PAYDAY LENDING MARKET INVESTIGATION

Payday loan products working paper

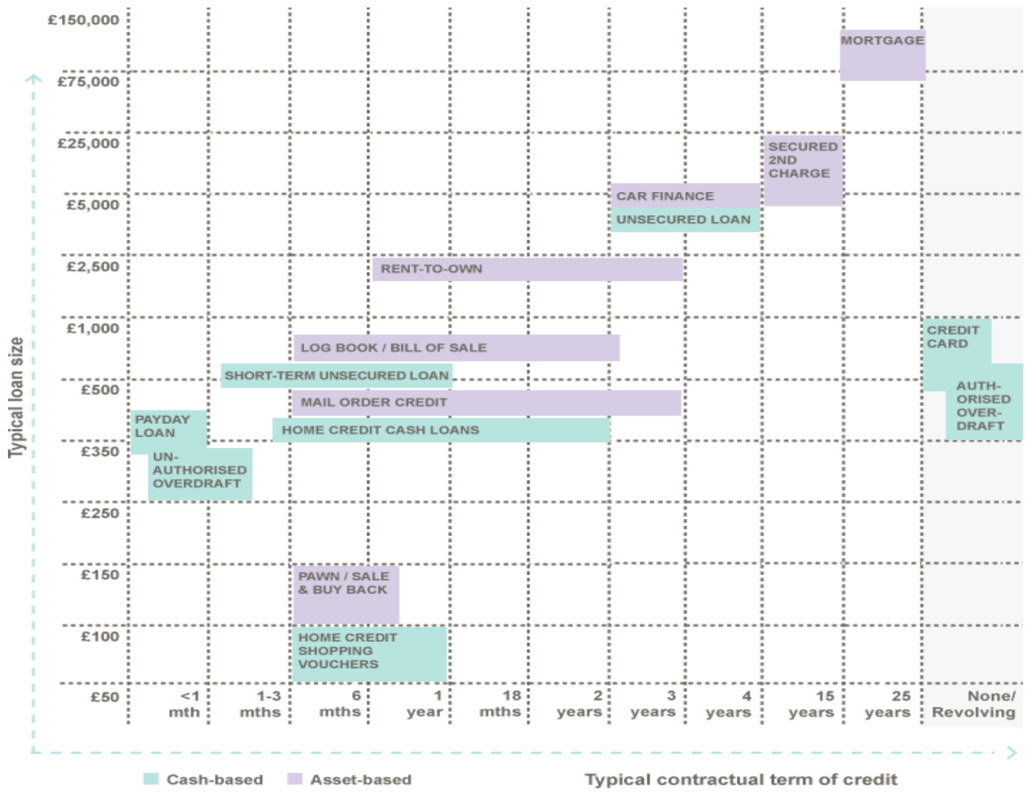
Payday loans in context

1. Payday lending is part of the unsecured credit sector. Within this sector, payday loans fall into a smaller category of unsecured high cost credit. The working paper on competition between payday loans and other forms of credit helps to provide further explanation of the position of payday loans within the credit sector.

2. Figure 1 below, produced by Provident Financial, seeks to put the payday loan products in the context of other unsecured and secured credit available in what it describes as the non-standard small-sum credit market.

FIGURE 1

Payday lending and the non-standard credit market



Source: Provident Financial.

3. The combined characteristics that differentiate payday loans from other forms of credit is that they are:

(a) unsecured credit products;

(b) of relatively low value;

(c) sold at a high cost; and

(d) are marketed on a short-term, speed-orientated basis.

However, there is no standard by which to identify a payday loan, and there is significant variation in the types of products on offer in the sector.

4. To provide a common basis for our analysis, we require a working definition of what constitutes a payday loan. Part 1 of this paper identifies common or similar characteristics across different products as well as dimensions across which products tend to vary.

5. The terms on which a lender is prepared to offer a payday loan to a customer can be dependent upon the characteristics of the individual customer and the lender's assessment of the risk that they represent. Part 2 of the paper, on eligibility and affordability assessments, provides a description of how lenders decide whether and on what terms they will provide a payday loan to a customer.

PART 1: Product characteristics

What is a payday loan?

6. Payday lending is defined in our terms of reference as 'the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month, and specifically excluding home credit loan agreements, credit cards, credit unions and overdrafts'. As noted in the Office of Fair Trading (OFT) reference,

the term ‘payday loans’ is not used exclusively to refer to loans linked to the borrower’s payday.[1]

7. In its proposals for the new consumer credit regime, the Financial Conduct Authority (FCA) uses the term ‘high-cost short-term credit’ to refer to the payday lending sector, to account for the fact that loans are not necessarily paid back on the borrower’s payday, and to capture longer-term products that are repaid over several months.[2] It has proposed a definition of a high-cost short-term credit as regulated credit agreements:

(a) which are borrower-to-lender or P2P[3] agreements; and

(b) in relation to which the APR is equal to or exceeds 100 per cent, either:

(i) in relation to which a financial promotion indicates that the credit is to be provided for any period up to a maximum of 12 months or otherwise indicates that the credit is to be provided in the short term; or

(ii) under which the credit is due to be repaid or substantially repaid within a maximum of 12 months of the date on which the credit is advanced and which is not secured by a mortgage, charge or pledge.[4]

8. For the purposes of our investigation we will define payday loans as short-term, unsecured credit products which are generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less. Home credit loan agreements, credit cards, overdrafts, credit union loans and retail credit are all excluded.

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[1] Payday lending market investigation: Terms of reference, OFT, 27 June 2013.
[2] Detailed proposals for the FCA regime for consumer credit, CP13/10***, FCA, October 2013, paragraph 6.12.
[3] Peer-to-peer lending (abbreviated frequently as P2P lending) is the practice of lending money to unrelated individuals, without going through a traditional financial intermediary such as a bank or other traditional financial institution. This lending takes place online on peer-to-peer lending companies’ websites using various different lending platforms and credit checking tools.
[4] FCA regime for consumer credit, paragraph 6.13.

9. It should be noted that this definition differs (and is slightly broader) than that used in our issues statement, which referred to products which are generally taken out for *less* than a year and which are generally of value *less* than £1,000.[5] The revised definition is to capture products at the edge of what might be considered a payday loan, such as 12-month loans or loans where the amount borrowed may in many instances be £1,000 or more (eg QuickQuid Pounds to Pocket) but which nonetheless are similar in concept to other payday products within our terms of reference. It will also allow us to take into account ongoing product innovation, the trend of which appears to be towards products which allow borrowers increased flexibility over loan term and amount.

10. For the purposes of our information requests we have needed to employ a more precise definition, without the use of ambiguous terms such as 'generally', in order to allow lenders and ourselves to establish whether products at the edges of our definition should be included or not. Accordingly, we have asked lenders to provide information on short-term, unsecured credit products which can be taken out for 12 months or less, and where the minimum amount that can be borrowed is £1,000 or less.

11. This definition of what constitutes a payday loan will be used to frame the focus of our analysis. However, within this, we will consider variation in the extent of competition between lenders offering different types of payday products (for instance, online and high street lenders, and lenders offering shorter- and longer-term products). We will also consider the competitive constraint presented by lenders offering products that fall outside of this definition (for instance other types of credit).

[5] Issue statement, paragraph 10.

Product characteristics

12. Lenders offer a range of different types of payday products that fall within our definition. In what follows we describe the key characteristics of the payday products offered by the 11 major lenders.[6] The products included in our review are set out in Table 1.

[6] The 11 major lenders included in this analysis operate 16 separate companies in the UK and market loans under around 22 different brands (see appendix to the companies background working paper for a full list of the companies and brands). 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 **List of the payday loan products included in this review**

Lender	*CC estimate of total share of payday revenue %*	*Brand*	*Product name*	*Available online/ in-store*
Ariste Holding Limited (Ariste)	[0–5]	Txtme Cash	1-month loan	Online
		Cash Genie/Cash Genie Loans	1-month loan 3-month loan	Online Online
		Payday is Everyday	1-month loan	Online
CashEuroNet UK, LLC (CashEuroNet)	[10–20]	QuickQuid	FlexCredit Payday	Online Online
		Pounds to Pocket	Instalment Loan	Online
CFO Lending Limited (CFO Lending)	[0–5]	CFO Lending	Short Term Loan	Online
		PayDay First	PayDay Loan	Online
Cheque Centres Group Limited • The Loan Store (Cheque Centre (online))	[0–5]	The Loan Store	Payday Loans	Online
• Cheque Centres Limited (Cheque Centre (high street))		Cheque Centre	Short Term Loan	In-store
Dollar Financial UK Limited (Dollar)	([20–30])			
• Instant Cash Loans Limited (Instant Cash Loans)	[5–10]	The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan Cheque based loan	In-store In-store
• Express Finance (Bromley) Limited (Express Finance)	[5–10]	PaydayExpress	PayDay Loan	Online
• MEM Consumer Finance Limited (MEM)	[5–10]	PaydayUK	Payday Loan	Online
Global Analytics Holdings, Inc	[0–5]			
• Lending Stream LLC (Lending Stream)		Lending Stream	Loan	Online
• Zebit LLC (Zebit)		Zebit	Short Term Cash Loan	Online
Harvey & Thompson Limited (H&T)	[0–5]	H&T pawnbrokers	Payday Loan (Cheque) Payday Loan (Debit)* Online Payday Loan† KwikLoan	In-store In-store Online In-store
SRC Transatlantic Limited (SRC)	([0–5])			
• Speedy Cash	[0–5]	Speedy Cash	Flex account Flex Loan (12-month) Payday Loans	In-store In-store Both
• Wageday Advance Limited	[0–5]	WageDayAdvance	Loan	Online
TxtLoan Ltd	[0–5]	MYJAR	Cash Loan 18 day	Online
The Cash Store Financial Limited (The Cash Store)	[0–5]	Cash Store	Payday Loan	In-store
Wonga Worldwide Limited (Wonga)	[20–30]	Wonga	Little Loan	Online

Source: CC analysis.

*H&T have now withdrawn their in-store payday loans.
†H&T is withdrawing their online payday loan with a projected closure date in the first week of February 2014.
Note: The revenue share figures may be updated to reflect the work on market concentration.

13. As can be seen in the table, each lender generally offered one or two products under each of their brands, and some lenders operate multiple brands. We have excluded some products offered by these 11 major lenders as they fall outside our definition of what constitutes a payday loan, including:

    (a) Wonga's Paylater and Everline products, the former is a retail financing product while the latter is for business loans of over £3,000; and

    (b) SRC's Flex Loan (18-month) which is offered for a minimum of 510 days.

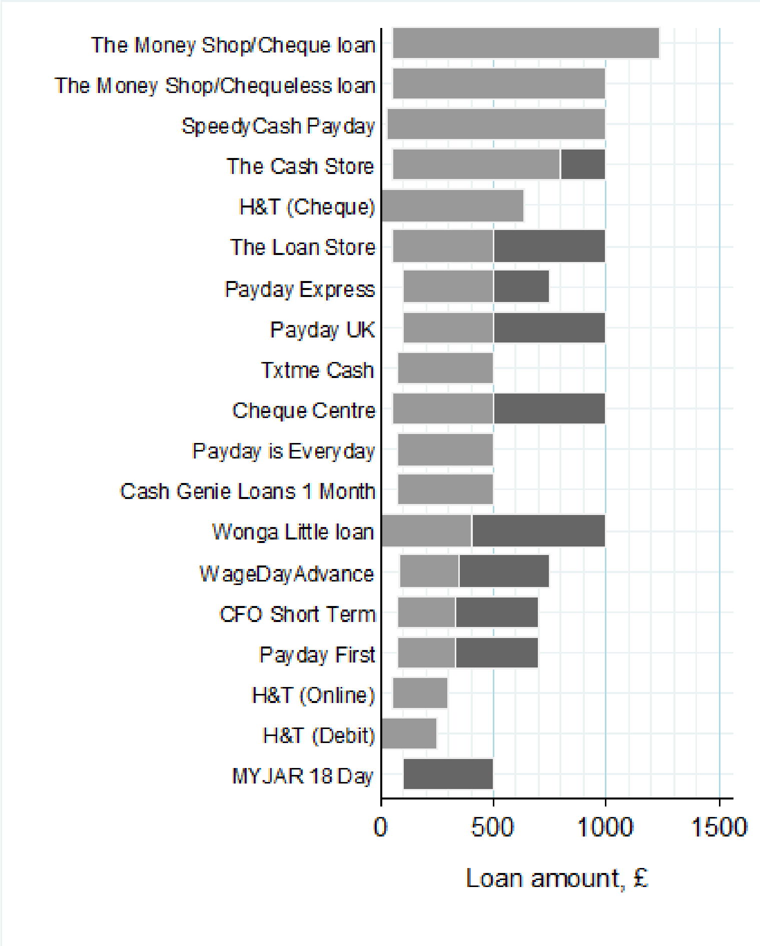
Amount of loan

14. One dimension in which different lenders' products vary is in terms of the amount that is available to be borrowed.

15. Figure 2 shows the initial amount that new and repeat customers are able to borrow using payday products with a single repayment date. Figure 3 does the same for the instalment products.

FIGURE 2

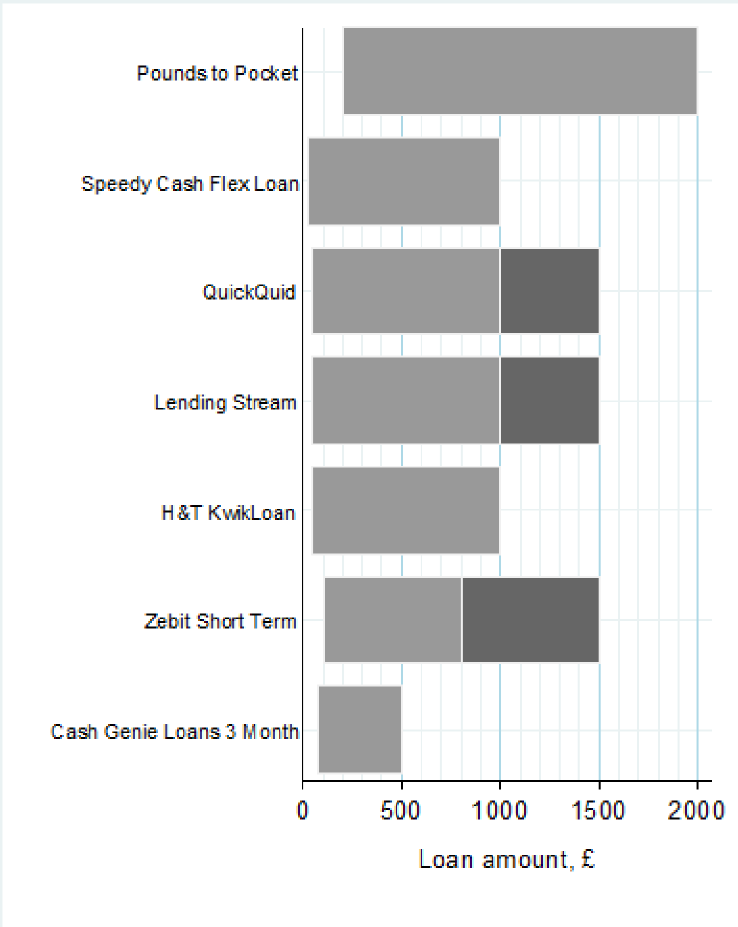
The amount that can be borrowed using the single repayment products offered by the largest lenders



Source: CC analysis.
Notes:
1. The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.
2. New customers taking out a TxtLoan 18-day loan are limited to borrowing exactly £100; repeat customers can borrow up to £500.

FIGURE 3

The amount that can be borrowed using instalment products offered by the major lenders



Source: CC analysis.
Note: The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.

16. The figures show that nearly all payday lenders allow customers to borrow small amounts, with all but the QuickQuid Pounds to Pocket product offering customers the ability to borrow £100 or less.

17. There is a large variation between products in the maximum amount that a new customer can borrow, ranging from £100 for a new customer taking out a MYJAR 18-day loan, up to £2,000 for an individual taking out a Pounds to Pocket Loan. Commensurate with their longer terms, instalment products generally allow

customers to borrow larger amounts. For shorter-term products, the maximum amount that can be borrowed generally lies between £100 and £1,000.

18. As the figures also show, a number of products allow repeat customers to borrow more than new customers, including many of the most popular products in the sector. The additional amount that can be borrowed can be up to 2.5 times as much.

Duration of loan

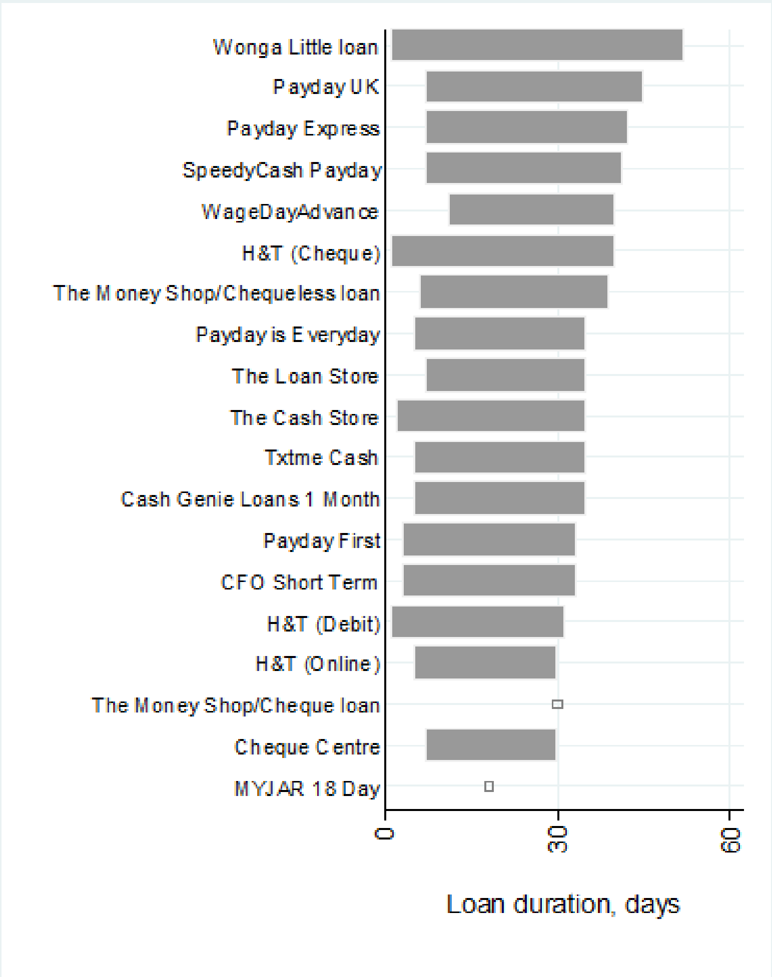
19. One of the most important dimensions across which the products of the largest payday lenders differ is in terms of the length of time for which money can be borrowed. There are broadly two types of loans: single repayment products and loans repaid in a number of instalments.

20. Single repayment products are generally linked to an individual's payday; a loan will cover the period up to the day on which a borrower is next paid. For some products, if the customer's payday is within a very short period, the loan term will carry over until the next payday. The minimum loan terms that we observe among products of this type, offered by these 11 lenders, range from one to 11 days and are most commonly five to seven days.

21. Figure 4 shows the loan terms (in days) available under the single repayment products offered by the lenders in our review. Figure 5 does the same for the instalment products.

FIGURE 4

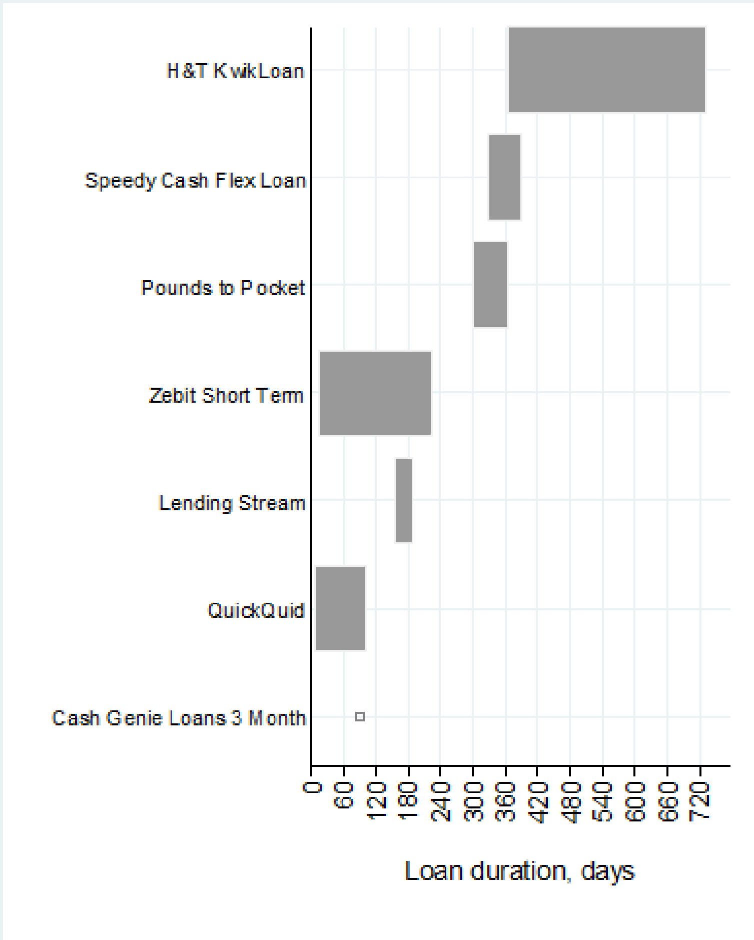
Loan durations for the single repayment products offered by the major lenders



Source: CC analysis.
Note: Indicates products that must be taken out for a specific length of time.

FIGURE 5

Loan durations for the instalment products offered by the major lenders



Source: CC analysis.
Note: Indicates products that must be taken out for a specific length of time.

22. The Wonga Little Loan product is a single repayment product where the repayment date is not necessarily linked to the borrower's payday. This product allows the customer the flexibility to choose the repayment date, regardless of their payday. Another single repayment product for which repayment is not linked to payday is the MYJAR fixed 18-day loan product.

23. A number of lenders offer payday products that allow an individual to borrow for longer periods and make repayments in instalments. These loans are offered for up to, or just over, one year, with repayments generally made at monthly intervals

(although some lenders allow a weekly repayment schedule). As with single instalment products, repayment dates are tied to the customer's payday.

TABLE 2 **Instalment loan products**

Product	*Loan duration (days)*	*Minimum no of instalments*	*Maximum no of instalments*	*Minimum instalment amount*
Cash Genie/Cash Genie Loans 3-month	90	3	3	Equal instalment of total repayable
QuickQuid Payday Loan	8–100	1	3	Finance charge (interest)
Pounds to Pocket	300–365	10	12	Equal instalment of total repayable
Zebit Short Term Loan	14–224	1	28	Equal instalment of total repayable
Lending Stream	157–187	6	24	Interest for the 'cycle' and a fraction of the principal
Speedy Cash Flex Loan (12-month)	330–390	11	52	Finance charge (interest) and fraction of the principal
Harvey & Thompson KwikLoan	365	12	104	Equal instalment of total repayable

Source: CC analysis.

24. For some products, the borrower may be allowed flexibility over the number of instalments (for instance the QuickQuid payday loan, which allows repayment in one, two or three monthly instalments); for others, the number of instalments may be fixed. Similarly, some products require borrowers to repay fixed amounts in each pay period, while other products—closer to open credit facilities—allow customers flexibility over the amount they repay. Most products require borrowers to repay in equal amounts.

Extension facilities

25. Another characteristic of many payday loan products is the existence of extension facilities, commonly referred to as rollover facilities. Description of the facilities is provided in this paper but more information on their use in practice is provided in the working paper presentation which describes transaction data statistics.

26. For the purposes of the transaction data, the definition we provided to the lenders was that a loan is rolled over if the loan (or part of the loan) is not repaid on the date originally agreed, but where the borrower is not considered to have defaulted as a further agreement to extend the repayment period has been entered into between the

borrower and the lender. The customer may pay all outstanding and unpaid fees, finance charges or interest at the time the rollover is executed but in all cases, some or all of the loan principal is carried forward after the date of the rollover. We asked the lenders *not* to consider it a rollover if a lender and customer agree to keep a loan agreement open and unpaid on the due date *and* the borrower is not considered to have defaulted *and* the customer is not charged further interest, fees or charges for the additional time.

27. The FCA has proposed new rules[7] to limit the number of rollovers and other types of extension where the lender receives consideration, for example, some form of payment or promise to provide something by the customer, in connection with the extension. The FCA considers these types of extension facilities to be a form of refinancing, which they define as follows:

> "refinance" means to:
>
> a) extend the period over which one or more repayment is to be made by a customer; or
> b) change the date on which one or more repayment to be made by a customer is due (or expected) to a later date; or
> c) purport to do either (a) or (b),
>
> by agreeing with the customer to replace, vary or supplement an existing regulated credit agreement or by exercising a contractual power under an existing regulated credit agreement or otherwise.

28. The exact terms on which these facilities are offered, and the terms used to describe them, vary, but the common effect is to allow the customer to extend the duration of

[7] FCA regime for consumer credit, paragraph 6.20; the proposed rule is 6.7.17 R (1) in Appendix 2.

their loan beyond the originally agreed repayment date.[8] We consider the various facilities currently offered by payday loan providers below.

29. For single repayment products, the most common extension facility offered by lenders allows borrowers to pay off the interest and fees already accrued, and defer repayment of the principal (and associated interest and fees) until a later date. The effect of the extension is to allow the customer to repay in instalments, although instalment products themselves will differ in that they generally require some proportion of the principal in addition to interest and fees to be paid in each instalment.

30. Table 3 describes the extension facilities offered by the major lenders. As can be seen, five of the products offered by the major lenders do not allow for extensions of any sort, but most merely limit the number of available extensions. Generally, limits range from two to ten, but one of the relatively longer-term products allows for practically unlimited extensions.[9] The vast majority of lenders allow their loans to be extended up to three times.

31. Most instalment products do not allow for extensions beyond the final repayment date. Dependant on the flexibility of the lender on the repayment of instalments, instalments could be deferred to later repayment dates. Three of the seven instalment products included in our review have rollover facilities. The QuickQuid payday loan can be taken out for an initial three-month term and extended for a further two months—one month at a time—at the cost of an additional finance

[8] There are circumstances where, though not formally offered as an extension facility, we have observed customers taking out an additional loan before the due date of an outstanding loan with the same lender. This scenario is discussed in more detail from paragraphs 92–94 of the working paper on pricing. The effect for the customer may vary slightly if the additional loan is large enough to cover both the principal and outstanding fees and charges. Note that the Consumer Finance Association prohibits any extension that allows for this in its Code of Practice: '4.6.1. Members shall never extend interest or fees due on a short term loan. Only the original principal sum may be extended.'
[9] The limit on the number of times Harvey & Thompson's KwikLoan can be extended is 999 times. Given that the duration of the loan is fixed at a year, this product can be treated as allowing for unlimited rollovers.

charge. The Pounds to Pocket loan, which is normally offered for 12 monthly instalments, can be rolled over three times.

TABLE 3 **Extension policies**

Brand	*Product name*	*Allows repayment in instalments?*	*Loan duration (in days)*	*Maximum no of times loan can be extended*
Wonga	Little Loans	No	1–52	3
QuickQuid	Payday	Yes	8–100	2
Pounds to Pocket	Instalment Loan	Yes	300–365	3
PaydayUK	Payday Loan	No	7–45	3
The Money Shop/ Robert Biggar/ Duncanson & Edwards	Chequeless loan	No	6–39	3
	Cheque based loan	No	30	3
PaydayExpress	Payday Loan	No	7–42	3
WageDayAdvance	Payday Loan	No	11–40	5
Zebit	Short Term Cash Loan	Yes	14–224	0
Lending Stream	Loan	Yes	157–187	0
The Loan Store	Payday Loans	No	7–35	3
Cheque Centre	Short Term Loan	No	7–30	3
MYJAR	Cash Loan 18-day	No	18	0
CFO Lending	Short Term Loan	No	3–33	3
PayDay First	PayDay Loan	No	3–33	3
Txtme Cash	1-month loan	No	5–35	3
Cash Genie/Cash	3-month loan	Yes	90	1
Genie Loans	1-month loan	No	5–35	3
Payday is Everyday	1-month loan	No	5–35	3
Speedy Cash	Flex account	Yes	330–390	0
	Flex Loan (12-month)	Yes	Open-ended	N/A
	Payday Loans	No	7–41	5
Harvey & Thompson	Payday Loan (Cheque)	No	1–40	0
	Payday Loan (Debit)	No	1–31	0
	Online Payday Loan	No	5–30	0
	KwikLoan	Yes	365–730	999
Cash Store	Payday Loan	No	2–35	4

Source: CC analysis.

Notes:
1. The two open revolving credit products are excluded from this table because extensions are not applicable to their use.
2. N/A = Not applicable.

Pricing

32. Pricing is discussed in more detail in a separate working paper.

Top-up facilities

33. In addition to the initial amount lent, some products allow the borrower to increase or top-up their loan before the end of the loan term. These facilities work on the principle that a customer might choose to borrow or be borrowing less than the

amount they are approved for or the lender is willing to underwrite, and so is given the opportunity to ‘top up’ to this higher amount during the course of the loan term.

34. Many lenders use fixed-sum credit agreements, and so no top-up can be made under the original agreement. To allow for a top-up, a modifying credit agreement or an entirely new credit agreement must be entered into.[10] Some products are marketed with this as a possibility from the outset. For example, with a Wonga Little Loan, top-ups are available on an outstanding loan, subject to affordability checks, for an additional transmission fee of £5.50.[11] A modifying credit agreement is entered into to reflect the additional amount lent but the repayment date remains the same.

35. Alternatively, CashEuroNet’s Pounds to Pocket product is marketed as having a top-up facility under which a customer may (without incurring any additional early settlement or processing fees) take out a new loan of a greater value, which is used in part to pay off the existing loan early.[12] As a new agreement is made, the duration and value of the loan are variable. In theory, this type of facility could allow for the type of extension that is referred to in the footnote to paragraph 28 above.

36. Where lenders use running account credit agreements, whether for single repayment loans or revolving credit facilities, the amount lent can be varied throughout the duration of the loan without having to enter into a new loan agreement. A credit limit is specified in the agreement; however, this can be varied on notice by the lender to reflect the individual’s creditworthiness.

37. Two of the products offered by these 11 lenders, QuickQuid FlexCredit and the Speedy Cash Flex Account, operate as revolving credit facilities. For both these

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[10] See s82 of the Consumer Credit Act 1974 for situations in which a modifying credit agreement is required and provisions as to form.
[11] Wonga website.
[12] Pounds to Pocket website.

products, once the account is opened, the customer may draw against their credit limit for the duration. Customers can make periodic repayments (typically monthly) on their account.[13] FlexCredit payments are variable and repayment schedules can be changed at any time.[14]

Repayment methods

38. Another distinguishing characteristic of different lenders' payday loans is the methods of repayment available to the customer. There are two standard methods of repayment used by the largest lenders. All products offered online are debit card based and allow the lender the use of a continuous payment authority (CPA). The majority of high street lenders offer both debit-card-based and more traditional cheque-based loans.

39. From the perspective of the lender, these repayment methods provide a certain amount of security; if there is money in the customer's bank account, these methods provide access to it.

40. Under a debit-card-based loan the borrower will nominate a debit card at the outset of the credit agreement. CPA allows the lender the ability to withdraw automatically amounts the borrower owes under the loan agreement via the nominated debit card. A nominated debit card is generally required for a loan to be granted, and customers can only choose to make repayments by a different method at a later date.

41. A cheque-based loan requires the customer to write out a cheque, which may be post-dated, for the total amount repayable, which the lender agrees not to cash until the end of the loan period. This type of loan is only offered by high street lenders and

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[13] In their responses to the market questionnaire, CashEuroNet told us that FlexCredit was limited to 300 days while Speedy Cash told us that the Flex Account was open-ended.
[14] For FlexCredit, minimum required payments are comprised of accrued interest plus 10 per cent of funded principal.

most will give customers the option of paying by another method on the repayment date (and destroying the cheque).

Speed of delivery

42. A characteristic of payday lending, emphasized by some lenders in their marketing material, is the speed of approval and the length of time before customers receive funds once approval has been given.

43. If a manual review of the lending decision is not required, the approvals process, excluding the time taken for a recipient bank to process transfers (see below), can take under a minute and rarely more than five minutes from the completion and submission of the application form. This includes the time it takes for the lender to approve the application and submit the fund transfer. If some manual review is required, or the lender requests additional documentation from the customer, approval times can take anywhere from two hours to one week. Table 4 summarizes the times between making an application and the submission of the payment by the lender.

TABLE 4 **Speed of delivery**

Brand	*Product*	*Time to fill app? (mins)*	*Time for approval? (mins)*	*Minimum amount of time to submit payment after application (mins)*
Txtme Cash	1-month loan	5	60	60
Cash Genie/Cash Genie Loans	3-month loan	5	60	60
	1-month loan	5	60	60
Payday is Everyday	1-month loan	5	60	60
QuickQuid	FlexiCredit	5	1	60
	Payday	5	1	60
Pounds to Pocket	Instalment Loan	5	1	60
CFO Lending	Short Term Loan	Not specified	120	60
The Loan Store	Payday Loans	5	30	Loans funded at 1pm & 5.30pm Monday–Friday. 5.30pm on a Saturday
Cheque Centre	Short Term Loan	5	30	<60
PayDay First	PayDay Loan	Not specified	120	60
PaydayExpress	PayDay Loan	5	<1	45
PaydayUK	Payday Loan	4	<1	60
The Money Shop/ Robert Biggar/ Duncanson & Edwards	Chequeless loan	5–10	20	<60
	Cheque based loan	5–10	20	<60
Zebit	Short Term Loan	3	2	4
Lending Stream	Loan	3	2	4
Harvey & Thompson	Payday Loan (Cheque)	20	20	<60
	Payday Loan (Debit)	20	20	<60
	Online Payday Loan	681	766	<60
	KwikLoan	681	20	<60
WageDayAdvance	Short Term Cash Loan	30	120	60
Speedy Cash	Flex account	Not specified	30	<60
	Flex Loan (12-month)	Not specified	30	<60
	Payday Loans	Not specified	30	<60
MYJAR	Cash Loan 18-day	5	5	<60
Cash Store	Payday Loan	30	10 to 15	<60
Wonga	Little Loans	5–10	<1	<5

Source: CC analysis.

Notes:

1. Lenders were asked for their average approval time. Approval times may vary for some lenders depending on the lender's assessments of the need for additional manual checks for some customers. It may also depend on the times of the day during which they process applications.
2. Payment submission times may depend on whether a customer has opted for faster payment.
3. The 'M*inimum amount of time to submit payment after application (min)'* means the minimum time after the customer signs/completes the contract.

44. High-street lenders can give the loan in cash on the spot and online lenders will execute a Faster Payment Service or BACS transfer within minutes. BACS transfers take three working days to clear. Faster Payments Service payments are expected to take less than a couple of hours. However, dependent on the recipient bank's

procedure and any additional checks they carry out, some transactions may be delayed.[15]

[15] *How does the Faster Payments Service work?*, Faster Payments website.

PART 2: Product eligibility and approvals

Introduction

45. The following section of this paper provides a description of how lenders decide whether and on what terms they will provide a payday loan to a customer.

Summary

46. This section provides background to the application and approval process for customers taking out payday loans. We cover basic eligibility requirements and verification, and a high level examination of the affordability, creditworthiness and risk assessments. Separately, we consider the relationships lenders have with Credit Reference Agencies (CRAs) and how they are involved in the approval process.

47. The main evidence base for this section is the responses of 11 major lenders to our market questionnaire.

48. We find a fairly similar picture across the market in terms of the application process, specifically in reference to the application details requested. The approval process has some similarity across those that lend through the same distribution channels but the specifics of the affordability and creditworthiness assessments are not easily comparable. Some significant differences in approach appear between online and high-street lenders; high-street lenders review and verify income and expenditure using some form of physical documentation, such as a bank statement. Almost all of the lenders considered use some form of CRA data but the views on CRA products and data is varied, with many lenders preferring their internal data and risk models.

Application process

49. From the perspective of the customer, the application process follows a regular structure for most lenders. The details a lender requests from a customer in a typical

application process are considered below. In respect of expenditure, across which there is not a high level of commonality among lenders, the information is tabulated:

(a) a loan amount using analogue 'slider' bars or by typing an amount into a form;

(b) personal details, including name, address, residential status, date of birth, email address and telephone number;

(c) income details, such as employment type, net monthly pay, pay frequency, pay date, employment sector and time at current job; and

(d) expenditure:

TABLE 5 **Expenditure details requested by lenders**

Lender	*Brands*	*Information on expenditure required*
Ariste	Txtme Cash/Cash Genie/Cash Genie Loans/Payday is Everyday	None
CashEuroNet	QuickQuid/Pounds to Pocket	'Credit commitments'
CFO Lending	CFO Lending/Payday First	None
Cheque Centres Group Limited	Cheque Centre/The Loan Store	'Expenditure (outgoings)'
Dollar Financial UK Limited (Dollar)		
• Express Finance	PaydayExpress	'Mortgage/rent, monthly credit commitments and other regular outgoings'
• MEM	PaydayUK	
• ICL	The Money Shop/Robert Biggar/Duncanson & Edwards	'Monthly rent/mortgage, monthly creditor commitments, regular monthly outgoings, mobile phone contract type, car ownership'
Global Analytics		
• Lending Stream	Lending Stream	'Monthly spending'
• Zebit	Zebit	'Monthly spending'
H&T	Harvey & Thompson	Not specified
SRC		
• Speedy Cash	Speedy Cash	'Expenditures'
• Wageday Advance Limited	WageDayAdvance	None
TxtLoan	MYJAR	'Number of current loans and aggregated balance'
The Cash Store	Cash Store	'60 days of expenditure'
Wonga	Wonga	None

Source: CC analysis.

(e) bank details, ie account name, sort code, account number; and

(f) card details, including card type, card number, expiry date and security code.

50. These details are entered over a few different stages. An online application form usually takes 5 to 10 minutes to complete. If the customer fails any of the automatic checks, because they are, for example, too young or do not have an accepted debit card, they may not be able to continue their application to the end. Once submitted,

there will be a short time lapse while the lender completes affordability and risk assessments and the customer will then either be approved or declined.

Basic eligibility requirements and initial verification

51. The minimum eligibility requirements common to all lenders are that the customer is a UK resident and is over 18 years of age. Additional minimum requirements vary. Most lenders require the borrower to have a bank and a debit card. For verification purposes, high-street lenders usually require ID and proof of address while online lenders require mobile phone ownership. Minimum monthly income requirements vary from £100 to £750.[16]

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[16] Minimum monthly income requirements are qualified by the lenders overall approach to affordability assessment. This is discussed in Appendix A. Wonga and CashEuroNet do not specify a minimum. For both lenders income is one of a number of variables which feed into integrated risk and affordability assessments.

TABLE 6 **Minimum eligibility requirements**

Brand	*Product name*	*Bank account?*	*Debit card?*	*Residency?*	*Employment?*	*Paper ID?*	*Paper proof of address?*	*Mobile phone?*	*Minimum monthly income?*
Txtme Cash	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
Cash Genie/Cash Genie Loans	3-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
Payday is Everyday	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
QuickQuid	FlexCredit	Yes	No	Yes	Yes	No	No	No	Dependent on risk
	Payday	Yes	No	Yes	No	No	No	No	Dependent on risk
Pounds to Pocket	Instalment Loan	Yes	No	Yes	No	No	No	No	Dependent on risk
CFO Lending	Short Term Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
The Loan Store	Payday Loans	Yes	Yes	Yes	Yes	No	No	Yes	400
Cheque Centre	Short Term Loan	Yes	Yes	Yes	Yes	Yes	Yes	No	95/Weekly Loan 100/fortnightly 150/Monthly
PaydayExpress	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
PaydayUK	Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	500
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	Yes	Yes	Yes	No	Yes	Yes	No	416
	Cheque based loan	Yes	Yes	Yes	No	Yes	Yes	No	416
Lending Stream	Loan	Yes	Yes	Yes	Yes	No	No	Yes	400
Zebit	Short Term Cash Loan	Yes	Yes	Yes	Yes	No	No	Yes	400
PayDay First	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
Harvey & Thompson	Payday Loan (Cheque)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Payday Loan (Debit)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Online Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
	KwikLoan	Yes	Yes	Yes	Yes	Yes	Yes	No	750
Speedy Cash	Flex account	Yes	Yes	Yes	No	Yes	No	No	200
	Payday Loans	Yes	Yes	Yes	No	Yes	No	No	100
WageDayAdvance	WageDayAdvance	Yes	Yes	Yes	Yes	No	No*	Yes	400
MYJAR	Cash Loan 18-day	Yes	Yes	Yes	No	No	No	Yes	400
Cash Store	Payday Loan	Yes	Yes	Yes	No	Yes	Yes	No	100
Wonga	Little Loans	Yes	Yes	Yes	No	No	No	Yes	Dependent on risk

Source: CC analysis.

*WageDayAdvance will exceptionally ask for paper proof of address if they cannot verify address through Callcredit or EPDQ.
Note: This does not include business or policy rules which are too varied to tabulate across lenders.

52. The customer is passed through a verification stage consisting of ID and fraud checks and often additional policy or business rules.[17] This takes place as the customer enters their application details and, for most lenders, it is binary in nature. If verification of any of the borrower's details is not possible, if they fail any fraud checks, or if they do not pass thresholds outlined by the lender's business or policy rules, the loan will be refused.[18]

53. Online, verification of the customer's ID can be carried out in various ways. Single or multiple telephone numbers may be required and can be contacted during the verification process.[19] Another possibility is the use of CRA credit records and other electronic databases, such as the electoral roll, for the purposes of electronic ID verification.[20]

54. For high-street lenders, the customer will be required to bring in one or two forms of ID, such as a passport or driving licence, and this will be checked against a proof of address, such as a utility bill or a bank statement.

55. Application forms are analysed for consistency and fraud and money-laundering risk indicators. Customer details may be processed by CRA anti-fraud products, for example [✂] uses Iovation, which validates device information and Callcredit's CallValidate, which verifies card and bank details. [✂] use Experian's BankWizard to do the same. Other external databases are also used, including CIFAS databases[21] and mainstream bank databases, both used by [✂] and [✂]. More detail on the products used by different lenders is shown in Table 3 below.

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[17] Examples of business or policy rules include rules against lending to certain persons, such as members of the armed forces, or against lending to persons with one or more loans with another lender.
[18] [✂] does not have a discrete verification stage. Its ID and fraud checks and business rules feed directly into the overall credit risk assessment.
[19] For example, [✂] and [✂] use this method of ID verification.
[20] For example, [✂].
[21] CIFAS is a fraud prevention service and operates two databases: the 'National Fraud Database' and the 'Internal Fraud Database'. The organization, which has been in existence since 1998, provides fraud prevention services to over 300 organizations across multiple sectors and industries.

Affordability and creditworthiness/risk assessment

56. In general, there are two distinguishable assessments, though these will often run concurrently or be integrated and will not generally be visible to the borrower as separate processes: an affordability assessment which determines the customer's credit limit; and a creditworthiness and risk assessment which determines whether or not the customer is likely to pay back the loan. These processes are additional to the ID verification, anti-fraud and anti-money laundering checks discussed above. Dependent on the lender's approach to the process, the customer's risk may also influence the amount the customer is judged to be able to afford. The whole process requires customer information to be collected and then processed using a range of techniques from basic affordability equations to complex risk models.

57. The approach of the lenders to this task varies substantially. As such, we consider the approach taken by each of the 11 major lenders separately in Appendix A.

58. In summary, all those that lend online use some form of internal scorecard incorporating information from CRAs to make a risk assessment of new customers. Of the five that lend through the high street, three use similar scoring models to the online lenders while two, [✂], base their lending decision on verification of income documentation provided by the customer including bank statements or payslips.

59. Human input was relevant to a varying extent in these processes. Five lenders used human underwriters to manually review applications only in certain circumstances. All high-street lenders have a staff member reviewing the application process. [✂], did not rely on the member of staff to make the ultimate lending decision in all cases. [✂], relies on a human underwriter to make the final lending decision. Four online lenders, [✂] provided evidence that their approach is to allow for an automated decision, except in very exceptional circumstances.

60. Six lenders told us specifically that internal information on existing or returning customers is important. [✂] and [✂] said that they kept existing customer accounts on review on a bi-weekly and monthly basis respectively, while the other four suggested repayment history with the lender would be taken into account. [✂], for example, noted that those with a good track record were likely to get higher credit limits.

61. We have not sought specific information on precisely how these risk models function, especially in relation to some of the largest lenders, such as [✂] and [✂]. These models are highly complex and we are not carrying out an assessment of the adequacy and effectiveness of companies' approvals processes. Such an assessment would not inform our analysis of competition in the market for payday loans.

Sharing information with CRAs

62. As is evident from the description of the different lenders' approval processes, lenders often use information sourced from CRAs in their internal models. In this section, we discuss the relationship between lenders and CRAs in more detail.

63. This relationship is governed by the Principles of Reciprocity. These principles are developed and administered by the Steering Committee on Reciprocity, made up of members from major credit providers and CRAs. The governing principle is that: 'Data are shared only for the prevention of over-commitment, bad debt, fraud and money laundering, and to support debt recovery and debtor tracing, with the aim of promoting responsible lending.'[22] At a high level the principles require lenders to share the same categories of data to those which they receive from the CRA but, according to the Steering Committee's guidance, the precise type of data that should

[22] *Information Sharing: Principles of Reciprocity*, Version 35, Steering Committee on Reciprocity, September 2013, p3.

be shared in particular situations is not always the same, and the nature and purpose of data sharing must be carefully considered in each case.

64. Table 7 compares the use of CRAs across the major lenders.

TABLE 7 **Use of CRAs**

[✂]

65. Of the 11 lenders examined, only [✂] does not use CRA information in its lending decisions.[23] Of the other lenders, one lender uses data from only one CRA, seven lenders use two while [✂] have used data from five and six CRAs respectively.[24] Often lenders use multiple products or data sources supplied by the same CRA. As seen above, CRA products and data are used during various stages of the approval process.

66. The CRAs most commonly used among the major lenders are Callcredit and Experian, with, respectively, nine and eight of the 11 lenders using their products at some point in the approval process. Generally, these CRAs require lenders to provide information on a monthly basis in accordance with the Principles of Reciprocity. [✂] reports that it gives Experian real time access to their information as members of Experian's reporting proof of concept activity.

67. Five of the 11 lenders use Teletrack. [✂] submits information to Teletrack weekly. [✂] provide data in real-time to Teletrack's through LAPS-IT's loan management system.[25] Real-time or near real-time arrangements are also offered by LendProtect and LendingMetrics, but have only been used by [✂] among the major lenders. We note that recent reports in the industry media suggest that a number of the lenders

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[23] [✂] does use background information including KYC and bank account records to assess eligibility for loans. See paragraph 13 above and paragraph 5 of Appendix A.
[24] [✂]
[25] For more on the LAPS-IT loan management systems see the LAPS-IT website.

included are working with Callcredit on a product which will utilize the provision of real-time data from lenders.[26]

68. Under the Principles of Reciprocity, lenders must provide information commensurate to their subscriptions. As listed in the Principles of Reciprocity, the different types of subscription are:

3.1 Standard Full Subscriber

The subscriber agrees to provide positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained.

3.2 Default only Subscriber

The subscriber agrees to provide data on all accounts which are in default. A definition of default is included in Section 4.2. Reference should also be made to the latest Guidance Note on Defaults published by the Information Commissioner's Office (ICO).

3.3 Debt Purchase Subscriber

The subscriber agrees to provide positive, delinquent and default data, as appropriate, on a regular basis (usually at a minimum monthly, depending on the nature of the product) on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained. Access to full data will be granted on those purchased default level portfolios previously reported by an originator at full level on the principle that the purchaser continues to report the required updates to default level data.

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[26] See, for example, 'Data sharing among payday firms set to launch', *Credit Today*, 15 January 2014; and 'Real-time data for payday lenders', *E&T Magazine*, 15 January 2014.

> For those accounts on which the debt purchase subscriber has only ever provided default data, but is accessing full data, the full data may only ever be used for risk assessment purposes to support arrears management. It may not be used for any other purpose.
>
> 3.4 Non-Subscribing Organisation
>
> It is possible that non-subscribing organisations may request access to shared data for a specific purpose. Such access will not be allowed without the specific written agreement of SCOR.[27]

69. A number of the major lenders provided a description of the data they provide to CRAs. All but one of those lenders, [✄], provides both application information and account status. [✄] does not provide performance information but provides application information and salary only. [✄] provided slightly more detail on the specific account information shared; this included loan ID, full name, full address, date of birth, loan amount and the current status of the loan whether closed (repaid in full), 30 days overdue, 60 days overdue, 90+ days overdue, not yet due or under a repayment plan.

70. Lenders can access CRA databases at any time during the approval process. The reciprocal arrangement is based on the commencement and ongoing supply (typically monthly) to the CRA of account performance information relating to that lender's loan portfolio, rather than the ability of the lender to access it. [✄] said that it receives data from [✄] bi-weekly, however, they also told us that [✄] can be accessed in real time. Publicly available information from Experian suggests that CRA databases are updated by the lenders themselves subject to the CRA ensuring

[27] *Principles of Reciprocity*, p8.

the lenders' obligations are met and the quality of the submissions is correct, with the CRA delaying the update only if a problem is found.[28]

71. A number of lenders made submissions about the quality and value of the information provided by CRAs. [✂].

72. The evidence provided on CRA use suggests that payday lenders develop internal risk models based on CRA data because the existing sub-prime models provided by CRAs are not suitable for customers borrowing on this sort of short-term basis. While CRA data appears important and well used, the testing of information and the development of payday-specific models appears to be an important issue for these lenders.

[28] *The credit reference agency explained: A guide for consumer advisers*, Experian, 2013.

Approach of the major lenders to the approval process

1. This appendix provides detail of each of the 11 major lenders' approaches to the approval process. The 11 major lenders included in this analysis operate 16 separate companies in the UK and market loans under around 22 different brands (see appendix to the annotated issues statement for a full list of the companies and brands). 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.

2. Ariste [✂].[1]

3. When considering applications from repeat customers, Ariste also considers any relevant information about the customer it has gained through its previous dealings with that customer. If the customer had a previous overdue repayment, legal proceedings have been started or there is a debt management plan in place, the customer will be embargoed from receiving another loan for a period [✂].

4. CashEuroNet's 'credit model' encompasses credit and affordability checks as well as customer identity verification in the same sequence. Customer application details and ID/anti-fraud information is fed through a credit and affordability model which utilizes over [✂] variables, an over-indebtedness index, [✂] and an internal affordability model. New variables are continuously tested in 'dry runs', if they test well they add them to the credit model. Some applications show up 'yellow flags' in which case call

[1] [✂]

centre processing representatives manually review the application and may request documentation such as bank statements and wage slips.

5. The Cash Store makes loans of no more that 50 per cent of a customer's net income, subject to a lower limit of £50 and an upper limit of £800. This is based on background information including KYC and bank account records. Each branch manager is responsible for signing off on loans and qualifying the customer at 50 per cent of their income based on their bank statement. Customers will not be considered if they do not provide a bank statement.

6. Cheque Centres follows two slightly different processes. [✂] to assess the customer for a grade. This grade then equates to a loan amount based upon the level of risk from the customer.

7. The Loan Store online loans go through an internal scorecard [✂].

8. [✂]

9. To assess affordability, CFO Lending[2] uses information from the customer on income and outgoings. Application information is fed through [✂], which provides information on confidence in income figures provided, the likelihood that the income has been inflated, a ratio explaining income change and figures on loans, credit cards and current accounts. Auto-decline might then occur, for example, because the customer has over five current accounts, over 80 per cent of their income is used to repay secured debt or the number of outstanding loans they have is in excess of five. If the income cannot be verified at all, manual review of documentation is required. If an

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[2] Note that CFO Lending's lending limits can be overridden by a member of the management team in order to offer customers a refinance agreement. Credit limits for this product will not exceed 50 per cent of the customer's salary but may conflict with above rules.

application receives risk flags, the later creditworthiness score will be subject to penalty points.

10. CFO Lending uses two scorecards to assess the risk of an application. Data is taken from the customer's application information, previous applications, [✂] data, pre-authorization data and [✂] results. Once the scorecard is passed, CFO Lending passes applications through further verification using [✂] and [✂] products.

11. For new customers, applications that successfully pass the validation, business rules, affordability, scorecards, bank verification and ID checks will pass through to an underwriting team. The underwriting team then applies a number of 'sight rules' such as checking that there is not a pre-paid credit card being used or notes left on previous applications. If a query cannot be resolved, the underwriter should request a bank statement to verify income.

12. Existing customers are subject to less verification but notes on the account and previous late payments are taken into consideration. CFO Lending's overall lending limits are as follows.

TABLE 1 **CFO Lending's loan limits**

		£
Monthly income	*1st loan*	*2nd loan*
750–849	110	300
850–949	125	340
950–1,099	140	380
1,100–1,249	165	440
1,250–1,399	185	500
1,400–1,599	200	560
1,600–1,749	240	640
1,750–1,949	260	700
1,950–2,199	290	
2,200+	330	

Source: CFO Lending.

13. Express Finance and MEM have adopted a 'test and learn' approach to new customer acquisition which includes the development of [✂] and associated

strategies. A bespoke scoring system was developed from [✂] in conjunction with CRA data [✂] to minimize the likelihood of a customer failing to repay their loan. Additionally a series of policy criteria rules have been implemented based on [✂]. If the score [✂] is greater than the cut-level,[3] the application is accepted, pending the results of additional affordability and fraud checks. If accepted, an applicant is assigned an appropriate credit limit based on [✂]. MEM customers maximum loan sizes are calculated based on: [✂].

14. MEM's policy on return customer credit limits is outlined in Table 2 below.

TABLE 2 **MEM finance's loan limits**

*Number of previous loans**	*Max loan cap*	*[✂]*
1	[✂]	[✂]
2	[✂]	[✂]
3	[✂]	[✂]
4	[✂]	[✂]
5	[✂]	[✂]
6+	[✂]	[✂]
[✂]	[✂]	[✂]

Source: DFC.

15. Express Finance customers' initial loan sizes are calculated based on: [✂].

16. An Express Finance customer can never borrow more than [✂] per cent of their net monthly pay or £750 (whichever is the lower).

17. MEM and Express Finance [✂], however, historical analysis has shown a repayment history with the lender to be far more predictive of ability to repay loans.

18. Instant Cash Loans (DFC) developed a bespoke system from [✂] in conjunction with CRA data and [✂] to minimize the likelihood of a customer failing to repay their loan.

[3] [✂] Tighter cut-offs may be set where the business wishes to take a more cautious approach.

[✂], producing predictive scorecards based on the level of data being returned from the CRA as well as data declared by the customer.

19. New customers of Instant Cash Loans are assigned an initial credit limit not greater than any one of the following:

- [✂] per cent of their net monthly income;
- £[✂];
- Net monthly income minus [✂]; and
- [✂].

20. To derive net monthly income, Instant Cash Loans uses both the gross income and net monthly income fields to remove any outlying data that may have been caused by keying errors. [✂]

21. As a customer builds up a repayment history with Instant Cash Loans it may gradually increase the amount they are eligible to borrow or, if their circumstances change negatively, Instant Cash Loans will seek to decrease their reliance over a period of time.

22. Lending Stream has several internal risk and fraud models that incorporate CRA data. Cut-off values on model scores are used to estimate the creditworthiness of the applicant and from that, both the approval decision and the loan amount to be offered, if any. The models are updated regularly so the input variables may change from month to month.

23. The decisions generated by these models are generally more stringent for first time applicants than for customers who have previously taken out a loan with Lending Stream. The maximum loan amount is generally lower for a new customer than a

returning customer with a good track record of repayments because those factors are normally taken into account in the predictive models.

24. H&T uses risk models but all lending decisions are reviewed by an underwriter. Initially the store staff make an assessment of basic criteria and, with a review of the bank account statement, an assessment of affordability to inform them of the eligibility to apply for a loan. The loan system will then use internal demographics to determine an internal score and then an additional score will be applied to the application using CRA data. All active customers are evaluated monthly at a portfolio, and by selected cohort, level. H&T did not provide any specific details for its online lending policy.

25. WageDayAdvance (SRC) uses a scoring system to process the application. This includes eligibility rules, verification and affordability assessment. Customer information answers questions posed by the scoring system. Some questions will result in a knockout while other result in a score. The lending decision is made on the final score and is processed manually by an underwriter.

26. TxtLoan underwriting is undertaken using application information provided by the applicant and information purchased from CRAs. Information is also purchased in respect of device reputation. Assessment of ability to pay is carried out through an authorization of card details with TxtLoan's payment merchant and against the output of [✄]. Customers who fail the automated checks may be declined or subjected to manual validation which will involve the request of documentary evidence from the customer.

27. In its Speedy Cash stores, SRC's approach to affordability assessment is based around the verification of documentary evidence prevented. A large part of this is ID

and anti-fraud verification. For affordability purposes, a customer will be expected to present a bank statement, a payslip or log-in to Internet banking. SRC customers must show at least 60 days of recurring income. Bank statements are verified, if possible, by calling the customer's bank.[4] Expenditure is verified in a similar manner and SRC's staff search for inconsistencies. Debit card and telephone numbers are also extensively verified to ensure that the customer is likely to repay the loan. SRC's approval approach for scoring new online customers uses an internal risk model which considers [✂] and [✂] scores.

28. Wonga combines application data and predictive variables provided by [✂] in its credit risk decision models. [✂], first time borrowers are never allowed to borrow more than £400, while existing customers are limited to a maximum of £1,000. Wonga's internal customer performance data is tested on a regular basis. Existing customers' credit files are refreshed [✂] using CRA data.

[4] Note that the customer will be required to pass the security stages of the call to the bank before SRC's store staff listen in.