

PAYDAY LENDING MARKET INVESTIGATION

Companies background working paper

Introduction

1. This background paper provides a description of the main payday lending companies. It draws on publicly available material supplemented by information provided in response to CC questionnaires and material received in response to our initial information request. It contains:

(a) detailed descriptions of the top three payday lenders:

- (i) CashEuroNet UK, LLC (CashEuroNet);
- (ii) DFC Global Corporation (DFC); and
- (iii) WDFC UK Ltd (Wonga, formerly Wonga.com Limited);

(b) descriptions of eight other major lenders that were sent detailed market and financial questionnaires. These companies offer a range of single repayment and instalment loans which fall within our definition of a payday loan and include the largest online and high street brands outside the three companies referred to above:

- (i) Ariste Holding Limited (Ariste);
- (ii) The Cash Store (UK) (The Cash Store);
- (iii) CFO Lending Limited (CFO Lending);
- (iv) Cheque Centres Limited;
- (v) Global Analytics Holdings, Inc (Global Analytics);
- (vi) Harvey and Thompson Limited (H&T);
- (vii) SRC Transatlantic Limited (SRC); and
- (viii) MYJAR;

(c) details of three further lenders with annual revenue over £10 million:

- (i) Oakam Limited (Oakam);
- (ii) PDL Finance Limited (PDL Finance); and

(iii) Think Finance (UK) Limited (Think Finance).

2. The three groups of companies are presented below in alphabetical order.

The top three payday lenders

CashEuroNet UK, LLC

UK company registration number: n/a
OFT consumer credit licence: 603395

3. CashEuroNet is the UK operation of US finance company Cash America International Inc (Cash America). Established in 1984, Cash America is listed on the New York Stock Exchange and has a market capitalization of approximately \$1 billion. It operates within the USA, UK, Australia, Canada and Mexico, offering a variety of loan products including pawnbroking loans, payday loans, line of credit accounts and instalment loans.
4. In addition to publicly-listed shares, Cash America raised \$52 million in long-term notes¹ in 2012, and \$115 million in Convertible notes in 2009.² Enova International Inc (Enova) is a separately-incorporated, 100 per cent subsidiary of Cash America through which worldwide online-based activities are operated. In 2011 Enova filed a Registration Statement with the US Securities and Exchange Commission in contemplation of an Initial Public Offering (IPO). This was withdrawn in 2012 because of volatility in the IPO market.³
5. Cash America has developed three online lending products through its subsidiary CashEuroNet: QuickQuid, a payday loan service launched in 2007; Pounds to Pocket launched in 2010, an instalment loan product; and FlexCredit in 2013, a running

¹ Similar to bonds, the notes are separated into A and B series with series A repayable from 2015 and series B 2016. Both series rank as senior unsecured obligations, *Cash America Annual Report, 2012*.

² Repayable 2029 with interest paid semi-annually; at maturity can be converted to shares or cash at the company's discretion, *Cash America Annual Report, 2012*.

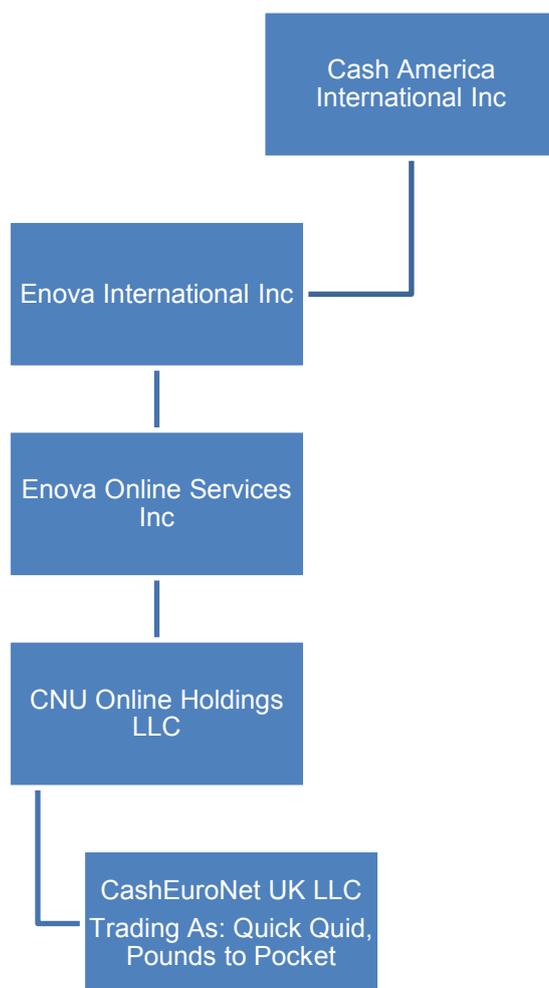
³ Cash America press release, 26 July 2012.

account credit facility. Cash America does not have a physical presence in the UK, with no high street stores; all operations are managed from Chicago.

6. Figure 1 below sets out the Cash America group structure.

FIGURE 1

Cash America group structure and trading names



Source: CC.

7. CashEuroNet generated total revenue of £[~~XX~~] million in 2012, with £[~~XX~~] million of that attributable to payday lending. Net profit for the same period was £[~~XX~~] million.

DFC Global Corporation

8. DFC is a NASDAQ-listed company with its headquarters in the USA, with a market capitalization of \$400 million. In addition to publicly-listed equity, it also issued senior

convertible notes⁴ of \$660 million in 2007 and 2012, as well as \$600 million senior notes through its Canadian subsidiary in 2009.⁵ DFC operates throughout Europe and North America, including the UK, USA, Canada and Spain, offering a variety of short-term lending products.⁶

9. DFC has three subsidiaries offering payday loans within the UK. Instant Cash Loans Ltd (ICL), trading as The Money Shop, is a high street outlet while MEM Consumer Finance Limited (MEM), trading as PaydayUK, and Express Finance (Bromley) Limited (EFL), trading as Payday Express, are both online operations. DFC also owns several pawn shops in Scotland and England, including Suttons and Robertsons.

10. The position of UK activities within the overall group structure is set out in Figure 2.

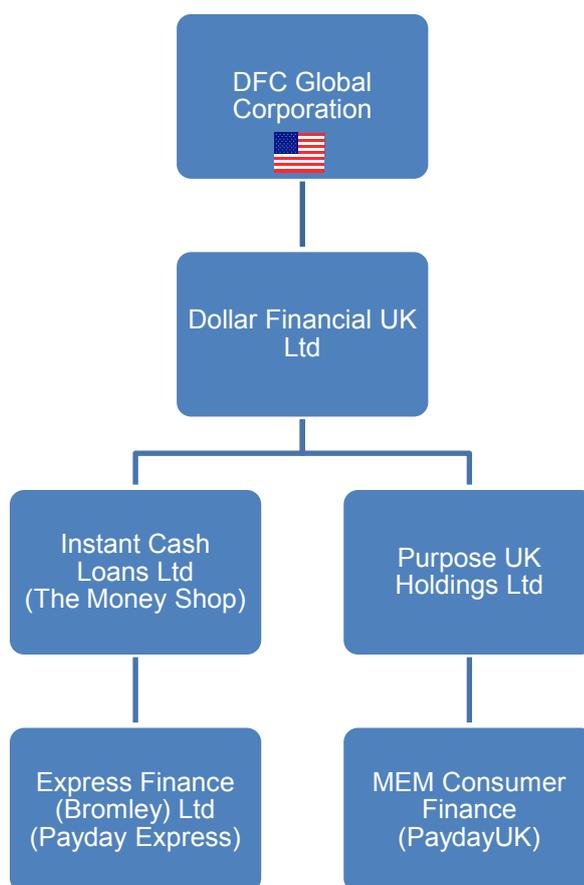
⁴ Notes of \$200 million were issued June 2007, repayable in 2027; \$120 million of convertible notes were issued in December 2009, repayable in 2028, in exchange for an equal face amount of the 2027 notes; \$230 million of convertible notes were issued April 2012, repayable in 2017. The 2027 and 2028 notes can be repaid in cash at the company's discretion on or after 31 December 2014 and 5 April 2015 respectively; the 2017 notes may not be repaid early at the company's discretion. At redemption or conversion (if certain triggers are met), the notes can be repaid in cash or in exchange for stock at the company's discretion. In addition, note holders may convert the notes into stock if certain trigger thresholds are met. All the notes are unsecured obligations. *DFC annual report, 2012.*

⁵ DFC 10K, 2012.

⁶ Source: 10K.

FIGURE 2

Simplified DFC group structure and trading names



11. Source: CC.

Instant Cash Loans Ltd, trading as The Money Shop

UK company registration number: 02685515
OFT consumer credit licence: 0334154

12. ICL was purchased by Dollar Financial UK Limited (Dollar) in February 1999 at which time it was operating 11 stores. Since then it has opened more than 500 stores throughout the UK, offering cheque cashing, pawnbroking, pre-paid debit cards, foreign exchange and overseas money transfers. In 2013 the company generated total revenues of £[X] million, [X], and a net profit of £[X] million.

MEM Consumer Finance Limited, trading as PaydayUK

UK company registration number: 4786727
OFT consumer credit licence: 539935

13. The original business was founded in 2003 and acquired by DFC in 2011 for \$195 million.⁷ It only offers the payday lending product through the website www.paydayuk.co.uk. Total revenue for 2013 was £[X] million and net profit £[X] million.

Express Finance (Bromley) Limited, trading as Payday Express

UK company registration number: 3841946
OFT consumer credit licence: 478122

14. DFC purchased another online lender, EFL, in 2009 for \$[X] million. EFL began operating in 1999. Lending through its website www.paydayexpress.co.uk, EFL had total revenue of £[X] million in 2013 and net profit of £[X] million.

Wonga

UK company registration number: 6374235
OFT consumer credit licence: 611974

15. Wonga was founded in October 2006 by Errol Damelin and Jonty Hurwitz and launched its short-term consumer loans, 'Little Loans', in 2007. As an online-only business, without any high street stores, it has developed its own loan approval technology.
16. Wonga Group Limited is a privately-held company registered in the UK. Since 2006 it has completed several rounds of equity financing and currently has three key shareholders: Balderton Capital (21 per cent), Accel London II LP (14 per cent) and Greylock Partners (12 per cent).⁸ Wonga Group Limited is the parent company and UK payday loans are made through its subsidiary WDFC UK Ltd (formerly Wonga.com Limited).

⁷ 2012 DFC Global Corporation 10K.

⁸ 31 December 2013 figures provided by Wonga.

17. The majority of Wonga's business is in the UK; it has begun lending operations in Canada, Poland, South Africa and Spain. To promote this growth, subsidiaries for support services such as customer service and technology development have been opened in the Republic of Ireland, South Africa and Switzerland.
18. Wonga currently offers three credit products in the UK: Little Loans, a short-term loan falling within our definition of a payday loan product; PayLater, a credit offering for online shopping; and Everline, a loan for small businesses. The latter products were only launched in 2012. Therefore the majority of WDFC UK Ltd's 2012 revenue of £305 million relates to Little Loans. Net profit for the year was WDFC UK Ltd £59 million, Wonga Group Limited £62 million.⁹

FIGURE 3

Wonga Group Limited Corporate Structure (principal companies only)



Source: Wonga.

19. [✂] The primary trading companies of Wonga Group Limited are:¹⁰
- (a) Wonga Technology Ltd: Based in Dublin, it develops Wonga's information systems, as well as providing customer care;
 - (b) WDFC Holding SA: Based in Geneva, it is primarily responsible for marketing, branding and loan handling services;
 - (c) Wonga Worldwide Ltd: this is the holding company for all Wonga's lending operations; and
 - (d) WDFC UK Ltd: Responsible for all lending activities within the UK.

⁹ Wonga Group Limited Annual Report, 2012.

¹⁰ [✂]

Other major lenders

Ariste Holding Limited

UK company registration number: 7005622

OFT consumer credit licence: 0630949

20. EZCORP is a NASDAQ listed company with a \$900 million market capitalization. It is based in Austin, Texas and operates throughout the world in the consumer lending industry. In the UK, it owns one-third of Albemarle & Bond Ltd¹¹ and approximately one-third of credit provider Cash Converters UK Limited.¹² Its primary UK operation is a wholly-owned subsidiary, Ariste, trading as Cash Genie.
21. Cash Genie began offering payday loans in October 2009 and was partly acquired by EZCORP in 2012 and fully in 2013 for a total of \$43.5 million. Cash Genie is an online business providing payday loans. Total revenues for the 2012 financial year were £12.8 million with a net profit of £1 million.

The Cash Store (UK)

UK company registration number: 6773354

OFT consumer credit licence: 0630742

22. The Cash Store Financial Services Inc is a Canadian company listed on both the New York Stock Exchange and Toronto Stock Exchange, with a market capitalization of CAD 34 million. In 2010 it began operating in the UK through its subsidiary The Cash Store Financial Limited, the parent company of The Cash Store.
23. The Cash Store currently has 27 stores in the UK through which it offers payday loans and a small amount of cheque-cashing. It is planning to enter the online market

¹¹ In early December 2013 Albemarle & Bond commenced a formal sales process for the company. Operating primarily in the gold buying and pawn loan industries, profitability and net debt have been significantly impacted by the unexpected fall in gold prices, increased competition and lower supply of gold for sale. Refinancing is required in order not to breach loan covenants; a Rights Issue was unable to proceed after discussions between EZCORP, other related parties and the company failed.
Albemarle & Bond Annual Report.

¹² EZ Corp 2013 annual report.

with the creation of [X] in 2013. The company generated total revenue of £6.2 million in 2012 and a net loss of £5.2 million.

CFO Lending Limited

UK company registration number: 6736553

OFT consumer credit licence: 623671

24. CFO Lending is a privately held company registered in the UK. Founded in 2008 as Capital Finance One, it offers payday loans online through the brands CFO Lending and Payday First. The company generated total revenue of £19.6 million in 2012, with a net profit of £0.1 million.

Cheque Centres Limited

UK company registration number: SC 167596, SC 230282

OFT consumer credit licence: 0447202, 524644

25. Cheque Centres Group Limited operates two payday lending companies in the UK: Cheque Centres Limited (Cheque Centres (high street)) and Cheque Centre (online) (formerly The Loan Store). Cheque Centres Group Limited is a wholly-owned subsidiary of Axxess Financial Services Limited (Axxess), (which in turn is part of CNG Financial Corporation), a privately-registered US company which also operates as a payday lender throughout the USA.
26. Cheque Centres (high street) was established in 1996 by a small group of Edinburgh business people and sold to Axxess/CNG Financial Corporation group in 2006. Its 433 stores throughout the UK offer a variety of services including payday loans, cheque-cashing, foreign exchange and gold buying. With total revenues of £356 million, £[X] million from payday loans, the company recorded a net [X] in the 2012 financial year.
27. Founded in 2008, Cheque Centre (online) entered the payday loan market in 2011 to provide online short-term loans. [X] of its revenue, however, has been derived from

its other activities of instalment loans and foreign exchange. From 1 January 2014, Cheque Centre (online) has ceased offering payday loans itself, with all loans now being written through Cheque Centres (high street). Revenue from payday lending was £[~~8~~] million in 2012 with total company turnover of £12 million. The company generated net [~~8~~] in 2012.

Global Analytics Holdings, Inc

*UK company registration number: 4124111
OFT consumer credit licence: 643942*

28. Global Analytics is a privately-held company based in San Diego, California (USA). It operates in the UK through its wholly-owned subsidiary Lending Stream LLC (Lending Stream), which began offering payday loans in 2008.

29. Lending Stream LLC trades under two names, Lending Stream and Zebit, which was introduced 2012. For this inquiry both are considered payday loan products. Total revenue for Lending Stream LLC was £49 million in 2012, with £47 million coming from payday loans. A net loss of £3.7 million was recorded. This was the fifth consecutive yearly loss for the company.

Harvey and Thompson Limited

*UK company registration number: 2636684
OFT consumer credit licence: 327551*

30. H&T Group plc offers payday loans through its subsidiary H&T, which operates 194 stores throughout the UK. H&T Group plc has been listed on AIM since 2006 and has a market capitalization of £60 million. It was previously owned by Cash America, which founded H&T's payday lending operation.

31. H&T's core business is pawnbroking and gold buying, with a small amount of payday and instalment lending performed in-store and online. However, as at 31 October 2013, H&T no longer offers payday loans in-store and plan to cease online payday

lending in early February 2014. Customers are instead only offered the instalment product, KwikLoan. Total revenue for the company for 2012 was £130 million, of which payday lending contributed £5.8 million. Net profit for the same period was £12.9 million.

SRC Transatlantic Limited

UK company registration number: 07225997
OFT consumer credit licence: 636512

32. SRC is a wholly owned subsidiary of Speedy Cash Intermediate Holdings Corp. This is itself a wholly-owned subsidiary of Speedy Group Holdings Corp, a privately-held US company.
33. SRC operates two payday companies within the UK: high street and online business Speedy Cash; and the online-only WageDayAdvance Limited (WageDayAdvance).

Speedy Cash

34. SRC, trading as Speedy Cash, was opened by its parent company in November 2010 and has since grown to 23 branches throughout the UK. Speedy Cash offers two credit products: a payday loan and an instalment-based 'flex loan'. Both products are considered payday loans, contributing £11 million to total revenue of £12.2 million in 2012. The net loss for Speedy Cash for the same period was £9.4 million.

WageDayAdvance Limited

UK company registration number: 04179322
OFT consumer credit licence: 623347

35. WageDayAdvance began offering payday loans in December 2006 as Cash 4 Compensation Ltd. Changing its name to WageDayAdvance in February 2008, it was one of the first online payday lenders. Offering one payday loan product, and a small cheque-cashing operation, WageDayAdvance had total revenues of £39 million and a net profit of £15 million in 2012.

36. In February 2013, WageDayAdvance was acquired by SRC, becoming a fully-owned subsidiary. Prior to this the company had been privately held by six equal shareholders who provided the majority of funding.

MYJAR

UK company registration number: 6569316
OFT consumer credit licence: 618997

37. MYJAR, formerly known as TxtLoan Limited, provides online payday loans. Founded in 2008, it began lending in March 2009, offering open-ended loans with a minimum term of 18 days. Since then it has provided over 1 million loans to customers throughout the UK. Total revenue has grown over the prior four years, reaching £33.4 million in 2013; however, the company recorded a net loss of £1.8 million in 2013, the first since 2009.
38. From October 2010 MYJAR has been part of Txt Holdings Ltd, a privately-held holding company based in Jersey. MYJAR operates solely in the UK and has headquarters in London with an internal technology and support team in Estonia. The company is funded through inter-company and shareholder loans.

Other lenders

39. The following lenders—Oakam, PDL Finance and Think Finance—were not included in our main market and financial questionnaires and provided information through our small lender questionnaire. Each has generated annual revenue from payday loans of over £10 million.

Oakam Limited

UK company registration number: 05878249
OFT consumer credit licence: 0595211

40. Oakam offers payday loans both online and through high street stores. Since launching in 2007 it has opened 20 stores across London and the Midlands with a

call centre serving the whole of the UK.¹³ It currently offers two loan products: 'The Bonus Loan' for periods between three and six months; and 'The Big Plus Loan' for six to 36 months. Both products are eligible for cashback rewards for on-time repayments.

41. The company is privately-held and registered in the UK. It has one major shareholder, CS Capital Partners III LLP,¹⁴ which also provides funding for the business. The majority of its total revenue for 2012 of £19.9 million and net profit of £2 million was generated by The Bonus Loan product.¹⁵

PDL Finance Limited

UK company registration number: 06738633
OFT consumer credit licence: 0623787

42. PDL Finance is a privately-held UK company offering payday loans via its online service 'Mr Lender'. The payday loan is the only loan product offered with customers able to borrow between £80 and £500 for up to 30 days.
43. SDJ Enterprises Ltd is the parent company and primary funder of PDL Finance; it is also registered in the UK. PDL Finance generated total revenue of £17.5 million in 2012, with net profit of £2.4 million.¹⁶

Think Finance (UK) Limited

UK company registration number: 05041905
OFT consumer credit licence: 0594425

44. Think Finance offers credit products under the names quid.co.uk and Sunny. A subsidiary of US firm Think Finance, Inc, both companies are privately held and backed by venture capitalist firms Sequoia Capital and Technology Crossover

¹³ 2012 annual report.

¹⁴ *ibid.*

¹⁵ *ibid.*

¹⁶ 2012 PDL Finance annual report.

Ventures. In 2012 the UK company generated total revenue of £14 million making a £3 million net loss.¹⁷

45. Think Finance, Inc entered the UK payday market in 2011 with the acquisition of Fortress Capital, a provider of one-month loans. It had previously purchased an instalment loan company, quid.co.uk in 2009. The business is set to change significantly from 2014: the one-month loan product was withdrawn in September 2013 and Quid.co.uk is to be shut down by March 2014. Think Finance has instead launched Sunny, a running credit product where customers may borrow up to £1,000 and repay within five months.

¹⁷ 2012 Think Finance annual report.

Approach to gathering information from payday loan providers

Introduction

1. This annex sets out our approach to gathering information about the operations of payday loan providers. We issued detailed questionnaires to a group of the largest payday loan providers; and sought a more basic set of information from a wide range of other, mainly smaller, lenders in the sector. The information gathered informed our analysis of different aspects of the payday lending sector and the nature of competition between lenders.

Our approach

2. Our initial list of companies in the sector and their size was obtained from the OFT's compliance review report published in March 2013. We supplemented this with information about distribution channels and products from the responses to our initial request for information; our own research; and lists of payday lenders provided by trade associations.

Large providers

3. We sent three detailed information requests to a selection of large payday loan providers:
 - (a) customer and transaction level data request—covering detailed disaggregated data on individual customers and loans issued by each lender in the period January 2012 to August 2013. The information provided in response to this request underpins the sampling frame for the consumer survey, as well as our analysis of the companies' customers and loan books;
 - (b) market questionnaire—containing a number of written questions, asking for factual descriptions of various aspects of lenders' operations (eg their products,

- prices, approval policies and how they compete for customers), as well as any internal documents and research relevant to these different areas; and
- (c) financial questionnaire—containing a detailed financial template for lenders to complete, as well as requesting information on different aspects of the financial and accounting side of payday lenders' operations.
4. In deciding which companies were to receive these information requests, we used the following broad criteria:
- (a) size of lender—to ensure that our information requests covered a significant proportion of the payday loans sector;
- (b) distribution channels—to ensure that we had a mix of online and high street lenders; and
- (c) products offered—to ensure that the sub-set of lenders selected covered a range of payday products falling under our working definition (for example, standard payday loans; longer-term fixed-sum loans repaid in instalments; and running accounts/open credit facilities in which the borrower has a fixed credit limit and can draw down the funds into their bank account up to the limit).
5. On the basis of the criteria above, we requested customer and transaction level data as well as information in market questionnaires and financial questionnaires from 11 major lenders. These 11 lenders operate 16 separate companies in the UK and market loans under around 22 different brands (see Table 1 below). Between them, these lenders provide a range of single repayment and instalment loans available online and on the high street. Collectively, we estimate these lenders accounted for over 90 per cent of loans issued in 2012 and over 90 per cent of payday loan revenue in 2012.

TABLE 1 Company and product names of the major 11 lenders

| <i>Parent company</i> | <i>UK operation(s)</i> | <i>UK trading name(s)</i> | <i>Specific product names</i> |
|---|---|--|---|
| Cash America | CashEuroNet | QuickQuid Pounds to Pocket | QuickQuid FlexCredit Pounds to Pocket |
| DFC | Dollar (Online) • ICL (High street) • EFL • MEM | The Money Shop Payday Express PaydayUK | |
| Wonga | Wonga Worldwide Limited • WDFC UK Ltd | | Little Loans PayLater Everline |
| EZCORP | Ariste | Cash Genie | |
| The Cash Store Financial Services Inc | The Cash Store Financial Limited • The Cash Store | | |
| CFO Lending | CFO Lending | CFO Lending Payday First | |
| CNG Financial Corporation • Access | Cheque Centres Group Limited (Online) • The Loan Store (Cheque Centre) (High street) • Cheque Centres Limited (Cheque Centres or Cheque Centre) • (Cash Generator Limited) | Cheque Centre | |
| Global Analytics | Lending Stream Zebit LLC (Zebit) | | |
| H&T Group plc | H&T | H&T pawnbrokers | |
| Speedy Group Holdings Corp • Speedy Cash Holdings Corp ○ Speedy Cash Intermediate Holdings Corp | SRC • WageDayAdvance | Speedy Cash | |
| Txt Holdings Limited | MYJAR | MYJAR | |

Source: CC.

Other lenders

6. The remaining companies in the payday lending sector were issued a shorter questionnaire, covering basic details about the companies, their payday operations and their financial results. The questionnaire was issued to 213 lenders, of whom 90 confirmed that they were offering payday loans as of October 2013.