- and it is more to do with managing than getting a better rate.

Often in the process, with Martyn's, "Do you want some more?", being bombarded with emails that lenders will take the opportunity to up the -- so hence the people we have, we see their payday loans, on average, for people with one is £600 compared to £400 and £200 is the average. So, there is, kind of, a number of problems in there. Switching is part of the process of trying to manage unsuccessfully ultimately debt problems rather than kind of, shopping around to get a better deal.

People may do that, shop around to get a better deal. I would be surprised given that how much people are shopping around on one-month duration loans to get a slightly better deal. It seems unlikely that would be a bigger part of the market. There may be some. But if you were that, kind of, degree of savvieness of looking day by day to get a better deal, surely you would be in a different set of products would be my opinion.

Q. (Mr Land) Because of the nature of short-term loan products, is any competition primarily at the start of the loan rather than to switch during a loan term?

A. (Peter Tutton) Yes, I mean, if there is competition -- if the whole selling point is about you need cash quick, it is all about speed of access rather than price. People are willing to pay actually quite a lot more if they think that you can have it within your account within an hour if you pay an extra £15. So, it suggests that that kind of pricing is not necessarily at the forefront.

Q. (Ms Holmes) Just thinking about the speed, most payday lenders, I think, will now offer a very quick --

A. (Peter Tutton) Yes, yes.

Q. (Ms Holmes) -- especially online, a payment into your bank account within 15 minutes and quite a number do not charge. So, how important is speed? It seems to be taken for granted. Is price not more important, or cost?

A. (Peter Tutton) I think speed is important in using a payday loan, perhaps, as opposed to anything else, I would say.

We do not have any evidence that people are choosing between payday lenders as to which one they are using. But there may well be a degree of, say, do I use this one or this one. It is quite likely if you go on the website, they are charging me £15 and I might go with them but this is not to say there is no price competition in the market. Where the biggest problems are, I do not think price competition is a driver in the way people behave. There are other factors.

A. (Ms Isted) Can I just say one thing that we have not talked about and which I think does have a bearing on choice. When our advisers are talking to people who are in debt, payday lending is used to hide debt, between partners, within families and so that will also be a factor. I have no evidence on this, I am afraid, but one can imagine it being a factor in whether or not you used an online lender or a high street one, for example. If one was looking to hide a debt --

Q. (Mr King) Hide debt within families?

A. (Ms Isted) Yes, partner from partner or children from parents and so on. So, I have no way of gauging the proportionality of that but it is certainly something which comes up regularly in conversations.

In terms of switching, I would suggest that if there was any switching going on here, it tends to be, as a result of all this, mobile phone contracts. People get so many messages and so many phone calls and so on, that they will change their phones in order to try to stop the onslaught.

I am not just saying that facetiously. One of my jobs is to help the media with case studies of people -- we get calls, all of your press officers are getting calls every day about these things.

Even when I have had people who have agreed that they will talk to the media, I would say that of my list of phone calls probably 90 per cent are no longer valid because these people have changed their phone. That is where the switching is happening.

A. (Mr Sutherland) The other thing that people switch is their bank accounts as well.

A. (Mr Waugh) A small number.

A. (Mr Sutherland) Well, the ones with bank accounts. But there is quite a few people, maybe under advice, in fact, I think maybe after they seek advice, they will then close their bank accounts so that they do not get hit by a CPA because they really cannot afford to lose the money but a small amount of people do.

Q. (Mr Harley) Would that be when CPAs are taken out?

A. (Mr Sutherland) They might know that this is impending, this impending collection of doom, if you like, and they only have a small amount in their account. So, if they have sought advice, one of the forms of advice might be to close down their bank account and to move somewhere else because then that will stop the payday loan company having access to the money in their account.

Q. (Mr King) Can we get the banks to block them now?

A. (Mr Waugh) There is work taking place right now which has actually just been introduced. There was a problem within the visa system that made it very difficult for banks to cancel them. So, they had to do it by hand which was expensive for the banks. It should now stop being so much of an issue but, again, you have to then -- a customer has to have cancelled it with their bank. They might only do that after the harm has occurred, so it is not a fixed problem but the difficulty in cancelling them should start to vanish in theory. But we have seen banks rather blithely telling people to change their debit card and all such things, which they should not be doing. Apart from anything else, that does not always stop the CPA, believe it or not.

THE CHAIRMAN: We just want to move on to another area for a moment, which is the concentration in the market. John is going to lead on this.

Q. (Mr Harley) Before I go to the specific points I have in front of me, one of the things, Martyn, you were talking about earlier and you picked it up a bit later on as well in the comment, Nick, I think you made, we were talking about the three credit reference agencies that were being used. We heard in discussions with some of the lenders that some of them you went to, you found it difficult to get access to that information. Some of the existing payday lenders now have substantial credit history. Could that be used to provide a better assessment of credit risk?
Could you just give us a little feel for what would make a difference? Do you think, for example, all payday lending information should be shared or not; just your thoughts on that?

A. (Mr Saville) Yes, I have quite a short answer to that. Absolutely, they should be sharing all credit data with all three credit reference agencies ideally on a live database. Because, yes, you are right, the incumbent lender has all of this data about the borrower's payday, their track record and actually, yes, they should be sharing that.

Q. (Mr Harley) That would lead to greater responsibility within the sector because people would know what their credit history was and this comes back to the level of debt each client has.

A. (Mr Saville) Actually, it has a wider impact as well because it would allow more mainstream lenders to look at what other commitments somebody has. If I apply for a credit card, that provider does not know that I have got five payday loans if my payday lenders do not report that data -- so actually it could have a much wider positive impact. I think anything that empowers firms to do proper affordability tests would be a good thing for me.

A. (Mr Waugh) Yes, I completely agree with that. I think for new entrants into the market, it would present quite a big cost but from the point of view of the credit reference agencies, it is all new business.

Maybe there is an opportunity for them to try to work out some sort of pricing model that does not cause huge problems but still answers the issue that we see which is the lack of affordability checks and other mainstream lenders being able to see what lending is going on there. It is not impossible.

Q. (Mr Harley) That is a very helpful point. I suppose some of the information was around costing, the costs of customer acquisition is very high anyway. So, arguably that provider lowers the -- obviously there is a lot more sharing of information and a lot of applications end up not being pursued anyway.

So, arguably, better information would actually make business more efficient and actually stop that, is my question.

A. (Mr Waugh) You would think it.

A. (Peter Tutton) Yes, I agree. There are some things that we are hoping that the FCA will do. The FCA's mission, I guess, is to create a fair, competitive market in credit and there is a debate about do you -- obviously regular intervention, does that make it harder for firms to come in. But the other side of that is surely there need to be some sort of conditions and some corners that firms have to show, things which firms have to show they are meeting in order to be able to come into the market. So, if they do not meet them, what they are doing is bad practice that actually may undercut the good practice of other firms, race to the bottom.

I think data sharing may be one of these things, particularly in the short-term payday loan. If they are not sharing their data and in real time, how do they make a proper affordability assessment? How do they understand whether that loan is suitable or unsuitable?

I think this is one of these issues that may be a key point on ensuring that the payday market works in a way that is fair and that we do not have competition that is based on, kind of, can I get first to the CPA; a bad practice, kind of, default charges to cover up, loan defaults, et cetera.

Q. (Mr Harley) To what extent do you consider the larger lenders have any market power by virtue of their high concentration? We might discuss things like advertising and so on.

A. (Peter Tutton) It is a good question. If we look at -- I mean, where we see -- we are not quite sure of the sequence where people have multiples but we do see people have big ones and the little ones. So, I suspect the bigger ones may be able to exercise a certain amount of market power. But then we are also seeing that people are, when they desperate and they have a loan to one, they will go to one of the smaller ones as well. So, there is an interplay between them.

What we do not know, of course, is if there is a difference in loan quality there. So, it may be the case that the bigger ones are able to attract better quality borrowers, have lower costs. Because they are advertising, they have a method of client acquisition. The smaller ones have to take the risky borrowers and, therefore, that is driving some bad practice. There may be an issue there but there is an element of concentration that means the smaller entrants have to behave in a slightly different way.

Whether when the FCA comes in and they chop the tail off, you might get a more concentrated market result. The question is, is that a good thing or a bad thing. In some sense, we would say it is a good thing because what we see on the tail is often very, very bad indeed. Having more firms does not -- and a regulatory across consumer credit is -- the current consumer credit regime is about low barrier to entry. It has produced quite a lot of firms in some sectors, although there may be some concentration. More firms exist but it does not necessarily do anything good for consumers. It does not drive good consumer outcomes. The long tail is often where the worst practice is. So, adding more firms is not necessarily a good thing.

Q. (Mr Harley) So, in summary, sorry I am putting this back towards you, if there were slightly fewer lenders would you probably feel that there was a better choice in a way; that they would have better data, they would have to share credit information or any information to be more competitive?

A. (Ms Isted) I think that would fit better with the current state of the general public's approach to these companies. Talking to people, we find that they assume that these companies know everything about them. They have no idea that this information is not shared. They assume that everybody knows everything about them. We are all told that all the time, everybody knows everything. So, why would all the banks and all of the lenders not know everything about us?

They also – despite all of the bank crises and scandals and so on that we have had – they do still think that most lenders will only lend to you if they think that you can pay it back. Those two assumptions are very closely linked because obviously if I think you know all of my circumstances and you are still prepared to lend me £1,000, then it must be all right then. I will deny the evidence in front of my face because you know best because you are our -- you are in financial services.

While I am not saying that people would always say that and then act accordingly, when I have talked to people, this has been a starting point. There was one woman, in particular, who got into all sorts of trouble actually with credit cards - she did not have payday loans, but with credit cards - and she is highly eloquent on the question of credit cards to 18-year-olds because she absolutely felt that at 18, coming into credit for the very first time, they were doing what was best for her. This woman went on to do a BA, to be a teacher of some standing.

A. (Mr Saville) Can I just pick up a point Peter made, just really quickly? I think it is just another positive part of the new regime under the FCA that we talked about larger lenders potentially having a competitive advantage. But actually under the old system, where it is quite easy to get into the market, the OFT would react to intelligence it receives from consumer groups, what it found. So, actually there was a risk that smaller lenders had a competitive advantage because they were under the radar, so they could do all of this quite dodgy practice about the way they collect money or inappropriate lending. So, actually, I think the new entry requirements for the FCA -- if you are saying to a firm, "If you want to come into this market, you have to do this" and we are going to watch you doing it" but actually it probably levels the playing field a lot more.

So, I think almost -- I feel a little bit sorry for Wonga in a way because they have become the poster boy for the sector and they have become the scapegoat for the sector in a lot of ways, so I think smaller lenders, in a way, have had that competitive advantage and probably will not have so much going forward; so, a positive thing there.

A. (Mr Waugh) Yes, I think it has felt a little bit like the smaller lenders have created a competitive disadvantage to behaving well, which the larger lenders have followed. It is in their commercial interest and they felt they could get away with it. So, if that tail is taken out of the market, then regardless of any other competitive issues, the business model should become slightly more responsible.

Q. (Mr Harley) So, are you seeing that emerge even over the last few months, there has been a the change since this inquiry started?

A. (Mr Waugh) No, I do not think it is a change. I think it is something that has happened as the payday lending market has emerged over the past four years. It is just that -- if you do lend responsibly in that market, then your competitors have an advantage over you essentially because you will lose customers to them. They will be lent to and there is money to be made from those customers, at a cost to those customers, potentially, but the opportunity has been there and all of the lenders, big and small, have taken it.

A. (Mr Saville) I think one illustration, actually, is just that if you lend somebody £100 and then roll that loan over three times, which is not that much, that lender has already earned in interest the amount you borrowed. So, actually, beyond that, every single borrower could default and that lender still makes a profit. That market structure cannot be right. That is why I support the rollover cap.

A. (Peter Tutton) Which is an interesting point. Analysing it another way, I suppose, is that if lenders know that and the big ones, I guess are the ones that have probably been around for a bit longer, and certainly when some of the bigger brands really started to expand, they were going round talking to the advice agencies four or five years ago and we had very little evidence of problems with payday lending because it was small and then it exploded. Is there an argument that kind of -- and this comes in when we are thinking about pricing and is their pricing reasonable or not? Are they taking advantage? We have all talked about constrained consumers, not price sensitive. Have lenders taken advantage of that to brand build and the price includes an amount that they can. The advertising point, the spend on advertising to acquire customers, if there is a high cost in acquiring customers, allows them to brand build and then that gives them a competitive advantage so in a sense the, kind of, pricing structure may adopt an early entrant advantage and is locking in a cycle of bad practice.

When you think about, "Is it reasonable for them to charge vulnerable consumers for their brand building" if brand building is locking in a pattern, a charging pattern which is taking more money from vulnerable consumers. There is another way to look at it really which is, is the way competition works in the industry fundamentally wrong from the beginning?

Q. (Mr Harley) Just on the new entrants' side of it, you obviously see people who are really struggling. Are you seeing people who basically come in who have managed their debt for maybe the four or five times they have taken out loans and then fallen in or have you have seen people who are just continuing to take loans and it has all worked reasonably well on a payday lender but they may be in trouble with their credit terms?

A. (Ms Isted) I was told yesterday that -- now, I am hesitating here because I need to make sure I am getting this right because I am not a qualified adviser. They are beginning to see a new pattern. People who are actually managing their credit okay. They have a lot of credit, they are ducking and diving a bit, they have been managing okay – then the payday loan, which was taken out really without a great deal of thought for a one-off reason, not necessarily to service any of these other debts because they were churning reasonably and felt they were in control, but because of the pattern of the payday loans and the amount of pressure they get, it skewed everything else. It makes people take their eye off the ball of the bigger picture.

So, whereas before they would say we need to look across the piece and if there is a solution to be introduced, it is across all of your creditors, we are now investigating with people whether they can isolate the payday loans. If they were getting on okay, however they were handling their other credit, we are considering just dealing with the payday loans themselves because they are, to start with, relatively small amounts of money. This is quite new. It is segmenting in order to deal with that particular problem.

Q. (Mr Harley) So, the quantum of the payday loan in relation to its debt is small but the distraction of dealing with the payday lenders and repaying them is a high priority.

A. (Ms Isted) Correct.

A. (Peter Tutton) It is acute payment difficulties because, obviously, if you borrow £100 for a payday loan, you have to pay £100 in a month, so repayment is very high, whereas if you get a credit card debt of thousands of pounds and the minimum repayment might be 50, so it is the difference between what is your total indebtedness which is one question, which is the sort of long-term tick of that going up. But then acute payments difficulties and why payday loans are different to what has come before, in terms of credit, the problems that we saw with credit cards a few years ago where people would get to £100,000 and then payment difficulties would become unmanageable, £25,000 to £30,000, it happens quicker and at smaller amounts of debts for payday, because with the short term -- it is a function of short-term repayment.

So, this question about affordability and checking whether someone can have it back is absolutely key. They should be doing more than other lenders, not less, but they seem to be doing less.

THE CHAIRMAN: I am just looking around to see if anyone has anything else.

Q. (Mr Land) I have one question wrapping up a few things that have been said, which is really about there has been a lot of focus on consumer protection in the sector, there is a lot of regulatory scrutiny, including this investigation. I suppose one outcome of that, depending on what happens, might be that you have a regulatory regime and I think you talked about mainstreaming or legitimisation of this sector and the short-term high APR lending, that might have lots of consequences. For example, the tail of ‘bad guy’s’ that you referred to earlier, might disappear or become much shorter, or the worst practices may be driven out.

You might get people coming in from more mainstream sectors than with more of a mainstream credit background into the market; so these may be positive developments. But on the other side you might have more of these loans being issued. You might have a larger short-term credit sector and part of that is you may have more people getting into financial difficulty with short-term credit loans within this more legitimate sector. You might have more football clubs being sponsored by firms in this space.

I would just be interested, almost as a wrap-up, in your views as to whether that sort of scenario with a legitimised mainstream sector, whether you would see that as a good or a bad thing from the different perspectives that you have on the market.

A. (Peter Tutton) I think there is a question there. The answer is in the term “legitimate”. In terms of problems with mainstream short-term credit and public concern about that, that has been around for years, the overdraft. In a sense, we have stopped talking about overdraft charging because payday has come along. Now, we will see payday regulated. That process of the sector becoming fully legitimised and it not being a topic of public concern anymore, for us means dealing with the issue that we have been talking about.

So, yes, there is a need for short-term credit and there always will be. The question is how do lenders provide short-term credit in a way that does not increase people's indebtedness, push people over the edge into unmanageable debtedness and add extra costs and charges and cause debts to spiral. These are the kinds of things that concern us.

So, that process of short-term credit and the payday sector becoming legitimate is almost indistinguishable, or should be indistinguishable, if the regulators are doing their job properly, of stopping those problems.

So, if you came back and asked us in three years' time if we were still seeing the stuff we put in our evidence, submissions and saying today, "Are we still seeing it?" if we are all saying, "Yes" to a regulated payday sector by the FCA, then the FCA has failed and the legitimacy test has failed.

If we are saying, "No, it has gone markedly better and we have a short-term loan industry that is still there, is still giving people credit and getting a benefit from it and we are not seeing these horrific problems with the sector", then you are right, we have a legitimate short-term lending sector but it is not causing severe consumer problems. That is, kind of, I think, what we are trying to do -- we think is a good end point. I do not know about my colleagues.

So, legitimacy is key. We are saying what is legitimate in terms of public concern, what should the short-term loan sector look like. For me, it looks, without the problems that we are describing. So, yes, we are likely to see FCA might be bigger, we might see some of the mainstream lenders, perhaps some of the banks, might start thinking, “We won’t do overdrafts, we’ll do short-term term loans”. If they do that and they can come in with a better product that is not exploitative but is priced for a reasonable return, and whatever it is and does not have dangerous default practices, et cetera, et cetera and egregious debt collection practices, good, good.

The London Mutual you would have heard about, a Credit Union, started trying to look for a payday product; good. Now, these are all things that are positive. It is about a need for a product but we need a product that is safer for consumers, less exploitative, does not result in debt problems. If we can get there, that is a success.

A. (Mr Waugh) Peter has very much hit the nail on the head there. The only thing I could possibly add to that is that in a market with fewer players where there were larger players, if there was continuing misconduct, then those larger lenders would no longer be able to blame the smaller lenders and say it is them not us. They will find it harder to legitimise if they were still the same.

THE CHAIRMAN: Well, thank you very much indeed. It has been very interesting. We have exhausted our questions but is there something you want to say to us if our questions have not touched upon?

A. (Ms Isted) There is just one word which I have had written in my notebook and I have now written it down three times, and I still have not used it, which is “Google”.

Q. Google?

A. (Ms Isted) Yes.

Q. Please use it.

A. (Ms Isted) Really that is all I am going to say because I really do not want to expose my ignorance on the topic of how Google’s metrics work in terms of research and advertising and all of that. However, we do know that they have huge power. To all intents and purposes, as far as I am concerned, for the purposes of what we are discussing here, Google is almost like another regulator because they have controls and they are able to penalise people who are advertising through their search, their SEO processes and so on. I think it would be a mistake if the control, certainly from the marketing and from the access to information and so on, it would be a mistake if somehow their potential input were not taken into consideration. I have no proposals, I am sorry. I just think it is worth mentioning.

Q. You see it as a potential force for good in that respect?

A. (Ms Isted) Well, I would not go that far but I do feel that -- I think it would be a mistake not to gauge the powers and control they have over not just the tail as somebody referred to.

Q. Thank you. Do any of the rest of you have a word on your pad that you want to share with us?

A. (Peter Tutton) There is a related theme to that which is obviously phone line lending becoming increasingly international and mobile and to what extent would it get out of the scope of domestic regulators? So, in terms of applying it to Google, there is a regulatory question for all of you as regulators, is how do you control stuff that is outside your jurisdiction in terms of if we are thinking about the function of markets? That relates to Google simply because the bottom line is the way that works.

A. (Ms Isted) At least we have Google here and we can deal with it in the first instance.

Q. Thank you. Does anybody else have anything further to say? Well, just for me to say thank you very much indeed for coming here today and for a very interesting discussion.

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person’s speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn’t finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?