COMPETITION COMMISSION

PAYDAY LENDING MARKET INVESTIGATION

Payday lender pricing working paper

Summary

1. Our first aim in this paper is to review the pricing structures that exist in the payday lending market. Each payday loan product carries its own set of charges, each with their own conditions and rates. Those rates may be calculated differently across lenders, products and customers. This paper describes the different pricing structures used by the major lenders, enabling us to analyse payday lending prices.

2. Having reviewed payday loan pricing structures, the paper goes on to examine variation in prices across lenders and borrowing scenarios. Our observations from the paper in terms of price variation are that:

   (a) where loans are paid on time:

      (i) the prices of several products tend to cluster around £30 for a £100 loan; but

      (ii) there is some significant variation, with some lenders charging over £45 (primarily due to expensive optional faster payment fees) and others charging £25 or less; and

      (iii) some lenders are significantly cheaper for loan durations shorter than one month;

   (b) where loans are rolled over, the variation in prices across different lenders is broadly similar to that observed when loans are repaid on time; and

   (c) where loans are paid late:

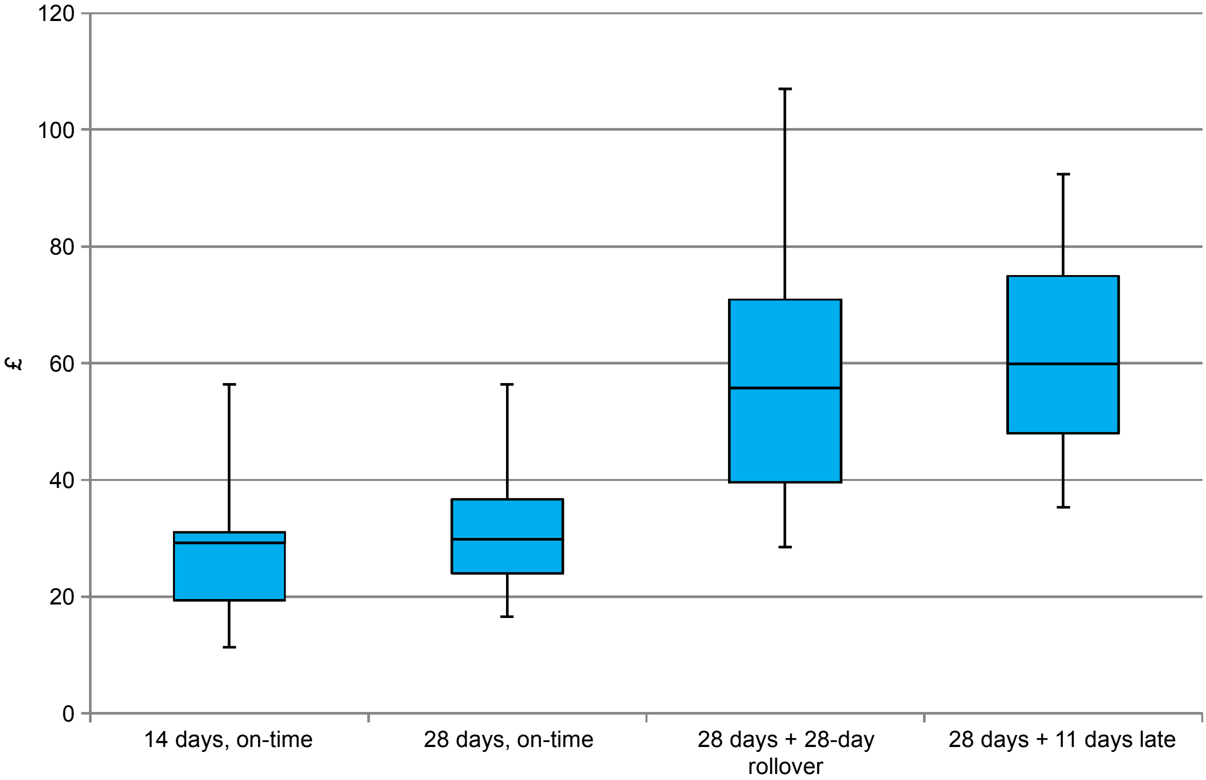
      (i) there is evidence of greater price variation across different lenders' products than in the other scenarios; and

      (ii) there are some substantial changes in lenders' price rankings, ie some loans that are relatively cheap when paid on time become relatively expensive when paid late and vice versa.

3. These observations are reflected in Figure 1, which summarizes price variation across four different representative customer scenarios.

FIGURE 1

Boxplots showing variation in the cost of borrowing £100 using the products of 11 major payday lenders, under four different borrowing scenarios



Source: CC analysis of responses to the market questionnaire.
Note: The box highlights the inter-quartile range of the prices of different lenders under each borrowing scenario, the line across each box the median, and the whiskers the minimum and maximum price.

Payday loan pricing structures

4. To present a clear picture of the pricing of payday loans, we first consider the different elements that make up the prices that customers ultimately pay. For this purpose, we examined the pricing structures of 27 payday lending products currently offered by 11 major payday loan companies. These products are listed in Annex 1: further details about this sample of companies are provided in the annex to our 'Company background' working paper.

5. For ease of analysis and comparability, we have grouped some products together and excluded others from our review. In particular:

(a) While Dollar Financial UK Limited (Dollar) listed six products in its response to our market questionnaire that are sold in bricks-and-mortar retail stores, these can reasonably be classified as two products—a cheque-based and a cheque-less loan—marketed under three brands: The Money Shop in England, Robert Biggar in Scotland[1] and Duncanson & Edwards in Edinburgh. As prices do not vary across these brands and because these brands do not compete in the same local areas, we include just The Money Shop product in our analysis.

(b) Lending Stream's Lending Stream Loan product is repaid over six paydays or 'cycles'. In most cases this means that borrowers face either a weekly or monthly repayment structure. As these structures affect the pricing of the loan, the 'paid-weekly' and 'paid-monthly' prices of this product are presented separately for clarity.

(c) We exclude two Ariste products, Txt Me Cash and Payday is Every Day, as [✂] and these products have both the same product characteristics and pricing structure as Ariste's Cash Genie one-month loan.

(d) Pounds to Pocket, an instalment loan supplied by CashEuroNetUK, LLC (CashEuroNet) is excluded as we do not have price information or transaction data for this product.

6. The price paid for a payday loan usually consists of several separate charges or fees. There is notable variation across products in terms of the individual charges that apply, but they generally consist of a combination of some or all of the following charges:

(a) an interest or finance charge, calculated based on the agreed principal and duration of the loan;

[1] Glasgow, Aberdeen and Motherwell.

(b) a compulsory flat fee;

(c) optional fees paid at the borrower's discretion in return for services such as faster transfer of the principal;

(d) top-up fees, charged when a borrower chooses to 'top up' their loan during its originally agreed term;

(e) 'rollover' fees and/or additional rollover interest charges when the loan is extended, with agreement by the lender, beyond the originally agreed repayment date; and/or

(f) fixed late payment, default or termination fees and/or late interest charges, incurred by the borrower when a repayment is missed and/or an outstanding balance remains overdue beyond certain thresholds defined by the lender.

7. In some cases, repeat customer discounts or price promotions are applied to one or more of the above charges.

8. Within each of the categories of charge, further differences exist across products in terms of how certain individual charges are applied. The following paragraphs illustrate the different price structures observed in the payday lending market by:

(a) describing, where applicable, the specific conditions under which each of the charges arise;

(b) explaining the different approaches used by lenders when applying each of those charges; and

(c) indicating which charges—and which approaches to applying those charges—are most common, both across the range of products that is available and, in particular, across those products that are most widely used by consumers.

9. Interest or finance charges represent the primary component of the price of payday loans and are calculated based on the total amount of principal borrowed. The

charges themselves are generally expressed either as simple percentage interest rates or fixed prices in pounds per £100 of credit borrowed. The rates themselves are usually charged per day, week, month, year or other fixed period (eg per 18 days for MYJAR's product).

10. For most products, the borrower incurs the interest or finance charge for the full fixed period on the issue date. For example, the finance charge for Dollar's Payday Express Payday Loan is £29 per £100 per month, or part-month. For this product, if a customer takes out a loan until their payday two weeks later and repays on time, they will incur the full £29 per £100 monthly charge, while a customer who takes out a loan less than seven days from their payday is given an extra month to repay at no extra cost.

11. The most common structure for the main finance charge is a fixed monthly charge. Among the largest players, this includes QuickQuid's PayDay loan (supplied by CashEuroNet) and all four loan products supplied by Dollar's three payday lending subsidiaries. However, it excludes Wonga's Little Loans and CashEuroNet's relatively new QuickQuid FlexCredit product, which carry daily interest rates of 1 and 0.82 per cent respectively.

12. Repayment structure is another important distinction between the interest or finance charges applied to payday lending products. The majority of products exclusively accept a single repayment on the final repayment date. In contrast, eight of the products we consider in this paper[2]—six fixed-sum agreements and two open credit agreements—either can be or must be repaid by multiple instalments. Where this repayment structure is flexible—that is, where a choice exists in terms of whether

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[2] These are Ariste Holding Limited's Cash Genie three-month loan product; CashEuroNet's QuickQuid Payday and QuickQuid FlexCredit products; Harvey & Thompson's KwikLoan product; Lending Stream's Zebit Short-Term Loan, Zebit Instalment and Lending Stream Loan products; and SRC Transatlantic Limited's Speedy Cash Flex Loan and Speedy Cash Flex Account products.

customers pay by instalment and/or the number of instalments over which they will repay—the final price of the loan can depend on the chosen instalment structure. This is because in some cases the instalment payment goes toward paying off the principal of the loan, which in turn reduces the interest charge incurred in subsequent periods.

13. The full range of interest rates and the basis on which they are applied are shown in Table 1.

TABLE 1 **Interest rates and finance charges by product**

Company name	*Brand*	*Product name*	*Rate and basis*
Wonga	Wonga	Little Loan	1.00% per day
CashEuroNet	QuickQuid	FlexCredit	0.82% per day
	QuickQuid	Payday (Average rating)	£29.50 per £100 per month
	QuickQuid	Payday (Good rating)	£25.00 per £100 per month
	QuickQuid	Payday (Excellent rating)	£20.00 per £100 per month
Dollar (MEM)	PaydayUK	PayDayLoan	£29.95 per £100 per month
Dollar (ICL)	The Money Shop	Chequeless loan	£29.99 per £100 per month
	The Money Shop	Cheque-based loan	£29.85 per £100 presented
Dollar (Express Finance)	PaydayExpress	PayDay Loan	£29.00 per £100 per month
Lending stream	Zebit	Short Term Cash Loan (monthly)	25% per month
	Zebit	Short Term Cash Loan (weekly)	6.4% per week
	Zebit	Instalment Loan	11% per month
	Lending Stream	Loan (weekly)	8.90% per week
	Lending Stream	Loan (monthly)	34% per month
Cheque Centres	The Loan Store	Payday Loans	£29.99 per £100 per month
	Cheque Centre	Short Term Loan	£29.99 per £100 per month
MYJAR	MYJAR	Cash Loan 18 day	£20.00 per £100 per 18 days
CFO Lending Limited	CFO Lending	Short Term Loan	£36.00 per £100 per month
	PayDay First	PayDay Loan	£36.00 per £100 per month
Ariste Holding Limited	Txt Me Cash	1 Month loan	£30.00 per £100 per month
	Cash Genie/Cash Genie Loans	3 Month Loan	£90.00 per £100 per 3 months
	Cash Genie/Cash Genie Loans	1 month loan	£30.00 per £100 per month
	Payday is Every Day	1 month loan	£30.00 per £100 per month
WageDayAdvance	WageDayAdvance		£29.50 per £100 per month
SRC Transatlantic Limited	Speedy Cash	Flex account	0.82% per day
	Speedy Cash	Flex Loan	0.75% per day
	Speedy Cash	Payday Loans	£25.00 per £100 until payday
Harvey & Thompson*	Harvey & Thompson	Payday Loan (Cheque)	17.64% per 30 days
	Harvey & Thompson	Payday Loan (Debit)	20% per 30 days
	Harvey & Thompson	Online Payday Loan	20% per 30 days
	Harvey & Thompson	KwikLoan	59.17% per year
Cash Store	Cash Store	Payday Loan	84% per year plus 23% regardless of duration†

Source: CC analysis.

*These products (except for KwikLoan) are charged on a 'per 30 days' basis (ie not on a daily rate) based on the answers provided by H&T in its response to the market questionnaire and on examination of the transaction data for their Payday Loan (Debit).
†In addition to an interest rate of 84 per cent per year, a single-occurrence 'brokerage fee' also applies to The Cash Store's Payday Loan. However, as this fee is calculated as a proportion of the loan principal, it falls under our definition of an 'interest or finance charge' as per paragraph 9.

14. Compulsory flat fees are charges of a fixed amount that are incurred by the borrower on the date the loan is issued and are unrelated to any optional features of the product itself.

15. Compulsory flat fees currently apply to only two of the products analysed in this paper. Wonga's Little Loans carry a fixed fee of £5.50 and Ariste Holding Limited (Ariste) charges a compulsory fixed fee of £15 on its three-month Cash Genie product.[3]

16. Optional fees are fixed amounts paid by customers in return for some additional service that is not included as standard as a feature of the loan product and can be forgone at the borrower's discretion. We exclude from this definition top-up fees, late payment fees and rollover fees, which are treated separately in this analysis.

17. Most often, these optional fees are 'faster payment fees', paid in order to secure a reduction in the waiting time between the agreement of the loan and receipt of the loan principal. Our working paper on 'Payday loan products' provides some additional detail relating to the speed of funds transfer under the different available faster payment services.

18. The only other type of optional fee currently observed in the market is the set of card fees charged to those customers of The Cash Store Limited (Cash Store) who elect to obtain their loan via MasterCard.

19. In total, six payday lenders in our sample—Dollar (Express Finance), CFO Lending Limited (CFO Lending), Ariste, WageDayAdvance, Harvey & Thompson (H&T) and the Cash Store —currently charge optional fees on at least one of their products. Eight payday lenders—Wonga, CashEuroNet, Dollar (ICL), Dollar (MEM), SRC Transatlantic Limited (SRC), MYJAR, Cheque Centres and Lending Stream—do not charge optional fees on any of their products. These optional fees thus apply to ten products in total: these are set out in Table 2.

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[3] Ariste's compulsory fee is described by the lender as a faster payment fee.

TABLE 2 **Faster payment and other optional fees by product**

Lender	*Product*			
Company name	*Brand*	*Product name*	*Optional fee type*	*Fee amount £*
Express Finance (Dollar)	PaydayExpress	PayDay Loan	Faster payment	15*
CFO Lending Limited	CFO Lending	Short Term Loan	Faster payment	15
	PayDay First	PayDay Loan	Faster payment	15
Ariste	Txt Me Cash	1 Month loan	Faster payment	20
	Cash Genie/Cash Genie Loans	1 month loan	Faster payment	20
	Payday is Every Day	1 month loan	Faster payment	20
WageDayAdvance	WageDayAdvance		Faster payment	15
Harvey & Thompson	Harvey & Thompson	Online Payday Loan	Faster payment	7
Cash Store	Cash Store	Payday Loan	Faster payment	5
	Cash Store	Payday Loan	Card fee	10

Source: CC analysis of responses to the market questionnaire.

*The faster payment fee for Dollar's Payday Express loan is only charged to repeat customers—ie customers taking out a second or subsequent loan.

20. Faster payment fees range from £5 on The Cash Store's Payday Loan up to £20 on Ariste's one-month loan products. New customers are exempted from the £15 faster payment fee on Dollar's Payday Express product.

21. Top-up fees are additional flat fees incurred when a customer chooses to 'top up' their loan during the course of the original loan term. Both Wonga and CashEuroNet offer top-ups:

(a) Wonga charges a £5.50 top-up fee and applies its standard interest rate of 1 per cent per day to the additional amount from the date of top-up to the repayment date.

(b) CashEuroNet does not charge any flat top-up fees. It told us that charges for top-ups were 'charged pro-rata based on the new principal balance of additional loan proceeds funded for the remaining term of the loan'.

22. In our sample of transactions, [✂] per cent of Wonga's Little Loans and [✂] per cent of CashEuroNet's QuickQuid Payday Loans were topped up at least once.[4]

23. Rollover charges refer to additional flat fees and/or further interest or finance charges incurred by the borrower on agreement with the lender to extend the duration of the loan beyond the original repayment date.

24. As described in our 'Payday loan products' working paper, the availability and structure of rollover arrangements varies across lenders. The maximum number of rollovers permitted for each product is set out in Table 3 of that paper. Responses to questionnaires sent to the lenders indicated that most products offer some form of explicit rollover facility.

25. Nine lenders indicated that they permitted at least one of their loan products to be extended or rolled over. Four lenders—Lending Stream, MYJAR, Ariste and SRC—each indicated that rollovers and extensions were not permitted for some or all of their products. However, analysis of the transaction data suggests that it may nevertheless be possible in some cases for customers *effectively* to extend their loans by taking out a new loan on or close to the existing repayment date, subject to fulfilling any requirements set out by the lenders—for example, that the previous loan be repaid in full before the subsequent loan is issued.

26. In terms of rollover fees, only customers of Wonga's Little Loans incur a flat rollover fee (of £10) when agreeing an extension. However, it should be noted that, in a scenario where customers extend their loans by taking out a new loan with the same lender, they would also have to pay again any compulsory flat fees associated with a

[4] See our working paper on 'Customers and their loans'.

new loan. In our list of products, this would apply to Ariste's Cash Genie three-month loan.

27. All products carry an interest or financing charge for the period of the rollover. In all cases, this interest or financing charge is calculated at the same rate as was charged on the original loan.

28. Customers may be required to repay all outstanding interest and/or fees when rolling over a loan. This is relevant from a pricing perspective: all else being equal, the overall cost of a rollover will usually be lower the greater the proportion of outstanding principal, interest and fees that is repaid at the point of rollover.

29. Late payment fees refer to flat fees and/or interest or finance charges incurred by the borrower when they fail to make a repayment by the previously agreed time and/or date. For clarity, we divide these late fees into:

(a) 'immediate late payment fees', which are flat fees incurred by the borrower on the first day the loan is considered late;

(b) 'conditional late payment fees', which are other flat fees associated with late repayment but only apply after certain additional conditions have been met; and

(c) 'late interest or finance charges', which are similar to the standard interest or finance charges except that they relate to the overdue period only.

30. Some lenders will, in some cases, exercise forbearance with respect to some or all of the late payment fees and interest associated with their products.

31. Almost all payday loan products carry an 'immediate late payment fee' for late repayments. The full range of immediate late payment fees charged by each lender is set out in Table 3.

TABLE 3 **'Immediate late payment fees' by product**

Company name	*Brand*	*Product name*	*Late fee charged the first day after payment is missed?*	*Amount £*
Wonga	Wonga	Little Loan	Yes	30.00
CashEuroNet	QuickQuid	FlexCredit	Yes	12.00
	QuickQuid	Payday	Yes	12.00
Dollar (MEM)	PaydayUK	PayDayLoan	No	N/A
Dollar (Express Finance)	PaydayExpress	PayDay Loan	No	N/A
Dollar (ICL)	The Money Shop	Chequeless loan	Yes	29.00
	The Money Shop	Cheque-based loan	Yes	29.00
Lending stream	Zebit	Short Term Cash Loan (monthly)	Yes	12.00
	Zebit	Short Term Cash Loan (weekly)	Yes	12.00
	Zebit	Instalment Loan	Yes	12.00
	Lending Stream	Loan (weekly)	Yes	8.00
	Lending Stream	Loan (monthly)	Yes	12.00
Cheque Centres	The Loan Store	Payday Loans	Yes	30.00
	Cheque Centre	Short Term Loan	Yes	30.00
MYJAR	MYJAR	Cash Loan 18 day	Yes	25.00
CFO Lending Limited	CFO Lending	Short Term Loan	Yes	25.00
	PayDay First	PayDay Loan	Yes	25.00
Ariste Holding Limited	Txt Me Cash	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	1 Month loan	Yes	15.00
	Payday is Every Day	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	3 Month Loan	Yes	15.00
SRC Transatlantic Ltd.	Speedy Cash	Flex account	No	N/A
	Speedy Cash	Payday Loans	Yes	12.50
	Speedy Cash	Flex Loan	No	N/A
WageDayAdvance	WageDayAdvance		Yes	12.00
Harvey & Thompson	Harvey & Thompson	Payday Loan (Cheque)	Yes	25.00
	Harvey & Thompson	Payday Loan (Debit)	Yes	25.00
	Harvey & Thompson	Online Payday Loan	Yes	15.00
	Harvey & Thompson	KwikLoan	Yes	15.00
Cash Store	Cash Store	Payday Loan	Yes	25.00

Source: CC analysis of responses to the market questionnaire.

32. While these immediate late payment fees range in value from £8 to £30, the majority are grouped in two clusters: between £12 and £15 (14 products), and between £25 and £30 (14 products).

33. 'Conditional late payment fees' are typically applied following a specific event, including:

(a) when the length of the overdue period passes a certain threshold or thresholds;

(b) where an attempt by the lender to withdraw payment is declined by the borrower's bank; and/or

(c) where the lender deems the loan to be in default or the borrower must be traced.

34. For example, Ariste applies a fee of £12—in additional to its initial late payment fee of £15—each time the borrower is sent a late payment notification letter. For its one-month products, the notification letters are sent on days 7, 23, 32 and 62 after the original repayment date, and for its three-month product, they are sent on days 7 and 23 after each instalment. Ariste also charges a fee of £30 for each unauthorized debit transaction (a 'chargeback') and a trace fee of £45 where Ariste has been advised that the customer no longer lives at that address but the customer failed to respond to any of Ariste's contacts or advise a change of address.

35. The full range of these conditional late fees is set out in Table 4.

TABLE 4 **Conditional late fees by product**

Company name	*Brand*	*Product name*	*Condition for additional flat late fees (excluding fees on first day late)*	*Amount £*
Wonga	Wonga	Little Loan	-	-
CashEuroNet	QuickQuid	FlexCredit	N/A	N/A
	QuickQuid	Payday	N/A	N/A
Dollar (MEM)	PaydayUK	PayDayLoan	7 days late	15.00
Dollar (Express Finance)	PaydayExpress	PayDay Loan	7 days late	15.00
Dollar (ICL)	The Money Shop	Chequeless loan	-	-
	The Money Shop	Cheque-based loan	-	-
Lending stream	Zebit	Short Term Cash Loan	36 days late	10.00
	Zebit	Short Term Cash Loan	55 days late	40.00
	Zebit	Instalment Loan	34 days late	10.00
	Zebit	Instalment Loan	55 days late	40.00
	Lending Stream	Loan (weekly)	34 days late	10.00
	Lending Stream	Loan (weekly)	53 days late	40.00
	Lending Stream	Loan (monthly)	34 days late	10.00
	Lending Stream	Loan (monthly)	53 days late	40.00
Cheque Centres	The Loan Store	Payday Loans	-	-
	Cheque Centre	Short Term Loan	-	-
MYJAR	MYJAR	Cash Loan 18 day	11 days late	25.00
CFO Lending Limited	CFO Lending	Short Term Loan	-	-
	PayDay First	PayDay Loan	-	-
Ariste Holding Limited	Txt Me Cash	1 Month loan	7, 23, 32 and 62 days late	12.00
	Txt Me Cash	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Txt Me Cash	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	1 Month loan	7, 23, 32, 62 days late	12.00
	Cash Genie/Cash Genie Loans	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Cash Genie/Cash Genie Loans	1 Month loan	Trace fee	45.00
	Payday is Every Day	1 Month loan	7, 23, 32, 62 days late	12.00
	Payday is Every Day	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Payday is Every Day	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	3 Month loan	7, 23 days late after each instalment	12.00
	Cash Genie/Cash Genie Loans	3 Month loan	Unauthorized debit (‘chargeback’)	30.00
SRC Transatlantic Ltd.	Speedy Cash	Flex account	-	-
	Speedy Cash	Payday Loans	-	-
	Speedy Cash	Flex Loan	-	-
WageDayAdvance	WageDayAdvance		-	-
Harvey & Thompson	Harvey & Thompson	Payday Loan (Cheque)	-	-
	Harvey & Thompson	Payday Loan (Debit)	-	-
	Harvey & Thompson	Online Payday Loan	-	-
	Harvey & Thompson	KwikLoan	-	-
Cash Store	Cash Store	Payday Loan	Payment not honoured	20.00

Source: CC analysis of responses to the market questionnaire.

36. In addition to these flat charges, some loan products continue to accrue interest or finance charges on overdue balances until the borrower makes full repayment.

Additional late interest or finance charges apply to 20 products, including Wonga's Little Loans and several of Dollar's lending products but excluding CashEuroNet's QuickQuid Payday and QuickQuid FlexCredit products. In some cases, these additional late interest or finance charges continue at the same rate as the original loan, while in others a new rate or charge applies. The full range of late interest rates on overdue balances is presented in Table 5.[5]

[5] For loan products with instalments, it is possible to accumulate significant late fees as the number of repayments that can be missed is greater than for a loan with a single repayment date.

TABLE 5 **Interest rates on overdue balances**

Company name	*Brand*	*Product name*	*Amount*	*Limit*	*Late interest calculated on:*
Wonga	Wonga	Little Loans	1% per day	[✂]	Full outstanding balance (but excl £30 late payment fee)
CashEuroNet	QuickQuid	FlexCredit	No late interest*	[✂]	N/A
	QuickQuid	Payday	No late interest*	[✂]	N/A
Dollar (MEM)	PaydayUK	PayDayLoan	Daily interest based on 29% per calendar month	[✂]	Principal only
Dollar (Express Finance)	PaydayExpress	PayDay Loan	Daily interest based on 29% per calendar month	[✂]	Principal only
Dollar (ICL)	The Money Shop	Chequeless loan	0.81% to 0.89% per day depending on the number of days in the previous month. [✂]	[✂]	Principal only
	The Money Shop	Cheque-based loan	No late interest*	[✂]	N/A
Lending stream	Zebit	Short Term Cash Loan (weekly)	25% per month	[✂]	Principal only
	Zebit	Short Term Cash Loan (monthly)	6.4% per week		Principal only
	Zebit	Instalment Loan	11% per month		Principal only
	Lending Stream	Loan (weekly)	8.9% per week		Principal only
	Lending Stream	Loan (monthly)	34% per month		Principal only
Cheque Centres	The Loan Store	Payday Loans	No late interest	[✂]	N/A
	Cheque Centre	Short Term Loan	No late interest	[✂]	N/A
MYJAR	MYJAR	Cash Loan 18 day	1.11% per day*	[✂]	Principal only
	MYJAR	Cash Loan 18 day	25% flat fee of outstanding balance in lump sum when referred for debt collection	[✂]	
CFO Lending Limited	CFO Lending	Short Term Loan	1.20% per day*	[✂]	Principal only
	PayDay First	PayDay Loan	1.20% per day*	[✂]	Principal only
Ariste Holding Limited	Txt Me Cash	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Payday is Every Day	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	3 Month Loan	£30 per £100 per month or part-month	[✂]	Principal only
SRC Transatlantic Ltd	Speedy Cash	Flex account	No late interest*	[✂]	N/A
	Speedy Cash	Payday Loans	No late interest*	[✂]	N/A
	Speedy Cash	Flex Loan	No late interest*	[✂]	N/A
WageDayAdvance	WageDayAdvance		0.74% per day*	[✂]	Principal only
Harvey & Thompson	Harvey & Thompson	Payday Loan (Cheque)	0.56% per day	[✂]	Principal only
	Harvey & Thompson	Payday Loan (Debit)	0.67% per day	[✂]	Principal only
	Harvey & Thompson	Online Payday Loan	0.67% per day	[✂]	Principal only
	Harvey & Thompson	KwikLoan	-	[✂]	-
Cash Store	Cash Store	Payday Loan	0.23% per day	[✂]	Full outstanding balance incl fees & interest

Source: CC analysis of responses to market questionnaire.

*Products charging late interest rates that differ from the standard interest rate charged on the agreed period of the loan.

37. Repeat customer discounts and other promotions also are or have been offered by a number of lenders. For example, discounts for repeat customers have been offered by CashEuroNet on QuickQuid Payday;[6] both Wonga and CashEuroNet offer discounts for borrowers that input promotional codes distributed on affiliate marketing websites such as Money.co.uk; and Dollar does not charge its faster payment fee for new customers to its Payday Express product. The use of promotions is described in greater detail in the presentation on payday loan pricing over time.

38. A final aspect of payday loan pricing is risk-based pricing, which—of the products considered in this paper—is currently only used by CashEuroNet for its QuickQuid Payday loan.[7] CashEuroNet divides customers of QuickQuid Payday into three risk categories: 'average', 'good' and 'excellent', where 'excellent' is the least risky category. Customers receiving 'good' or 'excellent' ratings receive discounts of 15.3 and 32.2 per cent respectively, relative to the monthly interest rate of £29.50 per £100 paid by customers receiving an 'average' rating (see Table 1).

Representative customer scenarios

39. Based on the differing pricing structures outlined in paragraphs 9 to 38, the price paid by a customer who takes out a payday loan is shown to depend on several factors, including:

(a) the amount the customer wishes to borrow;

(b) the intended duration of the loan, which may or may not be determined by their next payday;

(c) whether the loan is repaid in instalments;

(d) whether they elect to pay for 'faster payment' or other optional services, where available;

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[6] [✂]
[7] [✂]

(e) whether they can secure favourable conditions with certain payday lenders based on their borrowing history or credit rating;

(f) whether they miss any repayments and for how long any overdue balances remain outstanding; and

(g) whether they roll over their loan and for how long.

40. Understanding the variation in prices faced by consumers of payday loans is therefore complicated by the fact that we must first determine *which* price to compare across lenders. The large number of possible combinations of the above price-determining characteristics means that the number of unique sets of prices is large enough to make case-by-case analysis—ie comparing prices for every possible combination of loan amount, duration, repayment experience, etc—intractable.

41. Therefore, in order to understand the prices of payday loans and the extent of variation across lenders, we consider several 'representative customer' scenarios. The idea behind this approach is to:

(a) select specific scenarios that are representative of a large proportion of payday loans;

(b) analyse prices and price variation in each of those scenarios; and, thereby,

(c) generate a general picture of pricing and price variation in the payday lending sector.

42. For the above approach to be effective, it is important that the customer scenarios accurately describe typical customer behaviour. In order to characterize our representative customer scenarios, we examine the transaction data provided to us by the lenders to identify the distributions of the price-determining characteristics listed in paragraph 39 above. Specifically, we examine the distribution of loan values and durations, take-up rates for optional fees, the prevalence of repeat custom discounts

and the distribution of risk profiles among consumers of loans with risk-based pricing. This process is detailed in Annex 2.

43. Based on these analyses, we choose four scenarios, namely:

(a) a £100 loan for 14 days, repaid on time;

(b) a £100 loan for 28 days, repaid on time;

(c) a £100 loan for 28 days, rolled over for an additional 28 days; and

(d) a £100 loan for 28 days, repaid 11 days late.

44. We have made a number of additional assumptions that apply to each of these scenarios:

(a) given the option, customers choose to pay for faster payment;

(b) given the option, customers do not choose to 'top up' their loans; and

(c) customers, when borrowing a QuickQuid Payday loan, are assigned an 'average' risk rating [✂].

45. Given the above, and the analysis in Annex 2, we consider that the scenarios we have chosen are representative of a large proportion of actual payday loans and, therefore, that the subsequent analysis of pricing in those scenarios is also broadly representative of pricing structures in payday lending.

Variation in prices across lenders

46. Having selected these scenarios, the next step in our analysis is to calculate a price for each product given the assumptions of each scenario. The measure we use for price in all four of these scenarios is the total cost of credit (TCC). The TCC is the amount in pounds that a customer would pay if they took out a loan for a given amount.

47. We have considered whether it is appropriate to include longer-term instalment loans[8] in our price comparisons. In some cases, longer-term instalment products can be agreed for relatively long durations but may nevertheless be 'prepaid' by the borrower, who thus incurs no interest or finance charges relating to the remainder of the originally agreed loan period. Our analysis suggests that some longer-term instalment loans are indeed used for short-term borrowing, and on this basis we have included a number of longer-term products in our analysis (including Lending Stream's Zebit Short Term Cash Loan and SRC's Speedy Cash Flex Loan).

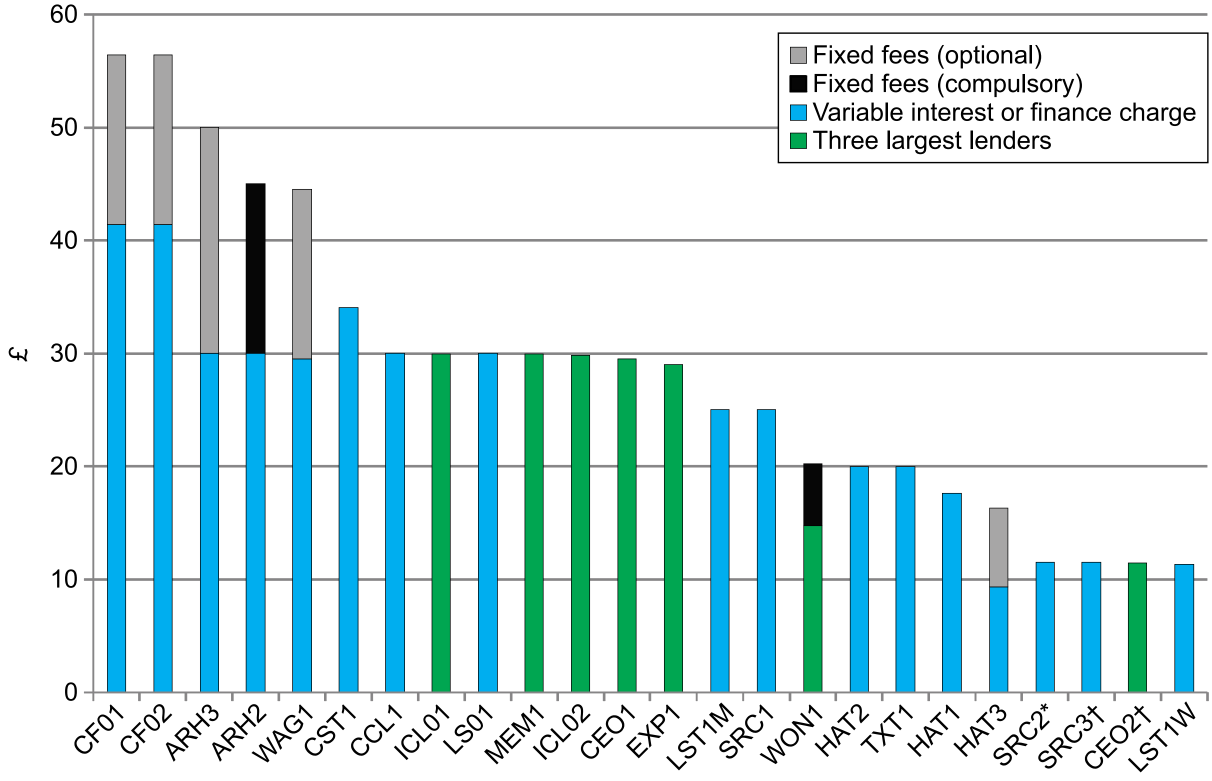
Scenario 1: On-time rrepayment (14 days)

48. We first consider a customer who seeks to borrow £100 for 14 days and repays on time, with characteristics as outlined in paragraph 44. The TCCs of each of the products of the major lenders for this borrowing scenario are displayed in Figure 2, divided into a variable component, which depends on the size of the loan, and a fixed component, which is independent of the size of the loan. Optional and compulsory fixed fees are also presented in grey and black, respectively. The products of the three largest lenders—Wonga, CashEuroNet and Dollar—are highlighted in green. The products are labelled using product codes, for which a legend is provided in Annex 1, Table 1.

[8] See our 'Payday loan products' working paper for a more detailed description of instalment products.

FIGURE 2

Total cost of credit for a £100 loan over 14 days (Scenario 1)



Source: CC analysis of lenders' responses to the market questionnaire.
*Long-term instalment products for which this scenario implies prepayment by the customer.
†Flexible open-ended credit agreements with a flexible draw-down structure.
Note: Looking across the different lenders' products, the median price in this scenario is £29.25 for a £100 loan. The mean price is £28.53. The 25th and 75th percentile prices are £19.41 and £31.01 respectively, giving an interquartile range of £11.60.

49. The four products with the lowest prices (at around £12 for a £100 loan) are CashEuroNet's QuickQuid FlexCredit, SRC's Speedy Cash Flex Loan (prepaid after 14 days), SRC's Speedy Cash Flex Account and Lending Stream's Zebit Short Term Cash Loan (under a weekly repayment structure, prepaid after 14 days).

50. The products with the highest prices are CFO Lending's payday products, at £56.40 for a £100 loan. This price includes a flat optional faster payment fee of £15. In fact, faster payment fees apply to the five most expensive prices in this scenario. For four of these products the fee is optional. The take-up rates are [✂].

51. It emerges from Figure 2 that a price of around £30 for a £100 loan is relatively common across products in this scenario. In fact, seven products supplied by three large lenders—Dollar, CashEuroNet and Cheque Centres—have almost identical prices at this loan value and duration. Three additional products, supplied by two lenders—Ariste and SRC's WageDayAdvance—also have 'headline' prices of close to £30 per £100 (ie when excluding additional, non-interest fees).

52. Nevertheless, there does appear to be some meaningful price variation in this scenario, including among some popular products. For example, Wonga's Little Loans cost around £20 for a loan of this amount and duration.

53. Where the price of a given product includes a flat fee—ie one that is not dependent on the loan amount—its TCC in pounds per £100 borrowed will be lower when comparing loans of greater amounts. This is because the flat fee is divided over a larger base. For example, the inclusion of a £15 faster payment fee increases the TCC of a £100 loan by £15 per £100, but a £200 loan by only £7.50 per £100. Conversely, products that charge only constant interest rates will have the same TCC regardless of the size of the loan.

54. This implies that for larger loans, the TCCs of the five most expensive products in this scenario would be closer to the central price of around £30 per £100. Given this, we would expect to observe less price variation when considering scenarios with larger loan values.

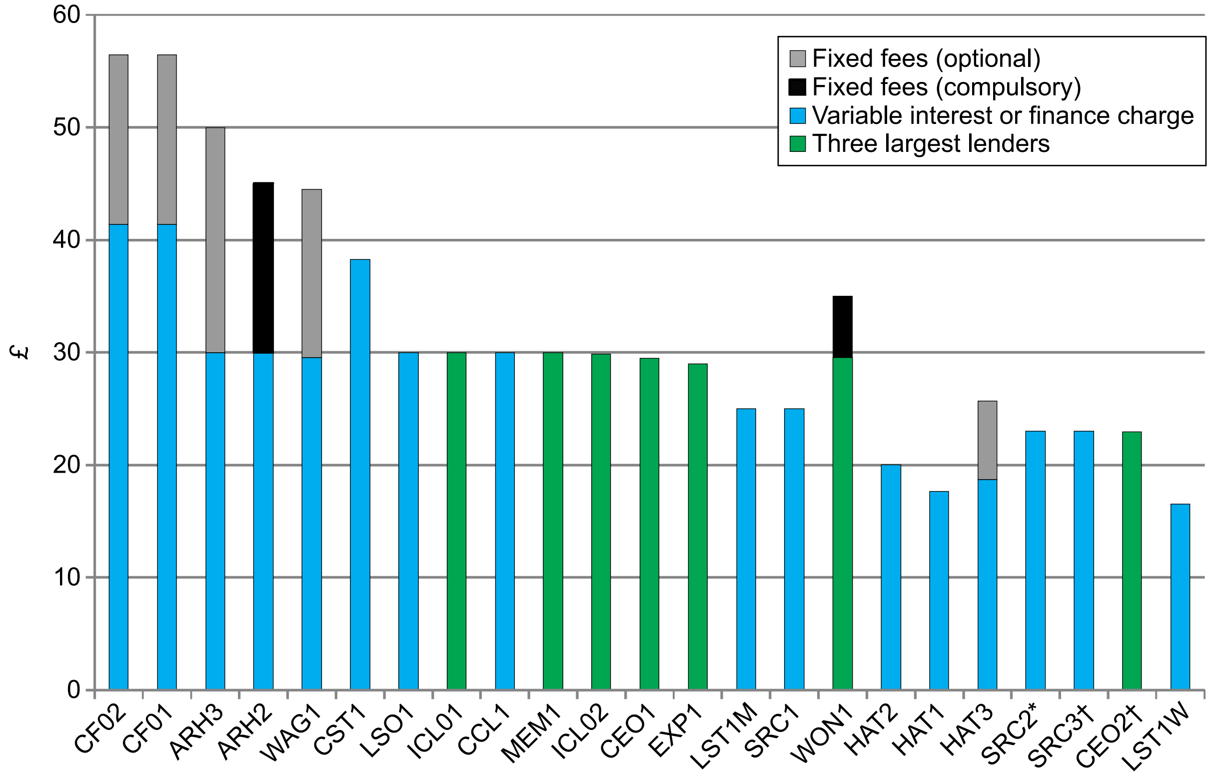
Scenario 2: On-time repayment (28 days)

55. We also considered whether the extent of price variation depends on loan duration. Scenario 2 differs from Scenario 1 only in that the duration of the loan is 28 days

instead of 14.[9] The TCCs under this borrowing scenario are presented in Figure 3, with the products presented in the same order as in Figure 2 in order to highlight any changes in ranking. The products of the three largest lenders are again highlighted in green.

FIGURE 3

Total cost of credit for a £100 loan over 28 days (Scenario 2)



Source: CC analysis of lenders' responses to the market questionnaire.
*Long-term instalment products for which this scenario implies prepayment by the customer.
†Flexible open-ended credit agreements with a flexible draw-down structure.

56. The median price in this scenario is £29.85 for a £100 loan. The mean price is £31.85. The 25th and 75th percentile prices are £24.01 and £36.64 respectively, giving an interquartile range of £12.63.

[9] One product becomes unavailable in this scenario: MYJAR's maximum duration is 18 days and thus cannot be repaid 'on time' in this scenario.

57. The cheapest product in this scenario is Lending Stream's Zebit Short Term Cash Loan, with a TCC of £16.50 for a £100 loan, followed by H&T's cheque-based loan and payday loan at £17.64 and £20.00 respectively.

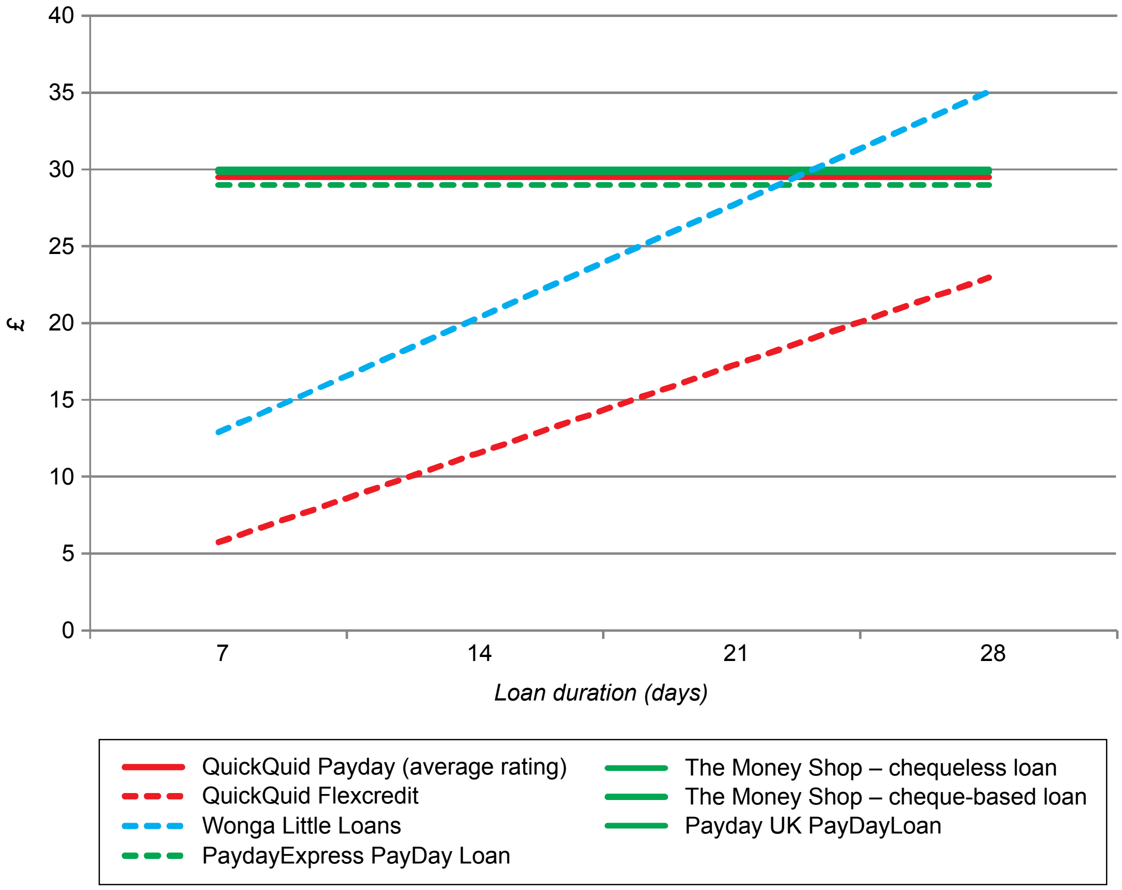
58. The highest price is again £56.40 for a £100 loan for both of CFO Lending's payday products, as in the previous scenario. It remains the case that faster payment fees apply to the five most expensive products in this borrowing scenario.

59. We observe slightly less variation in prices across products at this loan duration than in Scenario 1. This reduction in price variation largely arises from the increase in prices in the more flexible products to reflect the longer duration, while the products with monthly or similarly-structured finance charges are static. Seven products increase in price when moving from a 14-day to a 28-day loan duration and all but one of these were relatively cheap products in the 14-day scenario (ie below the 25th percentile price of around £23 for a £100 loan). We note that the TCC for Wonga's Little Loans has risen to £35 for a £100 loan, higher than the prices of the other large competitors. One observation to draw from this is that price variation is likely to be less pronounced in borrowing scenarios with loan durations that are close to one month (or any multiple thereof), as the prices of loan products with daily interest rates and monthly interest rates converge at around this point.

60. Figure 4 provides further detail on the relationship between TCCs and loan duration by depicting the TCCs of the products offered by the three largest lenders at weekly intervals, from one to four weeks.

FIGURE 4

Total cost of credit for a £100 loan at different durations—the three largest lenders only



Source: CC analysis of lenders' responses to the market questionnaire.

61. Two different pricing patterns emerge. First, the upwards-sloping lines depict products with daily interest rates, whose prices increase in a linear fashion with duration. Second, the flat lines—closely bunched together in this figure—depict payday loan products that charge a fixed price for any period less than a month (or similar).[10]

62. The graph shows that the lowest-cost product across scenarios directly depends on the duration of the loan. Prices of all three of the largest lenders' products become

[10] As the loan duration extends to include multiple monthly periods, the price of products with monthly interest rates will 'jump' discontinuously as the TCC increases to include additional months' interest, where applicable.

similar at loan durations of slightly longer than three weeks (with the exception of QuickQuid FlexCredit).

Scenario 3: 'Rolled over' loans (28 days plus a 28-day rollover)

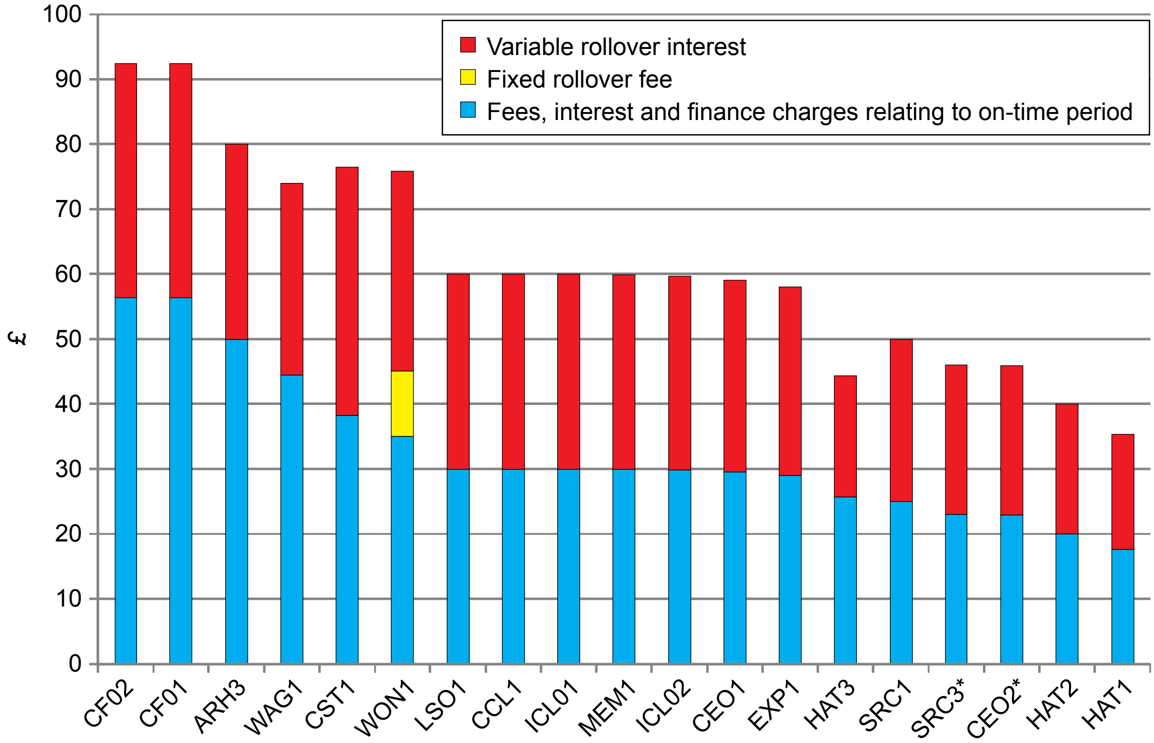
63. In this scenario, we continue to consider a customer who seeks to borrow £100 for 28 days, with the same assumptions as outlined in paragraph 44. In this case, however, we look at the price paid if the customer does not pay on the originally agreed repayment date, but rather extends the loan and repays an additional 28 days later, making a total duration of 56 days.

64. The different conditions surrounding minimum and maximum loan durations and permitted rollover arrangements mean that it is necessary to take a number of matters into account before comparing the prices of different products in this scenario. In particular, where borrowers use longer-term products to finance short-term borrowing (ie by 'prepaying' their loan before the agreed date as described in paragraph 47), the originally planned loan duration could be 'extended' by the borrower by delaying prepayment. We do not currently include the prices of any products of this type in the analysis of this scenario (including SRC's Speedy Cash Flex Loan). We also exclude products for which extensions are not permitted (including Lending Stream's Zebit Short Term Cash Loan and Ariste's Cash Genie three-month loan).

65. Figure 5 shows the TCCs for each of the products of the major lenders for a customer taking out a £100 loan for 28 days and later extending for 28 days. The total price is divided between the charges incurred as part of the originally agreed 28-day loan and those incurred as part of the extension. The products are ranked in terms of the cost of the originally agreed 28-day loan (ie as in Figure 3).

FIGURE 5

Total cost of credit: repaid on time versus rolled over (Scenario 3)



Source: CC analysis of lenders' responses to the market questionnaire.
*Flexible open-ended credit agreements with a flexible draw-down structure.

66. Under the rollover scenario, the median price is £59.90 for a £100 loan. The mean price is £61.53. The 25th and 75th percentile prices are £47.96 and £74.92 respectively, giving an interquartile range of £26.96.

67. As in the 'on-time' scenario, a number of products are clustered around a single price: seven products provided by three different lenders have TCCs close to £60 for a £100 loan.

68. As with the previous scenarios, the most expensive products in this scenario are CFO Lending's Payday First and CFO Lending Short Term Loan products, costing £92.40 for a £100 loan that is rolled over for 28 days. Also relatively expensive in this

scenario are Ariste's Cash Genie product (£90) and WageDayAdvance (£82.85). The cheapest product is H&T's cheque-based payday loan at £35.28 for a £100 loan.

69. In this scenario, the price of a rolled-over loan is, on average, 1.92 times that of the cost of the equivalent loan when paid on time. The largest relative increase between the on-time and rollover scenarios is for Wonga's Little Loans, which are 2.16 times more expensive when rolled over in this scenario. The smallest increases, in percentage terms, tend to be for those products with faster payment charges—CFO Lending's products, Ariste's one-month loans and SRC's WageDayAdvance, each costing between 60 and 66 per cent more than when paid on time in 28 days.

70. Another pattern evident in Figure 5 is that the price rankings of different lenders remain relatively stable when a customer rolls over. Specifically, the relative prices of most loans do not change: the exceptions being WageDayAdvance and H&T's online loan.

Scenario 4: Late repayments (28 days plus 11 days late)

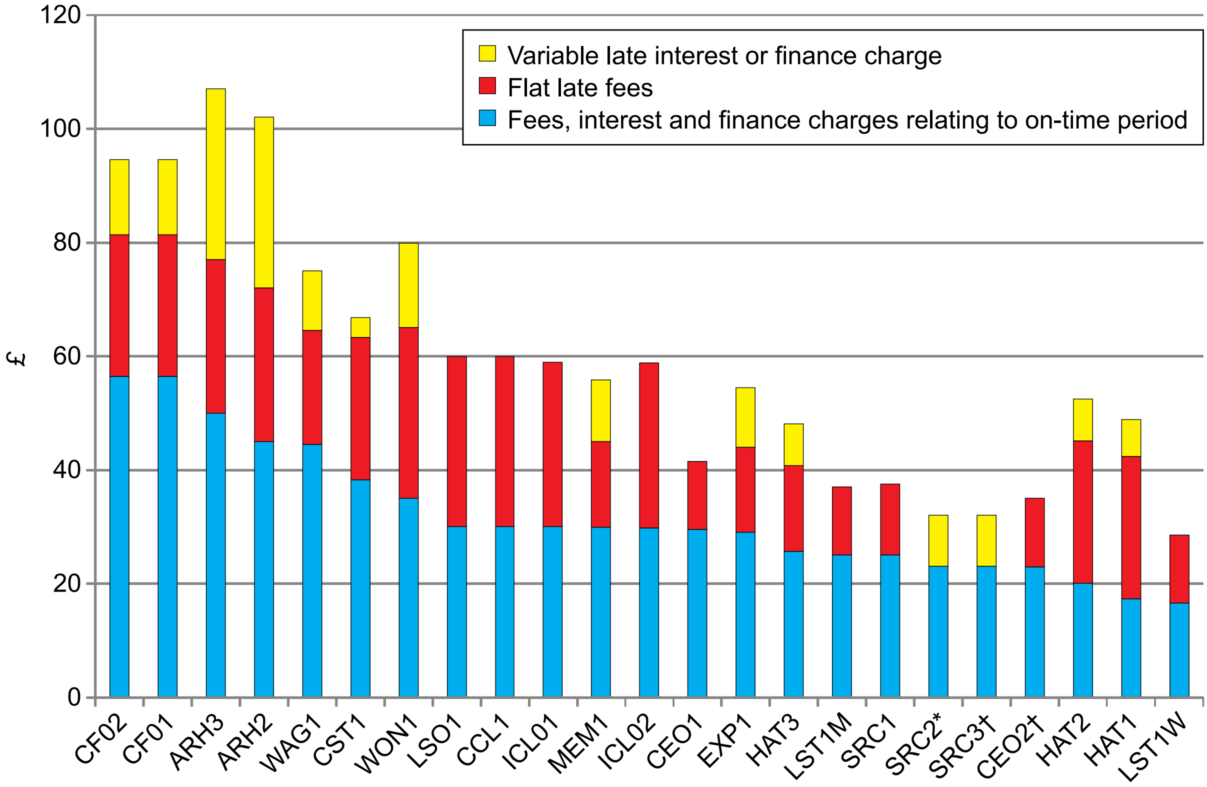
71. In this final scenario we consider a £100 28-day loan with characteristics similar to those in the previous scenarios. In this scenario, however, the customer fails to repay on the agreed date and incurs late penalties before finally repaying in full 11 days later.

72. In the following analysis of pricing under late repayment, we consider the price of loans when forbearance is not exercised by the lender and thus late payment charges—where applicable—are imposed in full. In this scenario we assume that late interest charged on Dollar's The Money Shop chequeless loan is zero, because [✂].

73. Figure 6 compares the TCCs of different lenders' products under Scenario 4 to those under Scenario 2: ie the difference in cost between a 28-day loan repaid on time and a 28-day loan repaid 11 days late. The products are ranked in terms of the cost of the original loan.

FIGURE 6

Total cost of credit for a 28-day loan: repaid on time versus 11 days late (Scenario 4)



Source: CC analysis of lenders' responses to the market questionnaire.
*Long-term instalment products for which this scenario implies prepayment by the customer.
†Flexible open-ended credit agreements with a flexible draw-down structure.

74. The median price in this borrowing scenario is £55.78 for a £100 loan. The mean price is £59.16. The 25th and 75th percentile prices are £39.50 and £70.89 respectively, giving an interquartile range of £31.39.

75. The most expensive 'late' loans in this scenario are Ariste's Cash Genie one-month (£107), and three-month products (£102) followed by CFO's two products (both

£94.60). The cheapest loan in this scenario is Lending Stream's Zebit Short-Term Cash Loan (in its weekly instalment format) at £28.50.

76. On average, there is an 86 per cent increase in the TCC when the loan is repaid 11 days late compared with on time. However, there is considerable range around these increases. The TCCs for SRC's Speedy Cash Flex Loan and Flex Account increase by 39 per cent when paid late in this scenario, while the TCC for H&T's chequeless loan increases by 177 per cent (from £17.64 to £48.80 per £100). Of potentially greater interest is that the extent of variation around the average TCC is greater in this scenario than in Scenarios 1, 2 and 3. In the first two scenarios, the 25th and 75th percentiles prices were divided by around £11 to £12. That is, the TCCs of the 'middle' 50 per cent of products were within £12 or less of each other in both of those scenarios. In Scenario 4, there is a much greater spread: the middle 50 per cent of products range in price from £39.50 to £70.89, a spread of over £31.

77. There is also evidence of a change in price rankings that occurs when loans are repaid late. Six products lose or gain at least three rankings relative to their position when moving from the 'on-time' to 'late' scenario and only three products do not change ranking at all. This suggests that there might be a number of cases where customers who ultimately repay late may have secured a lower price had they chosen an alternative product at the outset.

List of products and product codes

TABLE 1 **Product codes**

Lender	*Product*		*Code*
Company name	*Brand*	*Product name*	
Wonga	Wonga	Little Loan	WON1
CashEuroNet	QuickQuid	Payday (Average rating)	
	QuickQuid	Payday (Good rating)	CEO1
	QuickQuid	Payday (Excellent rating)	
	QuickQuid	FlexCredit	CEO2
Dollar (MEM)	PaydayUK	PayDayLoan	MEM1
Dollar (ICL)	The Money Shop	Chequeless loan	ICL01
	The Money Shop	Cheque-based loan	ICL02
Dollar (Express Finance)	PaydayExpress	PayDay Loan	EXP1
Lending stream	Zebit	Short Term Cash Loan	LST1
	Lending Stream	Loan (weekly/monthly)	LST2
	Zebit	Instalment Loan	LST3
Cheque Centres	The Loan Store	Payday Loans	LS01
	Cheque Centre	Short Term Loan	CCL1
MYJAR	MYJAR	Cash Loan 18 day	TXT1
CFO Lending Limited	CFO Lending	Short Term Loan	CFO1
	PayDay First	PayDay Loan	CFO2
Ariste	Txt Me Cash	1 Month loan	ARH1
	Cash Genie/Cash Genie Loans	3 Month Loan	ARH2
	Cash Genie/Cash Genie Loans	1 month loan	ARH3
	Payday is Every Day	1 month loan	ARH4
WageDayAdvance	WageDayAdvance		WAG1
SRC	Speedy Cash	Payday Loans	SRC1
	Speedy Cash	Flex Loan	SRC2
	Speedy Cash	Flex Account	SRC3
Harvey & Thompson	Harvey & Thompson	Payday Loan (Cheque)	HAT1
	Harvey & Thompson	Payday Loan (Debit)	HAT2
	Harvey & Thompson	Online Payday Loan	HAT3
	Harvey & Thompson	KwikLoan	HAT4
Cash Store	Cash Store	Payday Loan	CST1

Source: CC Analysis.

Representative customer scenarios

1. In this annex we discuss the assumptions that we use in our 'representative customer' scenarios. In arriving at these assumptions, we draw heavily on our analysis of lenders' transaction data, as set out the working paper 'Customer & their loans – presentation based on analysis of the transaction data'.

Representative borrower: loan value

2. Our analysis of the major lenders' transaction data indicates that:

   (a) the mean loan amount varies across lenders from £163 to £326;

   (b) the modal loan amount is £100 for the majority of lenders;

   (c) the modal loan amount across lenders is also £100; and

   (d) 50 per cent of loans are for £200 or less.

3. Given its modal frequency and its reasonable proximity to the bulk of the distribution of loan values, we choose £100 as the loan amount for our 'representative customer' scenario. Loans of this value have the incidental advantage that comparisons of 'costs per £100' are relatively clear when considering loans of £100. We comment on the sensitivity of our results to this choice of loan amount in our analysis.

Representative borrower: loan duration

4. Our analysis suggests that a significant majority—90 per cent—of loans are for 34 days or less. The most frequently occurring loan durations are around 14 days and 28 to 30 days. On this basis, we choose 14 and 28 days as the durations of the lending scenarios that we consider (as well as commenting on the relationship between loan duration and prices more generally).

Representative borrower: take-up of 'faster payments'

5. Based on the fee payments made by customers in the transaction data provided by lenders, we estimated take-up rates on optional faster payments for the eight products that carry them. These take-up rates are shown in Table 1.

TABLE 1 **Faster payment fee 'take-up' rates (where optional)**

Product (lender)	*Fee type*	*Fee rate £*	*Estimated percentage take-up*
Txt Me Cash (Ariste)	Faster payment	20	[✄]
PayDay First (CFO)	Faster payment	15	[✄]
H&T Online Loan (Harvey & Thompson)	Faster payment	7	[✄]
WageDayAdvance	Faster payment	15	[✄]
Cash Genie/Cash Genie Loans – 1 month loan (Ariste)	Faster payment	20	[✄]
Payday is Every Day (Ariste)	Faster payment	20	[✄]
CFO Lending Short Term Loan (CFO Lending)	Faster payment	15	[✄]
Payday Express (Dollar)	Faster payment*	15	[✄]
Cash Store Payday Loan	Faster payment	5	[✄]†

Source: CC analysis.

*This fee applies to repeat customers only.
†[✄]

6. The table shows that the overall take-up of faster payment fees is high. Given this, we assume that the 'representative borrower' in each of our scenarios elects to pay for faster payment.

7. [✄]

Representative borrower: take-up of other optional fees

8. The Cash Store's Payday Loan features two other optional fees: a 'new card/load fee' and an 'ATM fee' of £10 and £2.50 respectively. We found take-up of the ATM load and new card fee was [✄]. We exclude these fees in the representative borrower scenarios for this product.

Representative borrower: repayment behaviour

9. A detailed description of repayment behaviour is provided in the working paper presentation on the transaction data. Around a third of payday loans are not repaid in

full on or before their original repayment date. We therefore think it is important to consider both a ‘late repayment’ scenario and a ‘rolled-over loan’ scenario.

10. According to our analysis of lenders’ transaction data, the average late repayment was made around 11 days after the original repayment date. We take this value of 11 days as the number of days of delay before repayment in our ‘late repayment’ scenario.

11. Analysis of lenders’ transaction data indicates that, for all loans that are rolled over once, the median number of days between the original repayment date and the new extended repayment date is 28 days. We use this average value as the length of the extension in our ‘rollover’ scenario.