Research into the payday lending market

Report

TNS BMRB

Report prepared by TNS BMRB

Tim Hanson, Keith Bolling, Emily Fu, Andrew Thomas and Sam Sullivan

Contact details:

Tim Hanson
Senior Associate Director

TNS BMRB
6 More London Place
London, SE1 2QY

Tim.Hanson@tns-bmrb.co.uk
020 7656 5737

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1. Introduction

This report includes findings from quantitative and qualitative research conducted as part of the Competition Commission's payday lending market investigation. The research was conducted between September and December 2013. In this introductory chapter we set out the research objectives and provide background information on the sample and methodology used to obtain the results. Further technical information is provided in a separate report which will be published in February 2014.

The report is divided into 15 chapters, as follows:

- Chapter 1: Introduction
- Chapter 2: Executive summary
- Chapter 3: Socio-demographic characteristics of payday lending customers
- Chapter 4: Financial circumstances of payday lending customers
- Chapter 5: Borrowing characteristics of payday lending customers
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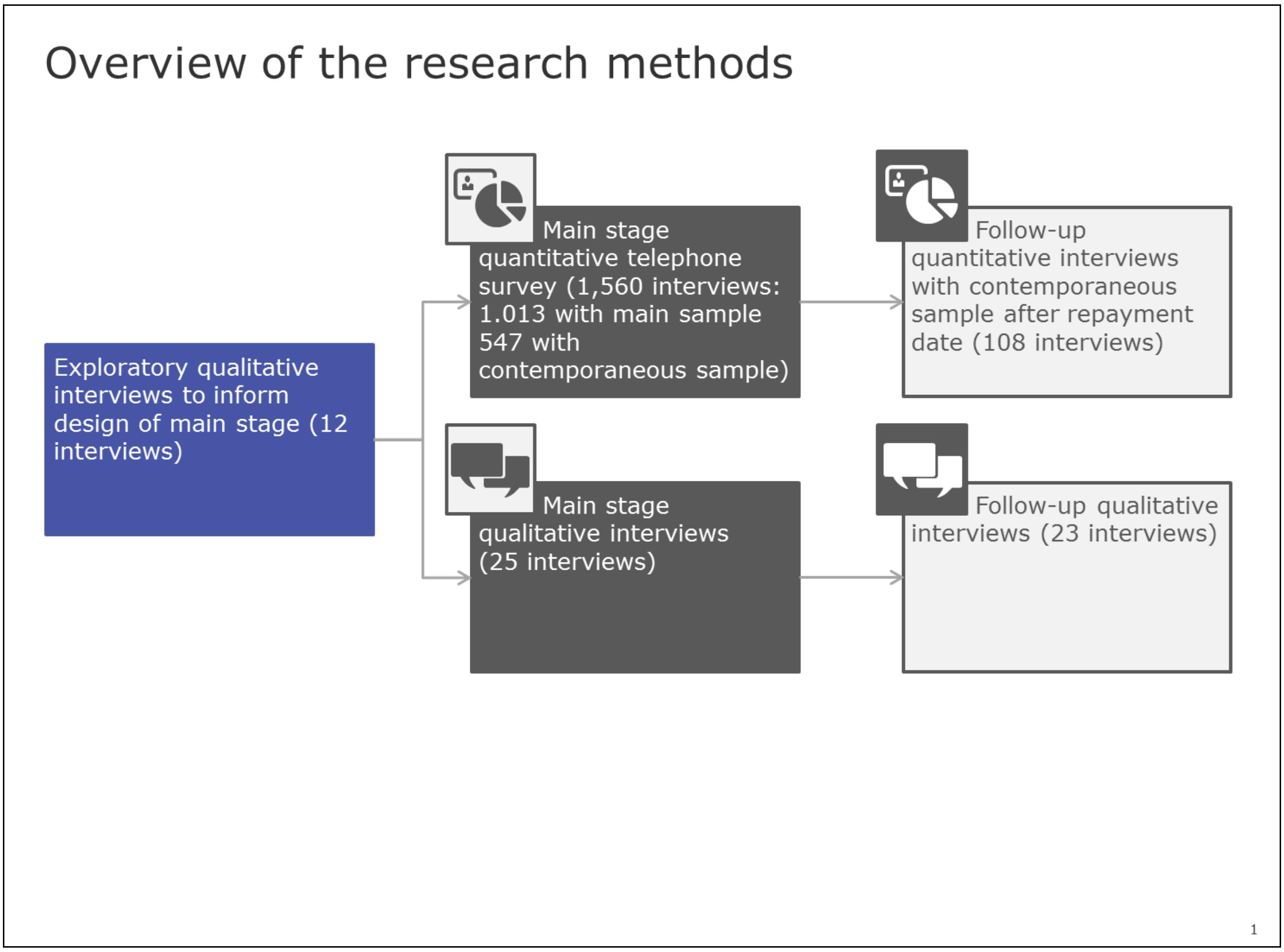
1.1 Research objectives

The design and content of the research were developed around the key objectives of the Competition Commission's investigation[1]. The over-arching aim was 'to understand 'the market' from a consumer perspective; their decision processes and the factors that influenced them'. Within this there were a number of specific areas of interest which the research sought to explore, including:

- Consumer perceptions of the market and which products compete for their business – both in terms of alternative forms of credit (e.g. pawnbroker loans, credit union loans, bank or building society loans) and the two channels of purchase in the payday lending sector: online and high street;
- Evidence for any customer segmentation in the market, and providing a clear overview of the customer base;
- Understanding of the consumer decision making process with respect to payday loans;
- Switching between payday lenders, and use of multiple lenders;
- Patterns of behaviour over time;
- Consumer attitudes and behaviour with regards to payday lending companies; and
- Attitudes towards and understanding of fees and charges that may be applied.

[1] The objectives are outlined on the Issues Statement published on the Competition Commission website: http://www.competition-commission.org.uk/our-work/directory-of-all-inquiries/payday-lending

1.2 Overview of research methods



The chart above gives a top level overview of the different elements that made up the research project. The research started with an exploratory qualitative stage (12 face-to-face depth interviews), which aimed to provide an initial overview of the experiences of customers in the payday lending sector and inform the design of the main stages of the project.

The main stage quantitative survey was conducted by telephone and comprised 1,560 interviews in total, split between a main and contemporaneous sample (described later in this chapter). The interview length was approximately 20 minutes.

A total of 25 qualitative interviews were conducted during the main stage, resulting in a total achieved sample for the qualitative strand of 37 face-to-face depth interviews.

Follow-up research has also been conducted for both the quantitative and qualitative strands. A follow-up quantitative telephone survey was conducted among members of the contemporaneous sample to speak to customers very soon after their loan repayment dates. A total of 108 interviews were achieved at this stage.

A total of 23 qualitative follow-up telephone interviews were conducted among members of the main stage sample, shortly after their main stage interview.

This report has been prepared based on all strands of the research, as described above. Findings from the quantitative and qualitative survey are interwoven throughout the report, with the source of each result clearly flagged throughout. Results from the follow-up quantitative survey are reported in a separate chapter at the end of this report (see chapter 15).

1.3 Qualitative sample and methodology

Qualitative sample breakdown

Qual

Exploratory depths	
User type	**Total**
1-2 loans	4
3+ loans	8
Online only	6
High street only	1
Both online and high street	5
Total	**12**

Main stage qualitative				
User Type		**Online**	**High street**	**Total**
1 payday loan only		5	4	**9**
2-3 payday loans in past 2 years		5	1	**6**
4+ payday loans in past 12 months		6	4	**10**
Experience of roll-over	4+ loans	2	4	**6**
Experience of roll-over	All respondents	6	4	**10**
Total		**16**	**9**	**25**

Main stage		
Gender	**Age**	**Total**
Male	25-34	**6**
	35-44	**3**
	45-54	**5**
Total		**14**
Female	25-35	**5**
	35-44	**3**
	45-54	**3**
Total		**11**

Main stage	
Income	**Total**
Under £20,000	**11**
£20,000 - £29,999	**8**
£30,000 - £39,999	**3**
£40,000+	**2**
DK	**1**

Main stage	
Ethnicity	**Total**
White	**19**
Black	**3**
Asian	**2**
Mixed	**1**

The main stage interviews took place in Birmingham, Leeds, Leicester, Bristol, Glasgow, Reading, Edinburgh, Cambridge, and Greater London.

2

The chart above shows the numbers achieved in both stages of the qualitative work. The primary recruitment variables were the number of loans taken out, the channel of purchase (of the most recent loan), and experience of roll over. The exploratory depths were recruited through free-find techniques and conducted in Greater London. The main stage sample was drawn from the same customer data as was used for the quantitative survey, and interviews took place across the UK.

1.4 Quantitative sample and methodology

The quantitative sample comprised two parts:

- A main sample of customers of 11 payday lending companies – including the biggest companies in the sector – who had taken out a loan between 1st September 2012 and 31st August 2013[2].
- A contemporaneous sample, made up of customers who had taken out loans on four specific dates in October and November 2013. This sample was only provided by the three largest online payday lenders in the sector.

Both samples were drawn from customer databases provided by lenders.

The objective of the contemporaneous sample was to get closer to the mindset of customers at the point the loan was taken out. The exploratory qualitative stage suggested that there may be difficulties in recreating this mindset – including possible post-rationalisation of decisions – and so this extra sample would provide a sub-set of customers who could be interviewed very shortly after their loan dates. All contemporaneous sample customers were interviewed within around 10 days of taking out their loan.

Overall c. 15,000 customers were selected to take part from the main sample and 8,000 customers were selected from the contemporaneous sample. A total of 985 interviews were achieved from the main sample, with 547 being achieved from the contemporaneous sample. The response rate achieved for both samples was approximately 10% (after excluding ineligible records). Further information on response rates is included in the separate technical report.

To ensure that the final data would include a sufficient analysis base in key groups, two sub-groups of customers were oversampled:

- High street customers were over-sampled in the main sample. High street customers account for around 20% of the population of payday lending customers (based on the customer data supplied by lenders) but comprised around 30% of the selected sample.
- 'New' customers were oversampled in the contemporaneous sample. These were customers who had taken out a loan for the first time with the lender on one of the four dates. This ensured a sufficient analysis base of first time borrowers, to allow their experiences to be compared with those of more experienced borrowers.

[2] 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.

Overview of achieved quantitative sample

Quant

	Main sample	% of main total	Contemporaneous sample	% of contemporaneous total	Combined sample	% of combined total
Online	514	49%	547	100%	1,061	68%
High street	499	51%	0	0%	499	32%
New (1)	223	22%	283	52%	506	32%
Repeat (1)	790	78%	264	48%	1,054	68%
The 3 largest lenders	768	76%	547	100%	1,315	84%
Other lenders	245	24%	0	0%	245	16%
The 3 largest online lenders	425	83%	547	100%	972	92% (2)
Other online	89	17%	0	0%	89	8% (2)

(1) Based on sample data on number of loans and not what was recorded in the interview.
(2) Percentage of the online total (1,061).

3

The chart above shows the achieved interview numbers for the main stage quantitative survey, across a range of sub-groups. This shows the split between online and high street customers (based on the method used for a specific loan they were asked about during the interviews), between new and repeat customers[3], between customers of the three largest lenders and a range of smaller lenders and between the largest three online lenders and smaller online lenders. All breakdowns are provided separately for the main sample and the contemporaneous sample, with combined figures also included. A total of 108 interviews were achieved on the follow-up survey, exclusively among the three largest online lenders.

A small number of partial interviews (83) have been included in the quantitative data. These are cases where most, but not all, of the survey was completed (interviews running longer than expected so respondents unable to finish). Due to the inclusion of some partial records the base sizes quoted for questions that were asked later in the questionnaire are slightly lower than the overall base of 1,560 respondents.

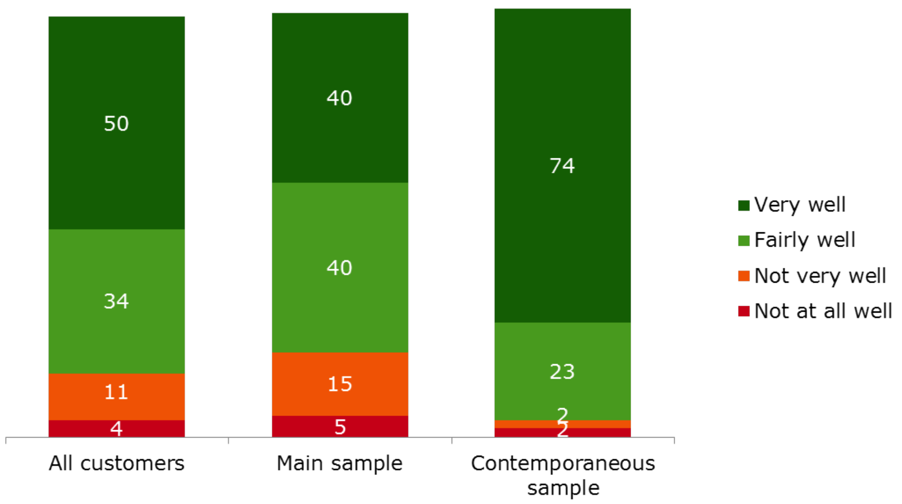
All data from the quantitative survey have been weighted back to the population based on channel of purchase used (online/high street), number of loans (new/repeat customers) and company (separate for the customers of the largest lenders and combined for those taking out loans from smaller companies). For the purposes of weighting the ‘population’ has been defined as the total customer data provided by the lenders.

[3] This distinction is based on the customer’s relationship with the lender they were sampled from for this survey. Therefore, any customer who had taken out one loan from the lender they were sampled from is defined as ‘new’, even if they may have taken out loans from other payday lenders prior to this.

1.5 Recall of information

Most said they remembered the experience of taking out the loan very or fairly well

Quant



Source: Qcheck. Finally, we have asked you a number of questions about a loan you took out with [name of sampled lender] on [date of sampled loan] in this interview. How well would you say you remember the experience of taking out this loan?
Base: All customers (1,477) / All main sample customers (957) / All contemporaneous sample customers (520). Excludes partial interviews.

4

For a large part of the quantitative questionnaire customers were asked to think back to the experience of taking out a specific loan, based on information provided in the customer data supplied by lenders. This is henceforth referred to as the 'sampled' loan. In most cases this would have been the most recent loan taken out by the customer though in almost four in ten cases (37%) customers had taken out further loans after the sampled loan.

To account for potential recall issues, respondents were asked to assess how well they remembered their experience of taking out the sampled loan (see the above chart). Overall, more than eight in ten (84%) said they remembered this either very well (50%) or fairly well (34%). Eleven per cent said they did not remember the experience very well and four per cent said they did not remember it at all well. Recall was better among members of the contemporaneous sample, who were interviewed very shortly after their loan was taken out (97% of customers in the contemporaneous sample remembered their loan very well or fairly well). Nevertheless, even among customers in the main sample (where a longer period had passed between the loan date and interview date) still eight in ten (79%) said they remembered the experience of taking out the loan very well or fairly well.

1.6 Reporting conventions and significance testing

Unless otherwise stated, all results reported from the quantitative survey are based on weighted data. Full details of the weighting process will be included in the separate technical report.

Percentages may not add up to 100% due to rounding, the exclusion of some categories (e.g. ‘Don’t know’ and ‘Refused’) and the option for more than one response to be selected at some questions.

We have included details of the precise analysis base used for results at the bottom of each chart throughout the report. In the same place we have included a reference to the question that each result is based upon; the questionnaires for the main and follow-up quantitative surveys are appended to this report.

Most results presented in the report from the quantitative survey are based on the data tabulations that will be published on the Competition Commission website. A small number of results are based on derived measures from the SPSS data set used by TNS BMRB. These figures will not appear in the data tabulations.

A number of results are reported at a sub-group level, based on socio-demographic characteristics, financial circumstances and behaviour in the payday lending market. Where we have explicitly reported a difference between groups this will be significant (based on a 95% confidence level) unless otherwise stated. Further information on confidence levels associated with various sub-groups will be included in the technical report.

2. Executive summary

In this chapter we present a short summary of some of the key findings from the research.

2.1 Socio-demographic characteristics and financial circumstances of payday lending customers

Compared to the population as a whole, payday lending customers are more likely to be male, younger, working, living in private rented or social housing and living in deprived areas.

While around a third of payday lending customers have a household income less than £18,000 per year, three in ten have an annual household income of £36,000 or more.

The extent to which payday lending customers use other sources of credit is broadly similar to the population as a whole, although there is some evidence of payday lending customers experiencing financial problems. More than a quarter had an unauthorised overdraft in the last year, three in ten had been turned down for credit in the last year and over half had experienced a debt problem in the last five years.

2.2 Borrowing characteristic of payday lending customers

Most payday lending customers had taken out more than one loan, although most had only ever used one lender. The average size of loan was £239.

The online payday lending channel is significantly larger than the high street channel, with seven in ten customers having only ever taken out an online loan. Around one in eight customers had taken out both an online and a high street loan.

The demographic and financial profile of online and high street customers is different in several respects. Customers using both online and high street channels are more likely to show signs of credit or debt problems.

2.3 Channels of purchase, context of loans, access to alternatives and key factors in choice of loan

Most of those who had only used one channel of purchase would not consider the other channel. The main benefits of online lenders are seen as speed/convenience; high street lenders are preferred by some due to a preference for face-to-face contact, a lack of access to online methods and a reluctance to provide personal details online.

Payday loans are most commonly spent on living expenses – though this may cover a wide variety of uses. While most said that they could not have gone without their loan, a substantial minority said they could have gone without and their perceived need may sometimes be exaggerated. While some said that a payday loan was a last resort, it was a first choice for a similar proportion.

More than half of those who took out payday loans could have used an alternative source of credit – but four in ten said they had no access to alternatives (apart from friends and family). Most customers did not get as far as comparing the pros and cons of payday loans with alternatives. Convenience and speed were the main reasons for favouring payday loans over other options.

Speed of getting the money was seen as the most important factor in taking out a payday loan – and speed appears to increase in importance (relative to other factors) the more embedded customers become in the sector. Speed of getting the money is also important as it allows customers to make quick, impulse decisions.

2.4 Shopping around, access to information, repaying loans and use of multiple lenders

Most customers have never shopped around between lenders when taking out a payday loan – though shopping around is more common among those taking out online loans (compared with high street). The main reasons for not shopping around are lack of time, having a previous relationship with a lender and being happy with the first lender found.

Most customers that shop around said that it was easy to find the information they needed and that the information they found was clear. Most who shopped around said they compared a range of costs and charges though it appears that many did not spend very long looking at this information - and some did not fully understand the information presented.

Eight in ten of those whose repayment dates had passed said they repaid their loan in full by the repayment date – though some of these customers then needed to take out a new loan in order to get by. Most were confident in their ability to repay the loan at the point it was taken out. Less than half of customers said they found out how much it would cost to extend the loan when it was taken out.

Four in ten of all customers had taken out loans from more than one lender; a little over half of those with more than one loan had used multiple lenders. Customers switch lenders due to both necessity (e.g. not granted new loan by current lender) and choice (e.g. found a better deal elsewhere). Most who remained with the same lender said this was due to being happy with the service they provided.

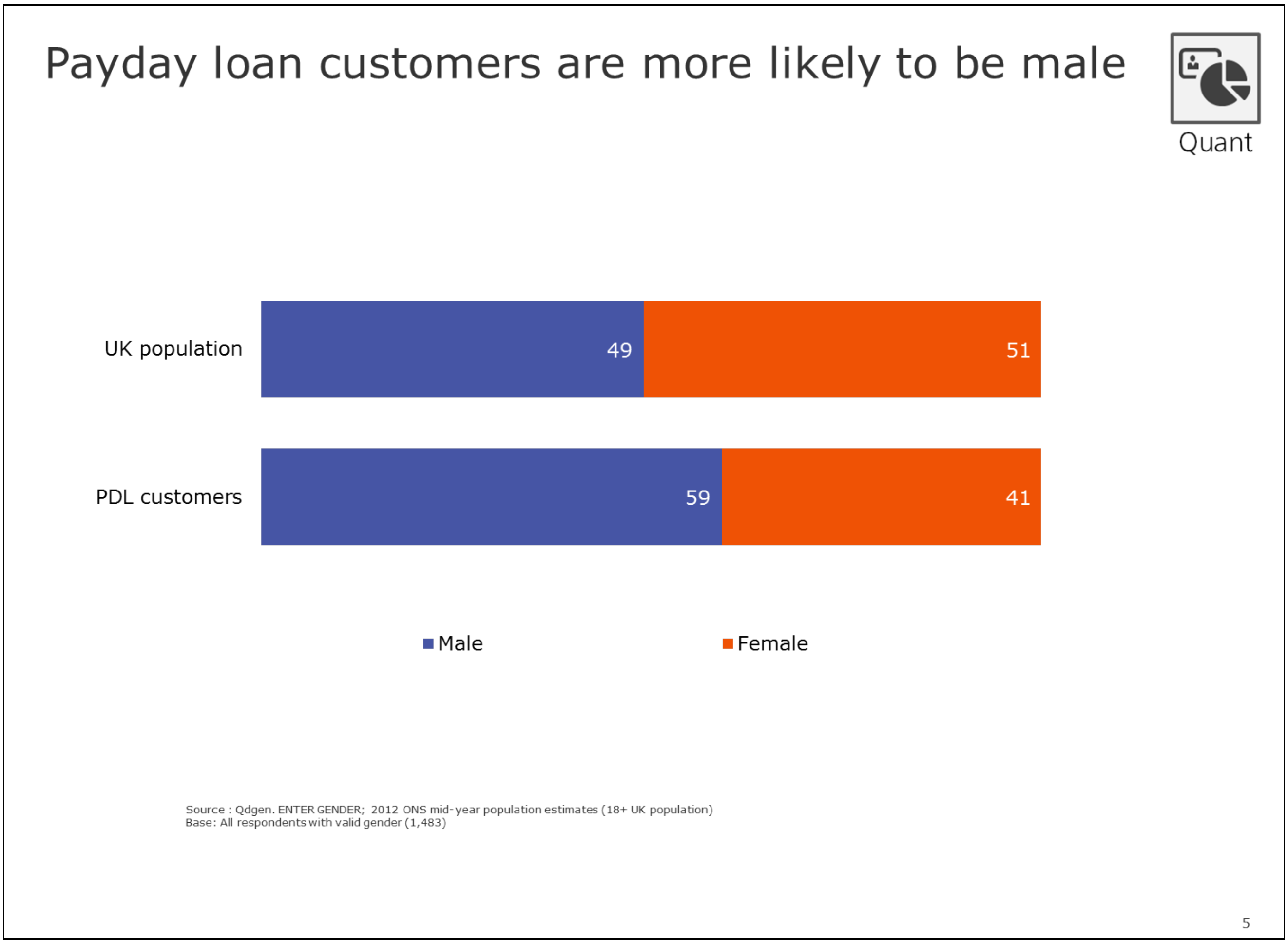
3. Socio-demographic characteristics of payday lending customers

Since this study probably represents the most robust and comprehensive survey of payday lending customers carried out to date in the UK it is worthwhile examining the socio-demographic characteristics of customers and how they are similar or different to the population as a whole.

In this chapter we examine the profile of payday lending customers against the population as a whole across a range of key socio-demographic measures including gender, age, ethnicity, economic status, housing tenure, education, and geographical distribution. Where data is available comparisons have been made with the general population using sources such as the 2011 Census, the Annual Population Survey, and the Labour Force Survey.

It is worth noting that the demographic profile of payday lending customers presented in this chapter is consistent with other available data. In particular, the socio-demographic profile of payday lending customers is similar to that found in a BIS study undertaken in 2012 which examined the high cost credit market[4].

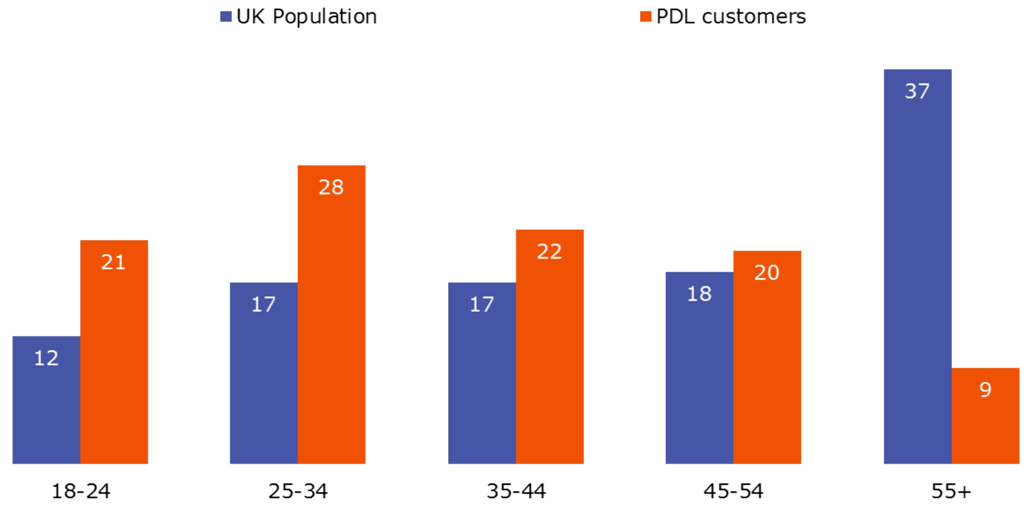
[4] BIS (2013) The impact on business and consumers of a cap on the total cost of credit (BIS/13/702).



Within the payday lending market customers were more likely to be male than female compared with the population as a whole.

And are more likely to be younger compared to the population as a whole

Quant



Source: Qdage. Age; 2012 ONS mid-year population estimates (18+ UK population)
Base: All respondents with valid age (1,482)

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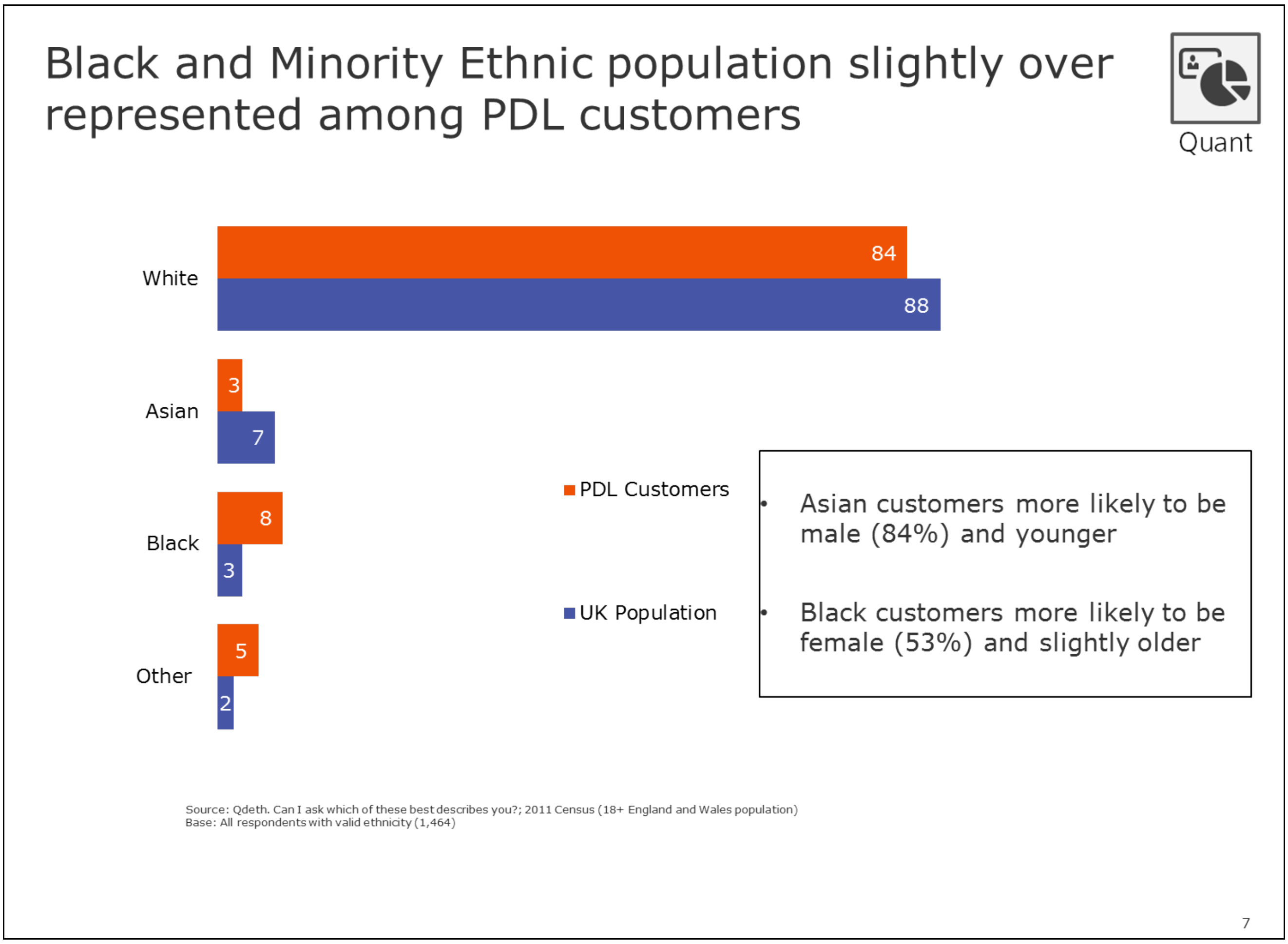
The age profile of payday lending customers was noticeably younger compared with the population as a whole. For example, just under half of payday lending customers (49%) were aged 18-34 compared with just 30% of the population as a whole.

The absence of the older population within the payday lending market was particularly stark. While over a third of the population (37%) are aged 55 or over, only nine per cent of payday lending customers were in this age band. Only two per cent of payday lending customers were aged 65 or over compared with 12% of the adult (18+) population.

Female payday lending customers had a slightly older age profile compared with male customers – 33% of female customers were aged 45 or over compared with 27% of male customers.



Payday lending customers were slightly more likely to be from Black and Minority Ethnic communities compared to the population as a whole – thus 16% of customers were from Black and Minority Ethnic groups compared with 12% of the population.

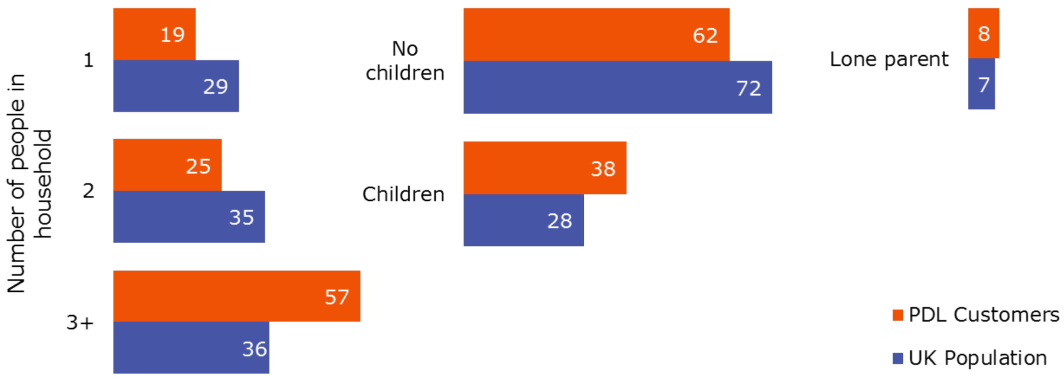
Asian customers were under represented in the payday lending market relative to the population (3% and 7% respectively), while Black customers were over represented (8% and 3% respectively).

Although caution is needed because of the relatively small base sizes, the age and gender profile of Black and Minority Ethnic payday loan customers was different from White customers[5]. Asian customers were predominantly male (84%) and on average younger than White customers. By contrast Black customers were more likely to be female (53% were female compared to 40% of White customers) and tended to be slightly older (only 13% were aged 18-24 compared with 21% of White customers).

[5] The total number of Asian customers interviewed was 45 and the total number of Black customers interviewed was 127.

PDL customers more likely to live in larger households and in households with children – largely driven by age profile

Quant



Source: Qadult/Qchild. Number of adults and children living in household; 2012 ONS Labour Force Survey (UK 18+ population)
Base: All respondents with valid number of adults and children (1,459)

8

One consequence of the fact that payday lending customers have a significantly younger age profile than the population as a whole is the impact this has when comparing other socio-demographic characteristics of payday lending customers against the population as a whole. This is because many other characteristics are strongly associated with age.

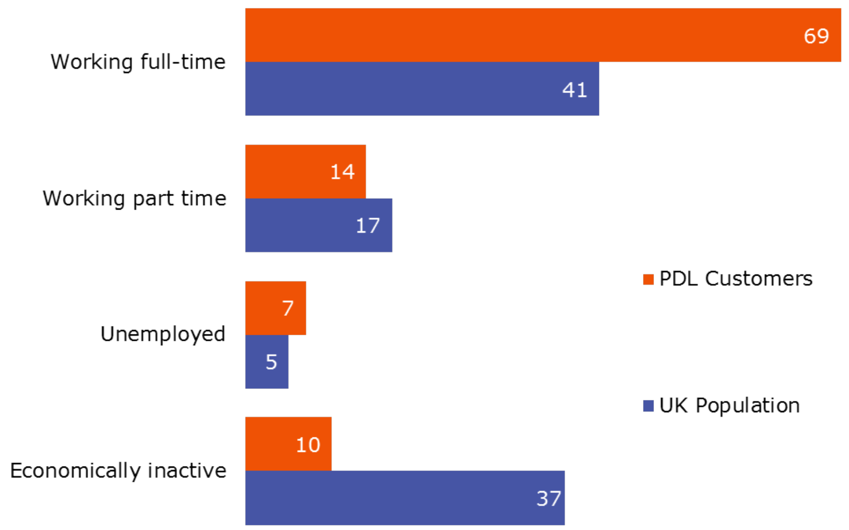
Payday lending customers were more likely than the population as a whole to live in larger households and to live in households with children. Thus, for example, 38% of payday lending customers lived with dependent children compared to 28% of adults in the population as a whole.

The proportion of lone parents among payday lending customers was similar to the population as a whole – eight per cent of customers were lone parent compared to seven per cent in the population[6]. Sixteen per cent of female customers were lone parents compared with three per cent of male customers which broadly reflects the profile of lone parent families in the population as a whole.

[6] The survey of payday lending customers did not ask specifically about lone parent status. Instead the definition of lone parents used here is all single adult households living with children aged 15 or under.

PDL customers more likely to be in work than the population as a whole

Quant



Source : Qdwork. What is your current working status?; 2011 Census (16+ England and Wales population)
Base: All respondents with valid working status (1,468)

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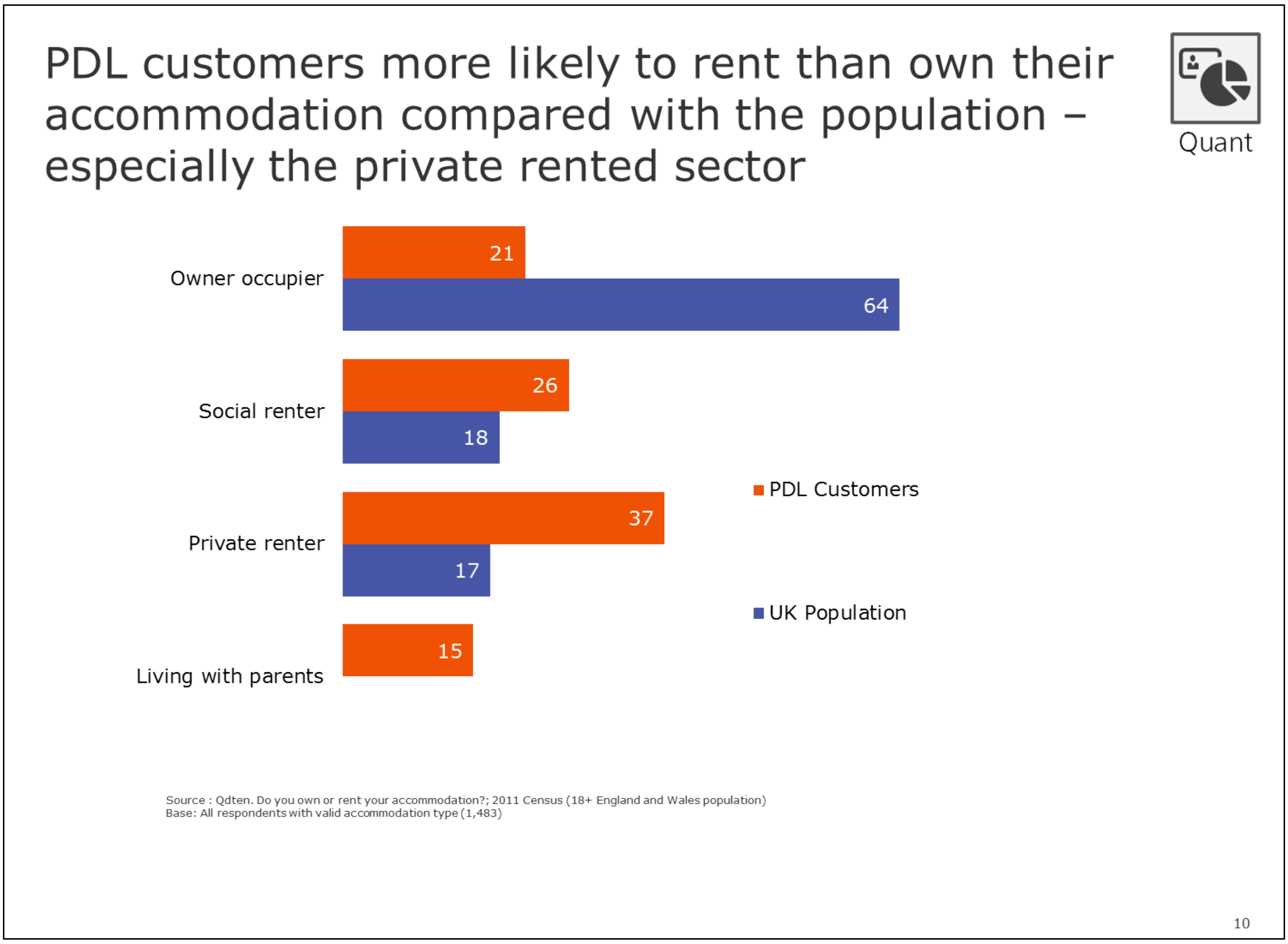
Over eight in ten (83%) payday lending customers were working – with 69% working full-time and 14% working part-time. Payday lending customers were significantly more likely to be in full-time work compared with the population as a whole (58%) which is a reflection of both the age (younger) and sex (more male) profile of the customer base.

Seven per cent of payday lending customers were unemployed – broadly in line with the population – while only 10% were economically inactive; significantly less than in the population. This difference is largely explained by the relative absence of retired people among payday lending customers (they represented 2% of customers compared with 21% of the population).

When the retired population was excluded from the comparison the economic status of the two populations was more similar. However, payday lending customers who were not retired were still more likely to be in work compared with the whole non-retired population (84% of non-retired payday loan customers were in work compared with 75% of the non-retired population as a whole).

Female customers were more likely than male customers to be in part-time work (24% and 6% respectively) or economically inactive (13% and 7% respectively), reflecting patterns in the whole population.



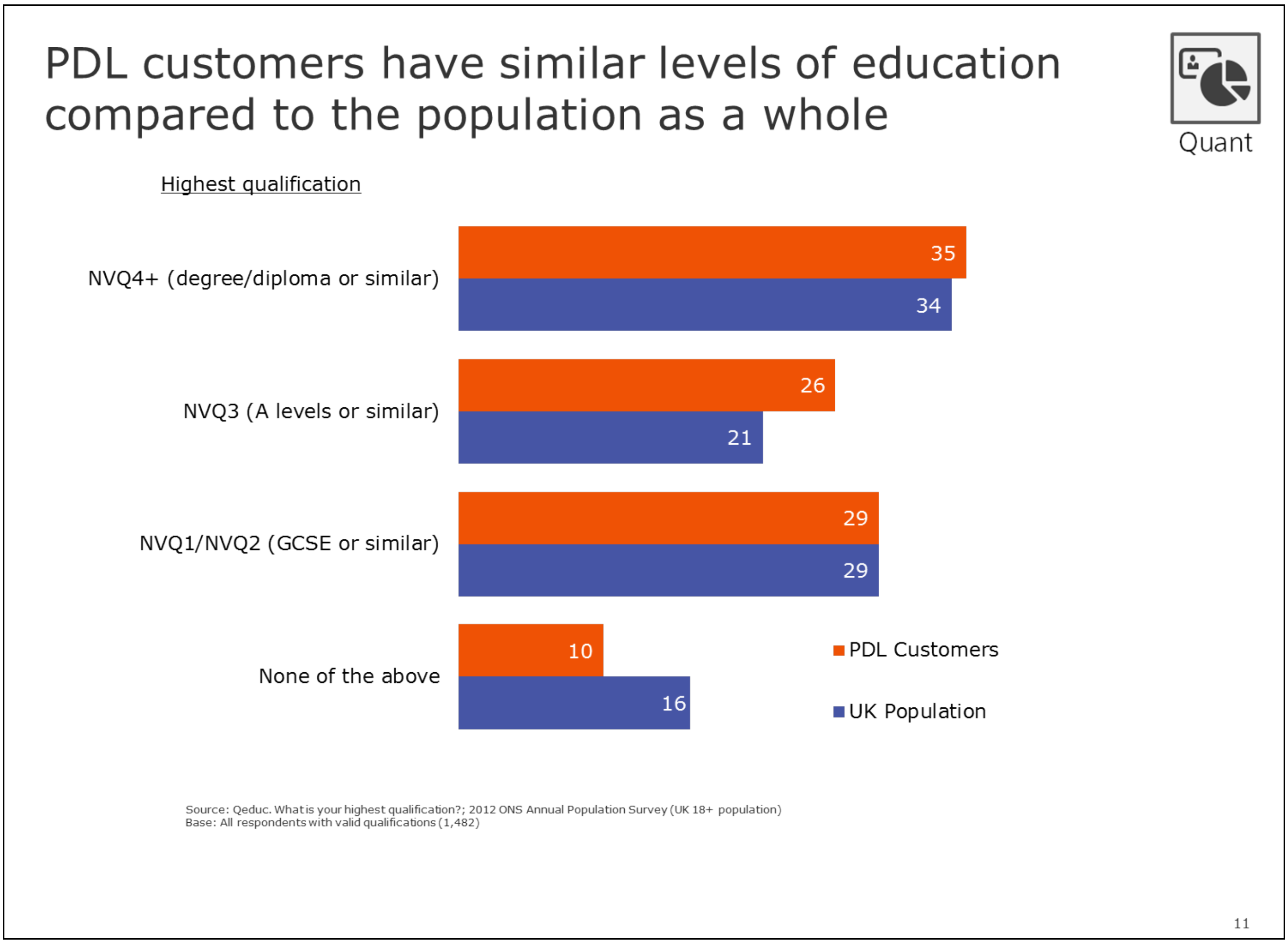
The accommodation profile of payday lending customers was very different from that seen in the population[7]. Payday lending customers were more likely than the general population to be in social rented accommodation (26% and 18% respectively) and were more than twice as likely as the population as a whole to be in private rented accommodation (37% and 17% respectively). By contrast payday lending customers were significantly less likely than the population to be owner-occupiers.

In the survey owner-occupation is probably understated because of the 'living with parents' category. It might be assumed that a significant proportion of this category is younger people living with their parents in owner-occupied accommodation. However, even if this is true, it is clear that owner-occupiers would still be significantly under represented among payday lending customers.

There were significant differences in accommodation type by both gender and age among payday lending customers. Male customers were more likely than female customers to be living in private rented accommodation (44% and 28% respectively) while female customers were more likely than males to be social renters (35% and 20% respectively).

Younger customers (aged 18-24) were most likely to be living with parents (42%) or private renters (41%) while older customers (45 or over) were most likely to be owner-occupiers (36%).

[7] In the survey a different question was asked compared with standard government surveys – which do not have 'living with parents' as a standard category.



Payday lending customers had broadly similar qualification levels compared with the population as a whole. Thus, just over a third of customers were qualified to degree level or above, while only one in ten had no qualifications which is similar to the population as a whole[8].

National surveys show that qualification levels are closely associated with age, with more young people having qualifications compared with older people; given the difference in the age profile of the two populations this is likely to affect comparisons.

When qualification levels of payday lending customers were compared to the population within specific age bands payday lending customers in the age group 25-54 were slightly less likely to be educated to degree level or above and slightly more likely to have no qualifications compared to the equivalent age group in the whole population. However, these differences were relatively small and they suggest that payday lending customers do have broadly similar education levels compared to the population as a whole even after accounting for age.

For example, among 25-34 year olds 36% of payday lending customers were educated to degree level or above, while 10% had no qualifications. Equivalent figures for 25-34 years olds in the population are 44% and 7% respectively. Similar differences were seen in the 35-44 and 45-54 age bands[9].

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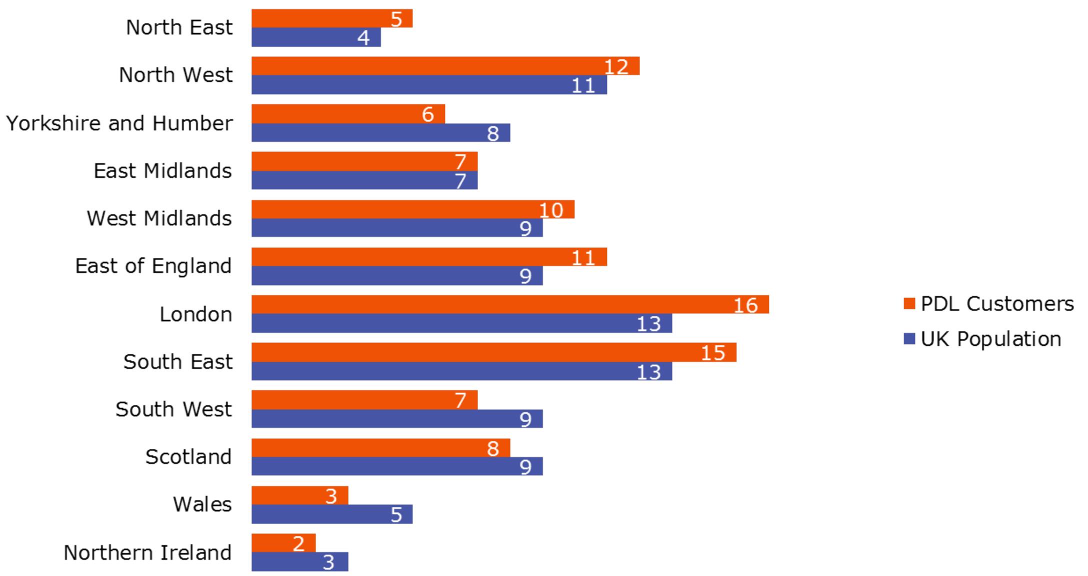
[8] Due to the way this question was asked in the customer survey it is not possible to provide a direct comparison with population figures. For the population figures the 'None of the above' category consists of 6% of people who have other (non-NVQ) qualifications and 10% who have no qualifications.
[9] It is not possible to compare the 18-24 age group since population figures are available for the 16-24 age group while the survey relates to the 18-24 age group.

Regional distribution of PDL customers similar to population

Quant



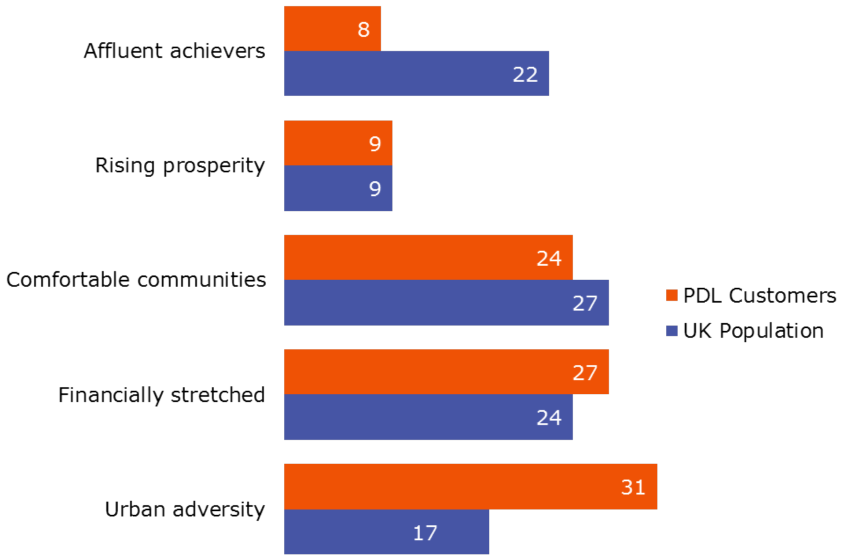
Source: Based on address of customer; 2011 Census (18+ UK Population)
Base: All respondents (1,560)

12

The regional distribution of payday lending customers broadly reflected the population. Payday lending customers were slightly more concentrated in London relative to the population (16% compared with 13%) but the differences were small. The distribution of customers illustrates the extent to which payday loans are available to borrowers across the UK.

PDL customers more concentrated in certain types of areas

Quant



Source: Based on address of customer; CACI ACORN classification
Base: All respondents (1,560)

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Although payday lending customers are spread nationally they are concentrated in certain types of area. ACORN is a classification of areas which use a variety of demographic, economic and financial indicators to define different areas of the country[10].

The chart above shows the extent to which payday lending customers were more or less likely to live in certain types of areas compared with the population as a whole. While payday lending customers tended to be under represented in areas characterised as ‘affluent achievers’ they were over represented in areas characterised as ‘financially stretched’ and ‘urban adversity’.

These findings back up the individual characteristics of payday lending customers. Thus, ‘financially stretched’ areas are characterised by high levels of private rented and social housing, below average incomes, and households with some degree of financial pressure. ‘Urban adversity’ areas are characterised as areas of high deprivation, low incomes, and high debt.

[10] For details of ACORN categories please see: http://www.caci.co.uk/acorn-classification.aspx/

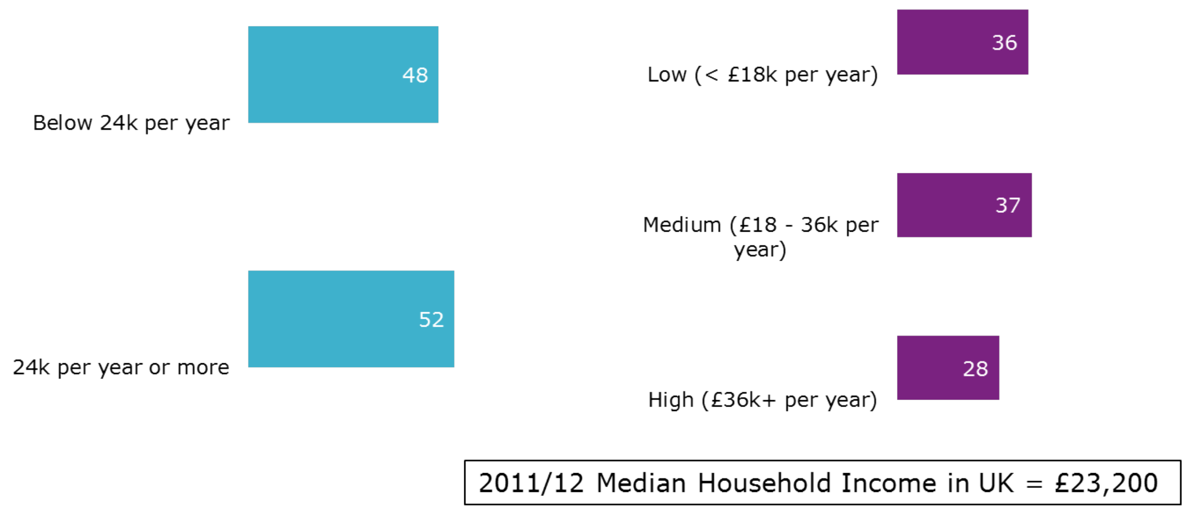
4. Financial circumstances of payday lending customers

Having examined the socio-demographic profile of payday lending customers it is also useful to examine their financial circumstances. While it was not possible to collect detailed financial information in this survey an attempt was made to get an overall picture of customer's financial circumstances. This included asking customers information about their income, the stability of their income sources, alternative forms of credit used in the last 12 months, whether they had ever been turned down for credit in the past, and whether they had ever experienced any debt problems. This range of questions was designed both to obtain information on the financial circumstances of customers as well as highlight behaviours or events which might be indicative of financial stress or difficulties.

It is worth noting that collecting accurate information on self-reported financial circumstances, especially income, is challenging. In this survey 21% of payday lending customers said they did not know what their net household income was while a further 7% refused to provide the information. Analysis related to income is therefore based only on respondents who provided income information. This level of missing income information through either a lack of knowledge or refusal to provide income details is fairly typical of other surveys which ask about self-reported income.

Household income profile of PDL customers probably not too different from population as a whole

Quant



Source: Qdinc. What is your households total income after tax and other deductions? Median household income in UK – Institute of Fiscal Studies
Base: All respondents with a valid income exc. DK/REF (1,031)

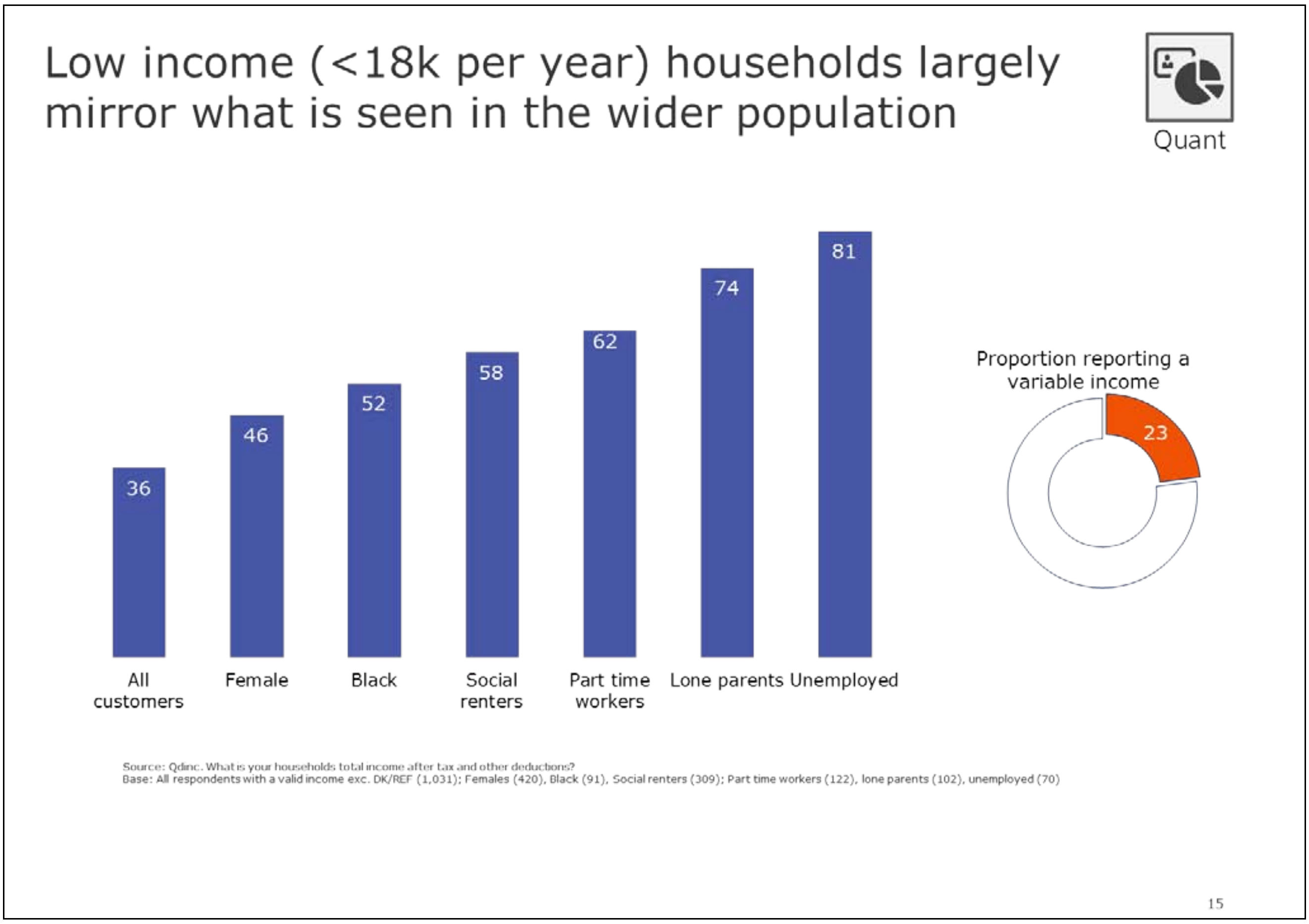
14

Directly comparing the incomes of payday lending customers to the population as a whole was not possible due to the differences in the various questions asked and the variety of different figures available (household v individual income, gross v net income, etc.). Additionally, the income bands used on the survey were not standardised with other government surveys.

Figures from the Institute for Fiscal Studies show that the median net household income in the UK in 2011/12 was £23,200. Since the survey asked customers for their net household income this represents a reasonable comparator. The chart above shows that about half of all payday lending customers (48%) had net household incomes at or below the median household income, while the other half (52%) had incomes higher than the UK median.

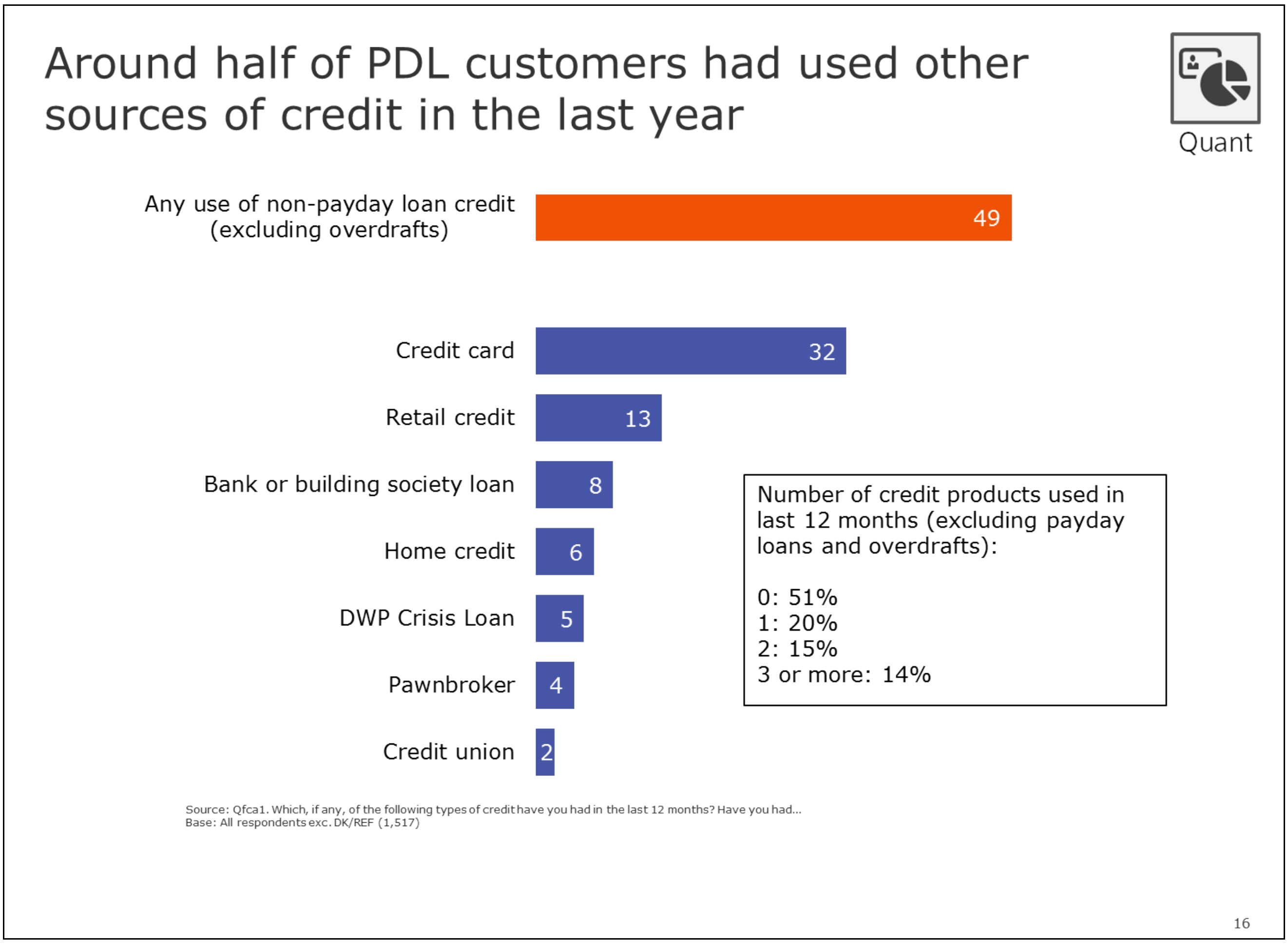
The household income of customers was broken down into three broadly equal bands – broadly defined as 'low', 'medium' and 'high' income. While 36% of payday lending customers were classed as having a low income (less than £18,000 per year), almost three in ten (28%) had a relatively high income (£36,000 or more per year).

While the household income profile of payday lending customers nominally appears to be broadly in line with that of the UK population, age and gender profiles are different. Moreover, a high proportion of payday lending customers are in employment. Given their age, gender and employment status, payday loan customers tend to have lower household incomes than those with equivalent profiles in the general population. On the other hand, the figures above also suggest that it is not true to characterise all payday lending customers as having low incomes.



Looking specifically at payday lending customers classed as having a low household income (less than £18,000 per year) the chart above confirms that low income households were more prevalent among certain types of customers and these broadly reflect what is seen in the population as a whole. Customers on low incomes were disproportionately concentrated among female customers, Black customers, those living in social housing, part-time workers, lone parents and the unemployed. It should be noted, of course, that there will be a lot of overlap between all these groups.

The survey also asked customers the extent to which they had a steady or variable income. Almost a quarter (23%) of payday lending customers said that their income varied.



Customers were asked whether they had used any other forms of unsecured credit in the last 12 months, apart from payday loans[11]. Almost half of customers (49%) had used some other form of non-payday credit in the last 12 months. These figures are broadly in line with other available information – for example, the 2012 BIS Debt Tracker estimated that 52% of people had used at least one form of unsecured credit in the last 12 months[12].

The proportion of payday loan customers who had used some other form of non-payday loan credit in the last 12 months when overdrafts are included was 74%.

Around one in five customers (20%) had used one form of credit in the last 12 months (excluding a payday loan), 15% had used two other forms of credit, and 14% had used three or more other forms of credit.

The non-payday loan types of credit products used by payday lending customers were broadly similar to those seen in the population – with credit cards being the most common source of credit, followed by retail credit (which includes store cards, mail order, and Hire Purchase agreements) and bank or building society loans.

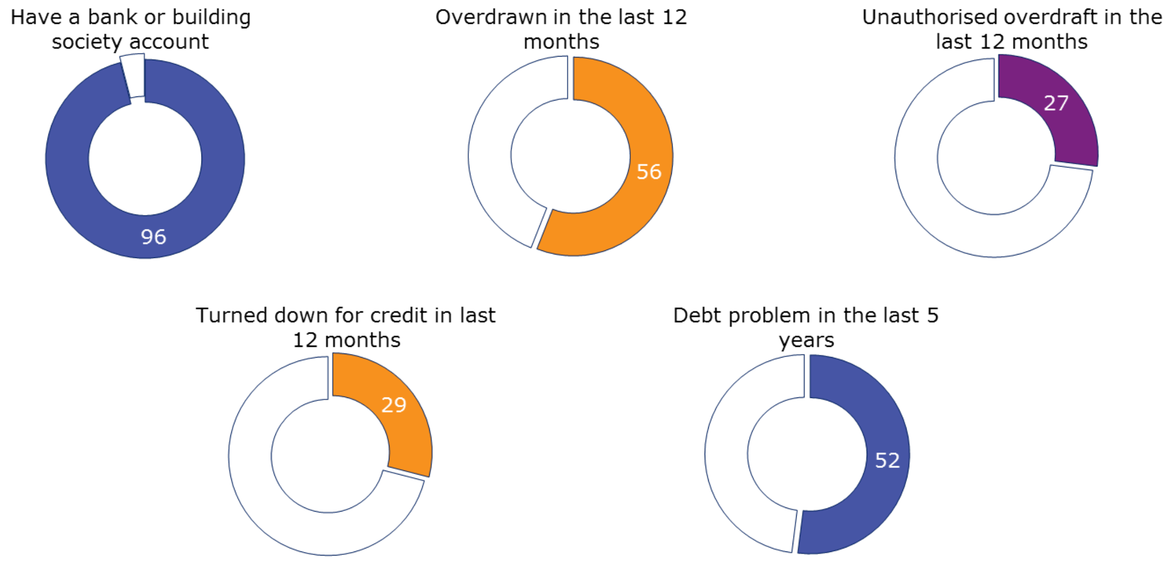
Two points are of specific interest. First, the proportion of payday lending customers who had a bank or building society loan is lower than that seen in the population. The 2012 BIS Debt Tracker suggested that around 12% of the population had a personal loan. Second, although the proportion of customers using other forms of high cost credit – home credit (6%) and

[11] This list does not include overdrafts which were asked as a separate question (see next chart).
[12] BIS (2013) Credit, debt and financial difficulty in Britain, 2012 (BIS/13/P187).

pawnbrokers (5%) – was relatively low, these figures are significantly higher than the levels seen among the population as a whole (of around 1% each).

Some evidence that PDL customers experience credit problems

Quant



Source: Qfc1. Do you have a bank account that is provided by a bank, building society or credit union, either in your own name or joint names? Please do not include a Post Office Account or POCA; Qfc2. Have you been overdrawn on any of your bank accounts in the last 12 months?; Qfc3. Have you gone over your agreed overdraft limit on any of your accounts in the last 12 months?; Qfca2. And have you been turned down for any types of credit in the last 12 months?; Qfc6. Have you (or your partner) experienced any of the following things in the last five years?
Base: All respondents exc. DK/REF: Have a bank or building society account (1,517); Overdrawn in the last 12 months (1,454); Unauthorised overdraft (1,560); Turned down for credit (1,496); Debt problem (1,495)

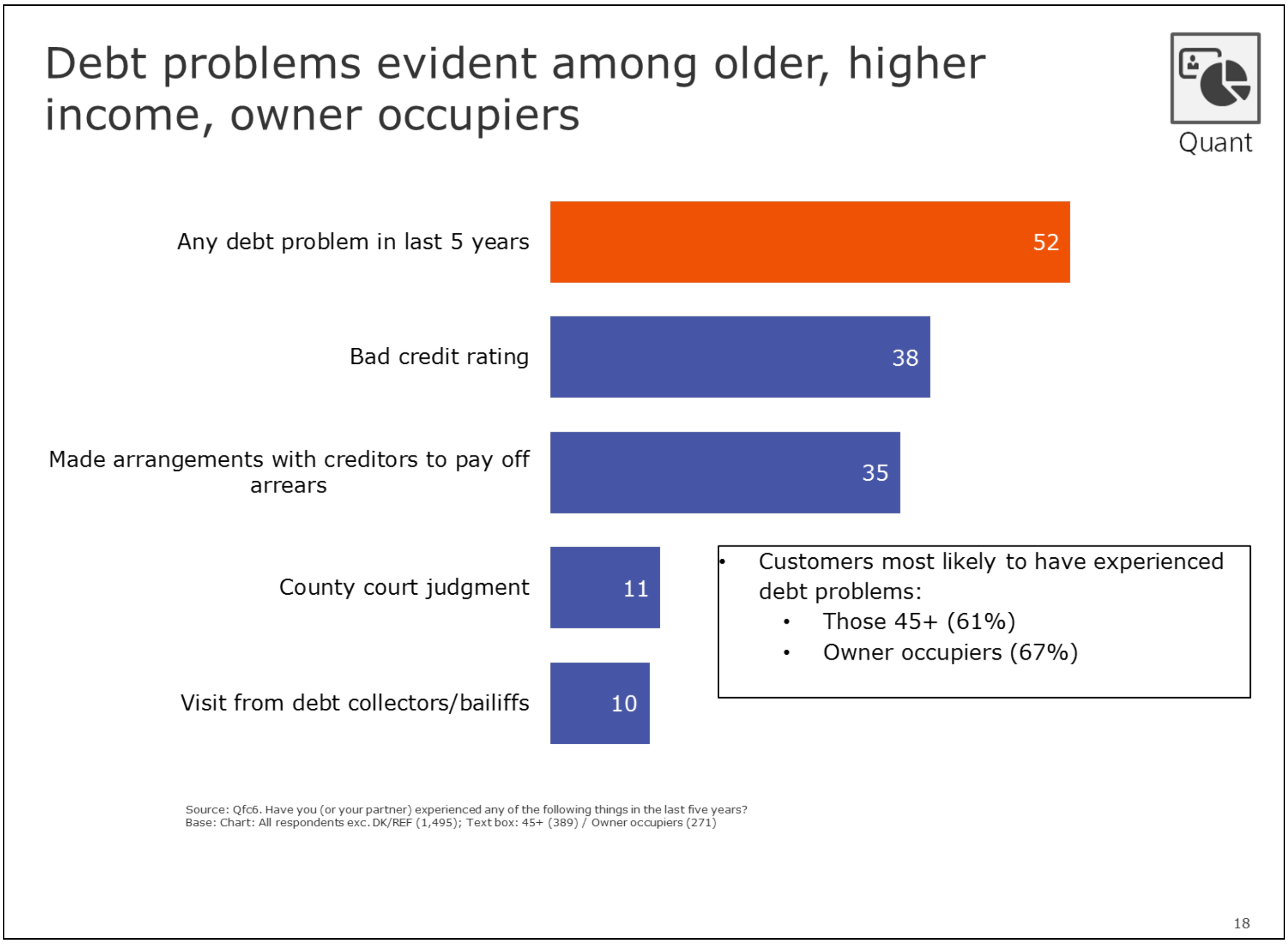
17

The survey asked customers a number of questions which might be indicators of financial stress.

Almost all customers (96%) had a bank or building society account. Over half of customers (56%) with a bank account said they had been overdrawn with their bank or building society in the last 12 months, with around a quarter (27%) having had an unauthorised overdraft.

Three in ten customers (29%) had been turned down for credit in the last 12 months. The most common sources of credit they had been turned down for were a bank or building society loan (14%) or a credit card (11%). It is also worth noting that 18% of customers reported that they had been turned down for a payday loan in the past, although this was not necessarily in the last 12 months.

Just over half of customers (52%) reported a debt problem in the last five years.

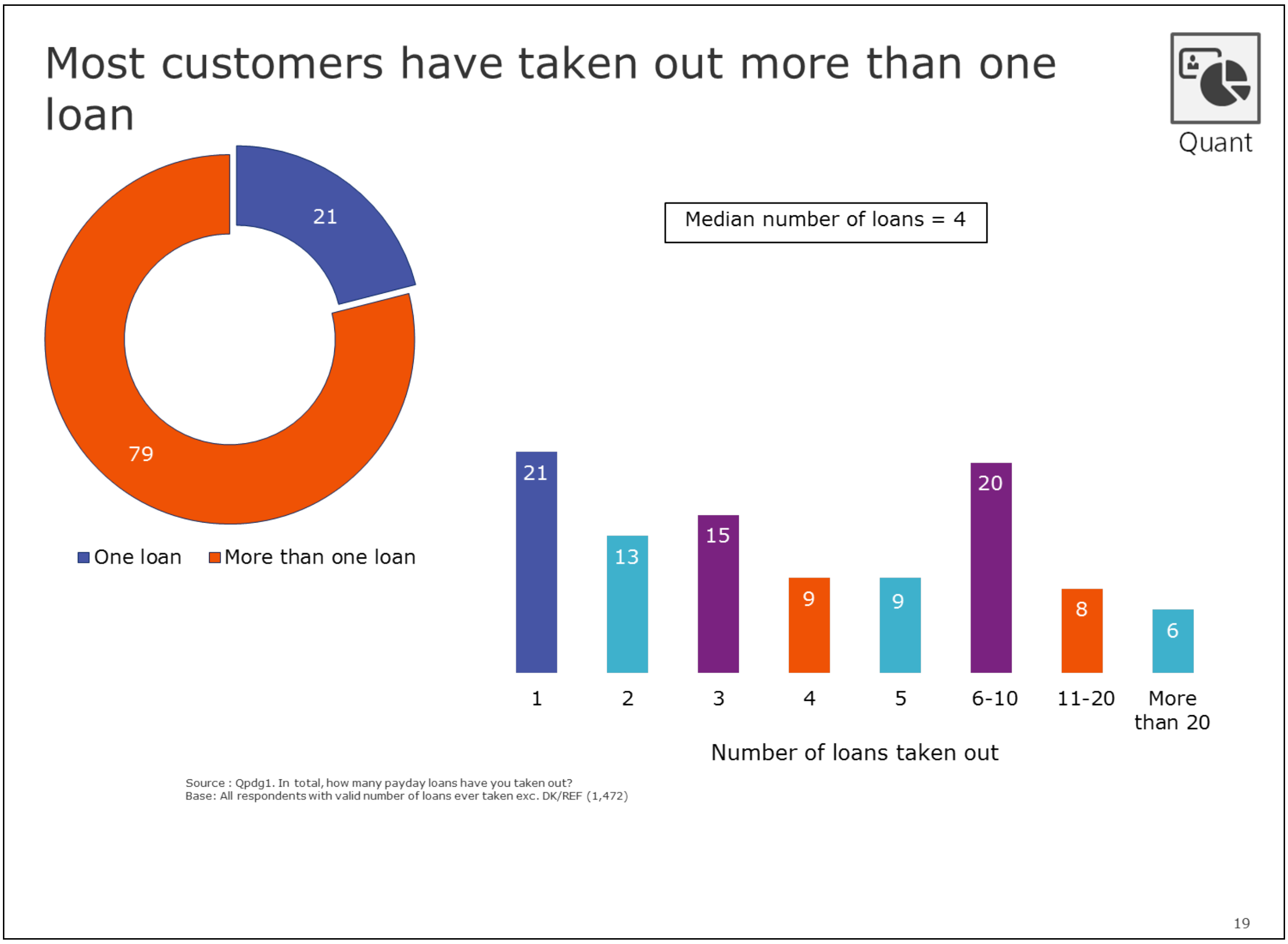


The most common type of debt problems experienced by payday lending customers were receiving a bad credit rating and having to make arrangements (through a debt management company, IVA, etc.) to pay off their debts. Each was reported by more than a third of all customers. Less common sources of debt problems experienced were having county court judgements against them (11%) and having a visit from debt collectors or bailiffs (10%).

While the pattern of payday lending customers who had experienced debt problems did not show significant variation by socio-demographic characteristics it was noticeable that owner-occupiers and those aged 45 or over were more likely to have experienced debt problems than customers as a whole.

5. Borrowing characteristics of payday lending customers

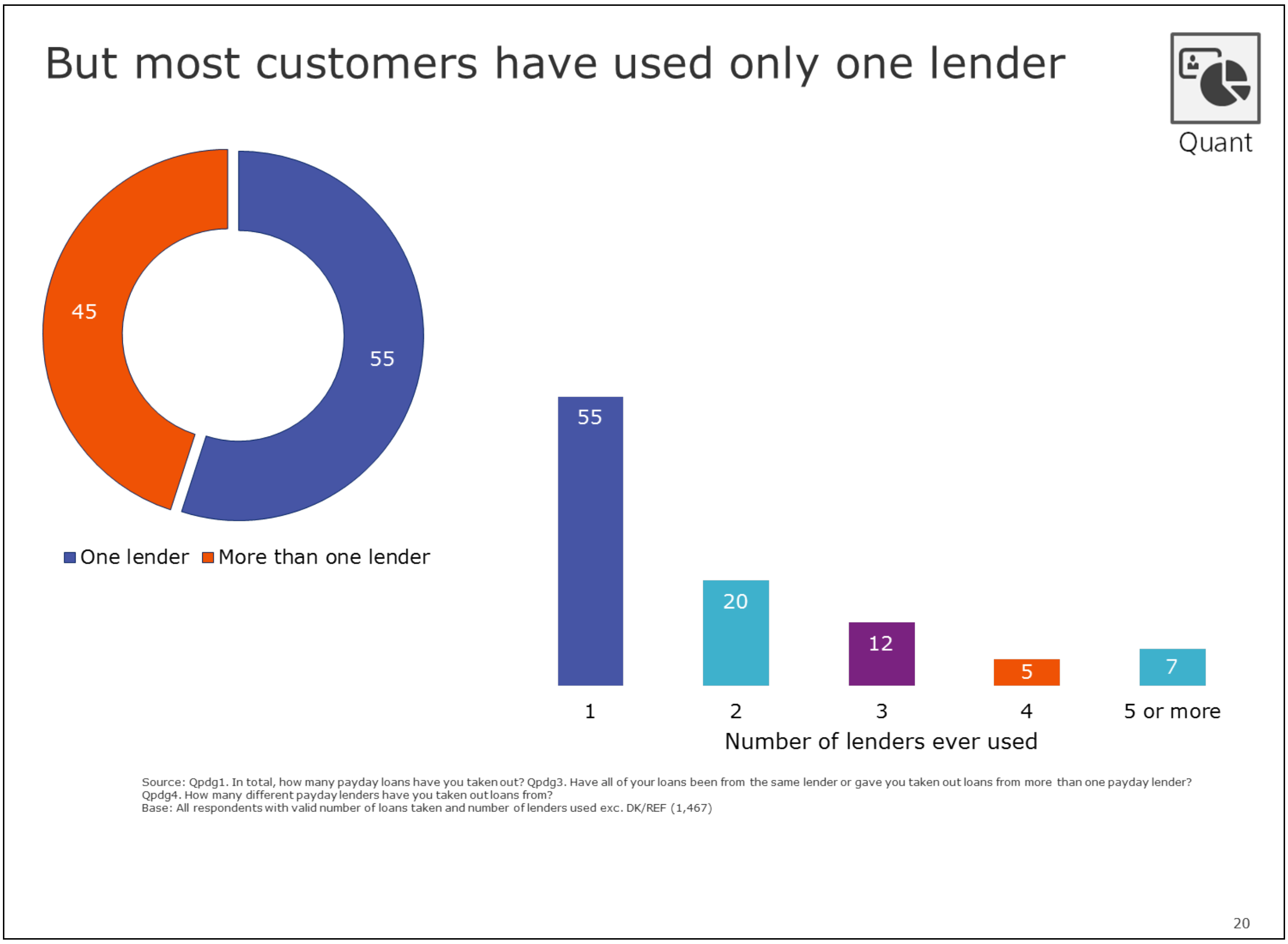
Having examined the socio-demographic and financial characteristics of borrowers we now look at the borrowing characteristics of customers in the survey. In this chapter we examine the number of loans taken out by borrowers, the number of lenders used, the average size of loan taken out by customers and the date when customers first entered the payday loan market.



Most customers interviewed (79%) had taken out more than one loan. Around two-thirds of customers (66%) had taken out three or more loans.

The median number of loans taken out by customers was four.

It should be noted that the sample of customers interviewed includes a mixture of customers who have been in the market for different lengths of time. Some may have taken out their first loan in November 2013 whilst others have had much longer experience. The sample design for the main and contemporaneous parts of the survey will each have a different influence on this.

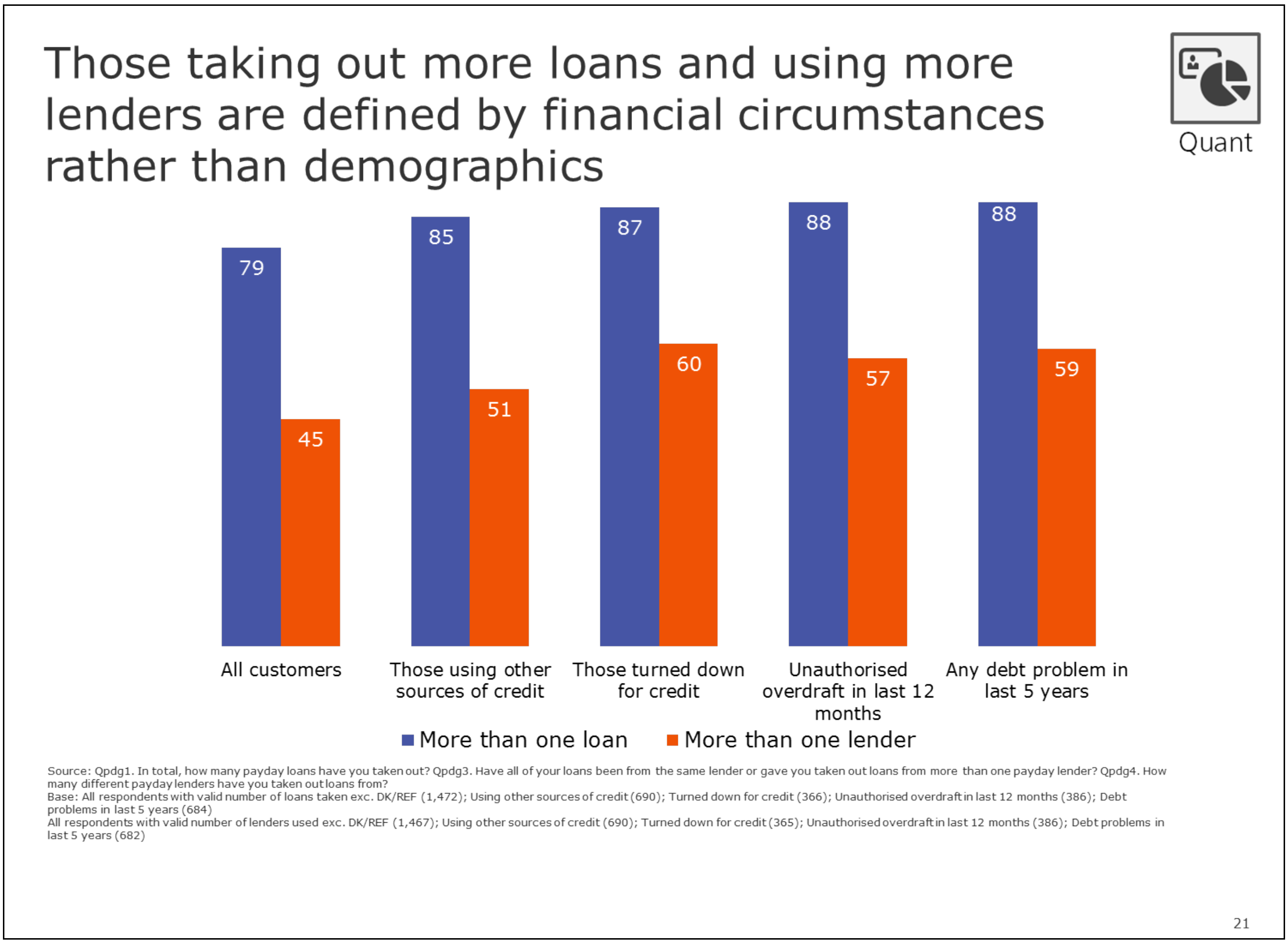


Although most customers had taken out more than one loan, the majority (55%) had only ever taken out a loan through one lender. Around one in five (20%) had taken loans out from two lenders, while a quarter (25%) had used three or more lenders.

Considering both loans and lenders together, the profile of customers in the survey was as follows:

- 21% had only ever taken out one loan through one lender;
- 34% had taken out more than one loan but through only one lender; and
- 45% had taken out more than one loan through more than one lender.

There were not any particularly significant differences across socio-demographic groups in terms of the customers more likely to have taken out more than one loan or to have used more than one lender. Customers who were slightly more likely than the average to have taken out more than one loan included those on a higher income (84%), owner-occupiers (85%), lone parents (83%), and those aged 45 or older (82%). These groups were also slightly more likely than average to have used more than one lender.



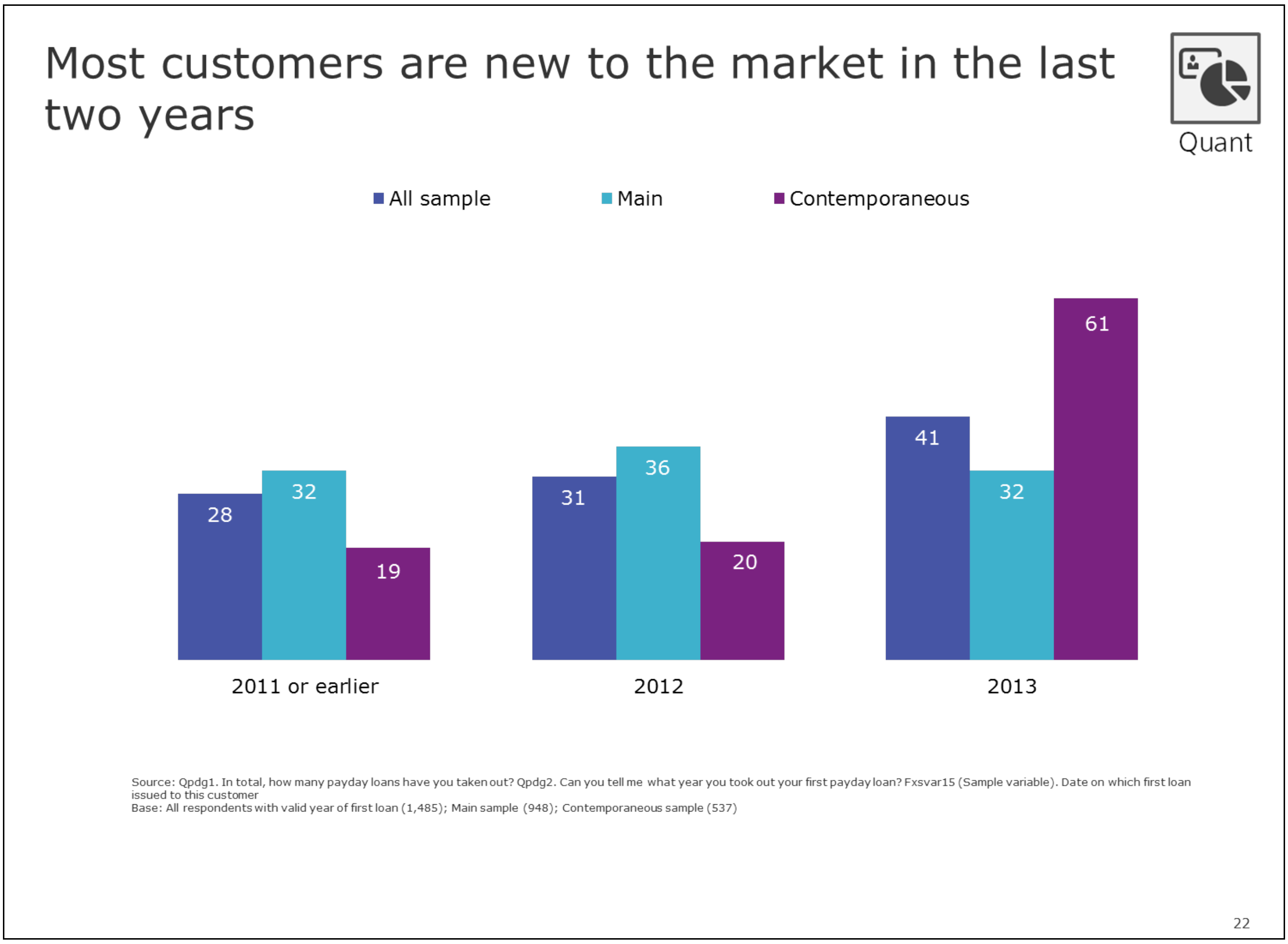
Customers who displayed certain types of financial behaviour, including some indicators of financial stress, were more likely than average to have taken out more than one loan and also to have used more than one lender.

Thus, 85% of payday loan customers who had used non-payday sources of credit in the last 12 months had taken out more than one loan compared with 73% of customers who had not used non-payday sources of credit in this period.

Customers who had been turned down for credit, those who had had an unauthorised overdraft in the last 12 months, and those with a debt problem in the last five years were all more likely than average to have had more than one payday loan and were also more likely than average to have used more than one lender. In fact, customers who had had an unauthorised overdraft or been turned down for credit in the last 12 months and those who had had a debt problem in the last five years had taken out five loans on average compared with a median of four across all customers.

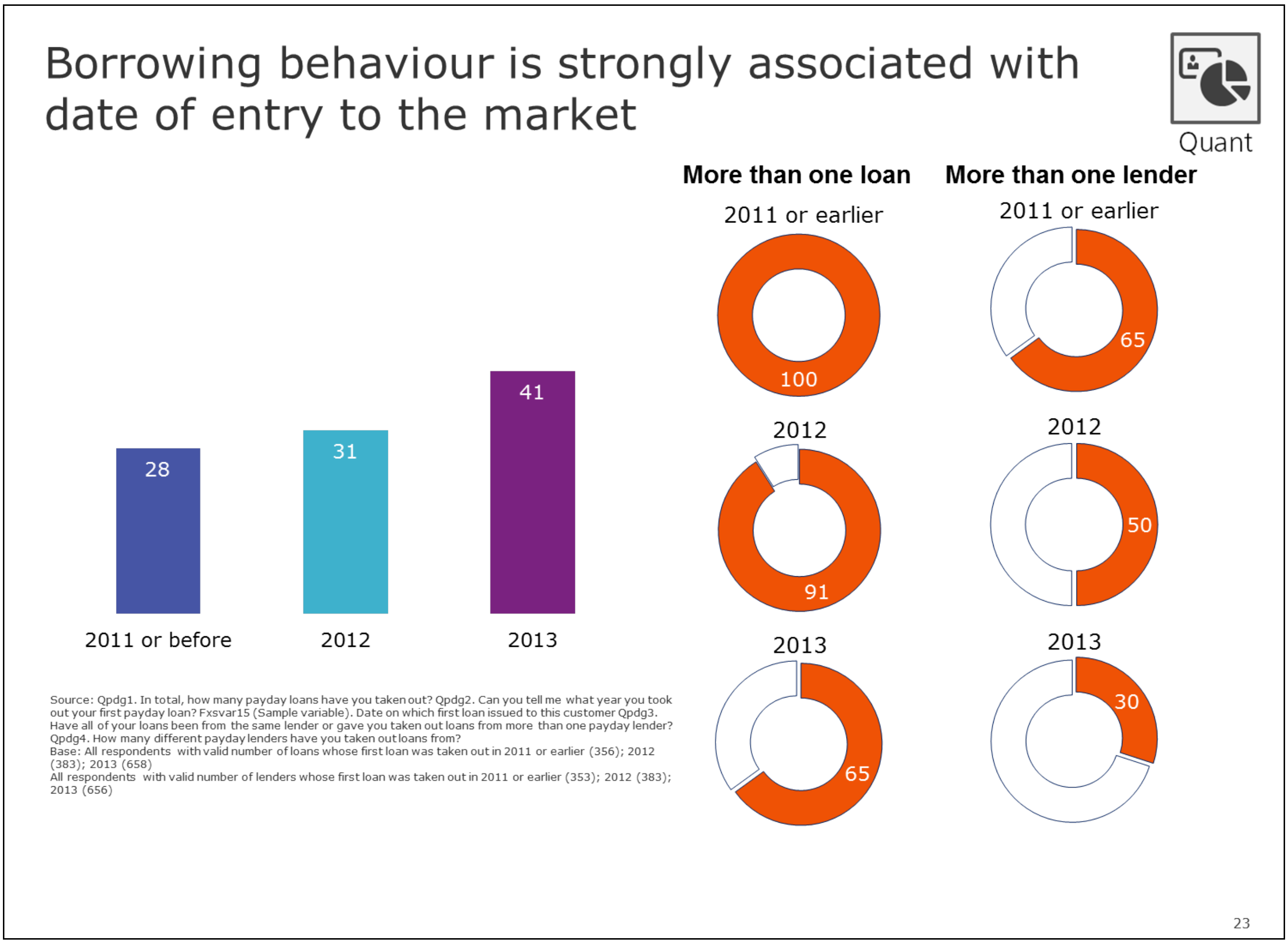
A similar pattern was true for number of lenders used. While the average (median) number of lenders used across all customers was only one, customers with an unauthorised overdraft, who had been turned down for credit in the last year, or who had a debt problem in the last five years had used an average (median) of two lenders.

These findings suggest that people with credit or debt problems were more active in the payday lending market in terms of taking out more loans and using more lenders.



The survey asked customers when they had taken out their first payday loan. Most customers were relatively new to the market with 41% of customers taking out their first loan in 2013, 31% having first entered the market in 2012 and 28% having taken out their first loan in 2011 or earlier.

The nature of the survey design is likely to mean that customers new to the market are slightly over represented even after the data has been weighted. Not surprisingly customers who were part of the contemporaneous sample were more likely to be new to the market. Looking at customers of the three largest online lenders taking loans in October or November 2013 and covered by the contemporaneous survey, 61% took out their first payday loan in 2013, 20% in 2012 and 19% in 2011 or earlier.

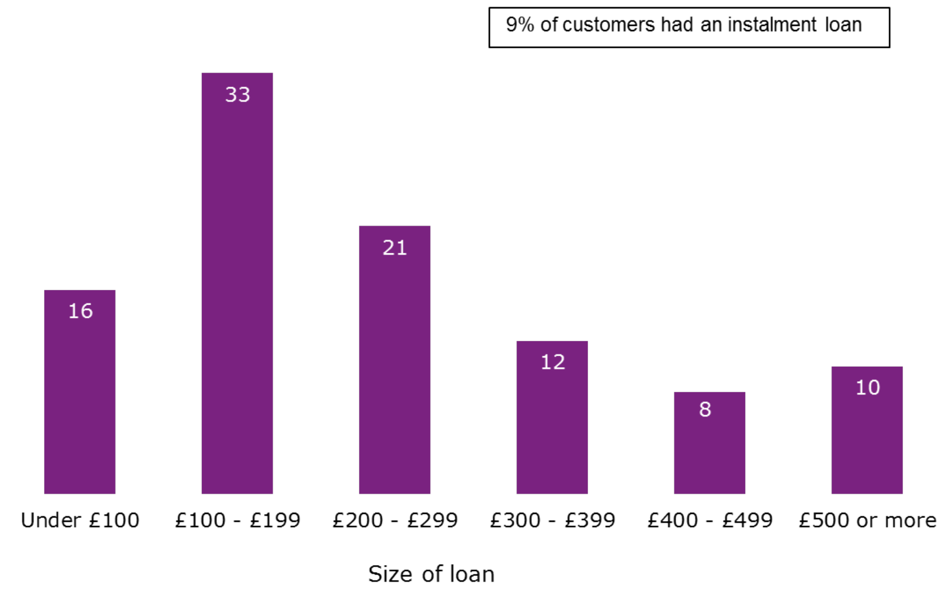


Not surprisingly, activity in the market was related to how long customers had been in the market. Those who had been in the market longer were more likely to have taken out more than one loan and were also more likely to have used more than one lender compared with more recent entrants. However, it is of interest that even among customers who had only recently entered the market in 2013, almost two-thirds (65%) had taken out more than one loan and just under a third (30%) had used more than one lender.

The median number of loans taken out by customers who first entered the market in 2013 was two compared with a median of four loans for customers who first entered the market in 2012, and a median of eight loans among customers who had first entered the market in 2011 or earlier.

Average size of loan taken out was £239

Quant



Source: Fxsvar32 (Sample variable). Loan amount
Base: All respondents with valid loan amount (1,491)

24

Data on the size of loan taken out comes from the transactional data supplied by the lenders rather being asked of customers in the survey. In all cases the loan amount refers to the specific 'sampled loan' which customers were asked about in the survey.

The average size of loan taken out by customers was £239[13]. Just under half of all customers (49%) had a loan of under £200, while half (51%) had a loan of £200 or more. One in ten customers had had a loan of £500 or more.

Just under one in ten customers (9%) reported that they had taken out an instalment loan[14]. The average size of instalment loans was greater than average at £277.

[13] The median loan value was exactly £200.
[14] The type of loan was taken from the lenders own customer data and was not asked of survey respondents.

Amount borrowed showed some variation around the £239 average

Quant

Those with the largest average loans:

- High income (>£36k) - £312
- Owner occupied - £307
- Aged 45+ - £273
- Full time workers - £262

Those with the smallest average loans:

- Unemployed - £163
- 18-24 year olds - £169
- Lone parents - £179
- Low income (<18k) - £189

Source: Fxsvar32 (Sample variable). Loan amount
Base: All respondents with valid loan amount (1,491); Highest income (238); Owners (258); Aged 45+ (387); Full time workers (925); Unemployed (117); 18-24 year olds (326); Lone parents (124); Low income (399)

25

The average amount borrowed showed some variation by the socio-demographic characteristics of customers. Thus, customers with high income, those aged 45 or over, owner-occupiers and those in full-time work had, on average, slightly larger loans while those who were unemployed, aged 18-24, lone parents, and on low income had slightly lower value loans on average.

And some variation by borrowing behaviour

Quant

Characteristic	Average amount	Characteristic	Average amount
One lender	£217	More than one lender	£271
One loan	£200	More than one loan	£252
2013	£216	2011 or earlier	£261

Source: Fxsvar32 (Sample variable). Loan amount
Base: All respondents with valid loan amount (1,491) and; 1 lender (915); 2+ lenders (489); 1 loan (375); 2+ loans (1,034); 2013 (657); 2011 or earlier (362)

26

There was also some variation in average size of loan by market activity. The average loan value among customers with one loan was lower compared with the average among customers who had taken out more than one loan (£200 and £252 respectively). Similarly, customers who had first entered the market in 2013 had a lower average loan value compared with customers who had entered the market in 2011 or earlier (£216 and £261 respectively).

These findings may suggest that as customers become more active in the market – either through having more loans, using more lenders, or simply being in the market longer – the average size of loan they take out increases over time. The qualitative research found that customers who took out repeat loans with the same lender were often offered higher amounts compared with their first loan, which may also partly explain the results presented here.

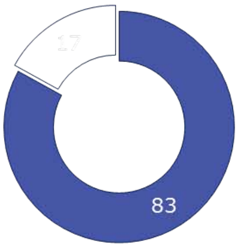
6. Comparing the online and high street sectors

An objective of the survey was to compare the online and high street sectors and to assess the extent to which these sectors overlap or operate separately from each other. In this chapter we examine both the relative size of the online and high street sectors, the overlap between the two sectors, and the characteristics of customers who use online lenders against customers who use high street lenders.

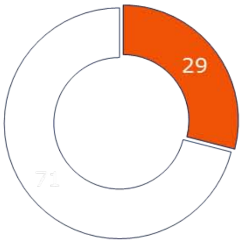
Payday lending market is dominated by online channels

Quant

Ever taken out an online loan



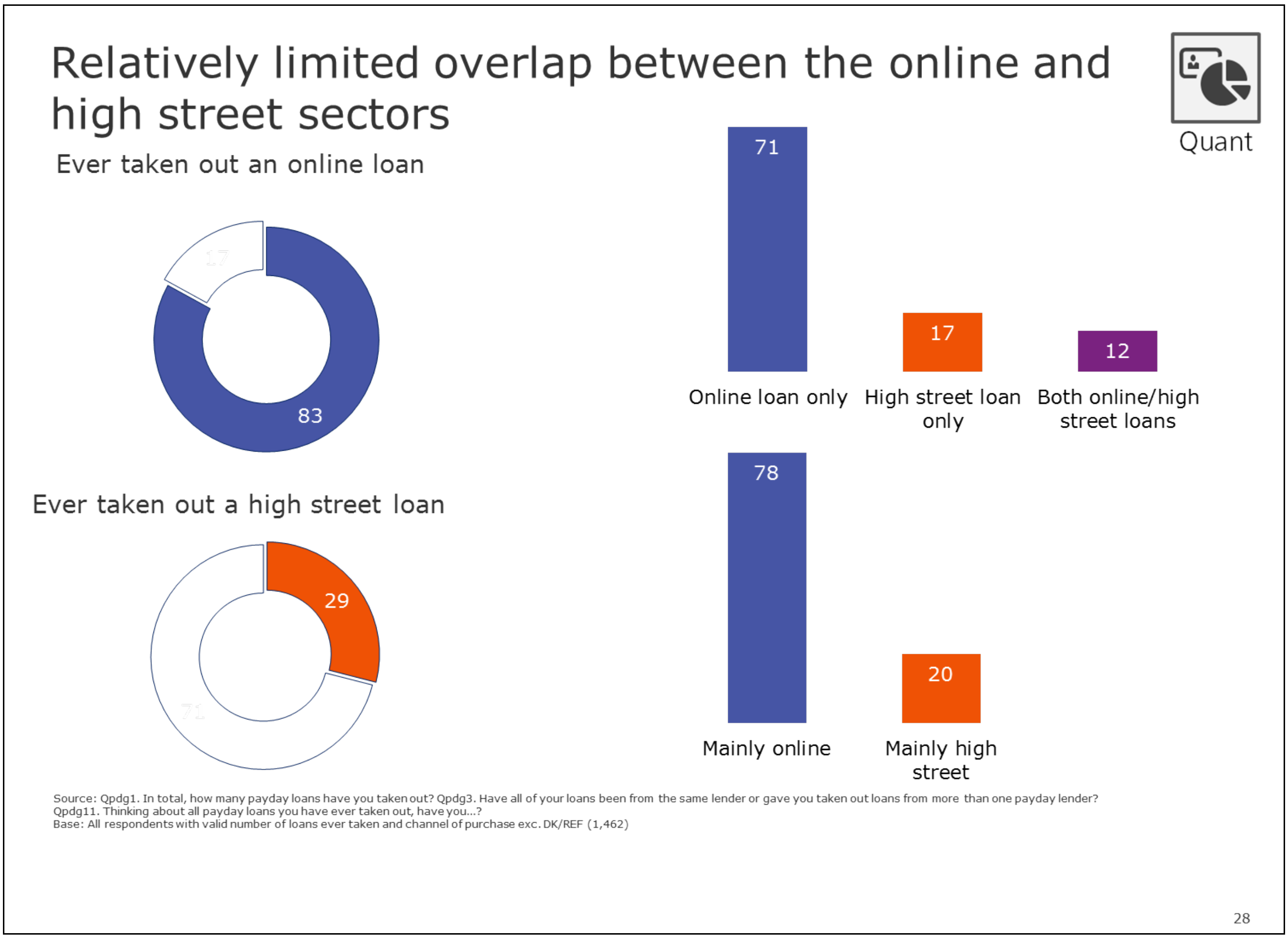
Ever taken out a high street loan



Source: Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or gave you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...?
Base: All respondents with valid number of loans ever taken and channel of purchase exc. DK/REF (1,462)

27

Payday lending customers are more likely to take out loans with online lenders than high street lenders. Over eight in ten customers (83%) had ever used an online lender compared with three in ten customers (29%) who had ever used a high street lender. These figures (which add up to more than 100%) indicate a degree of overlap between online and high street lenders with some customers having taken out both online and high street loans.



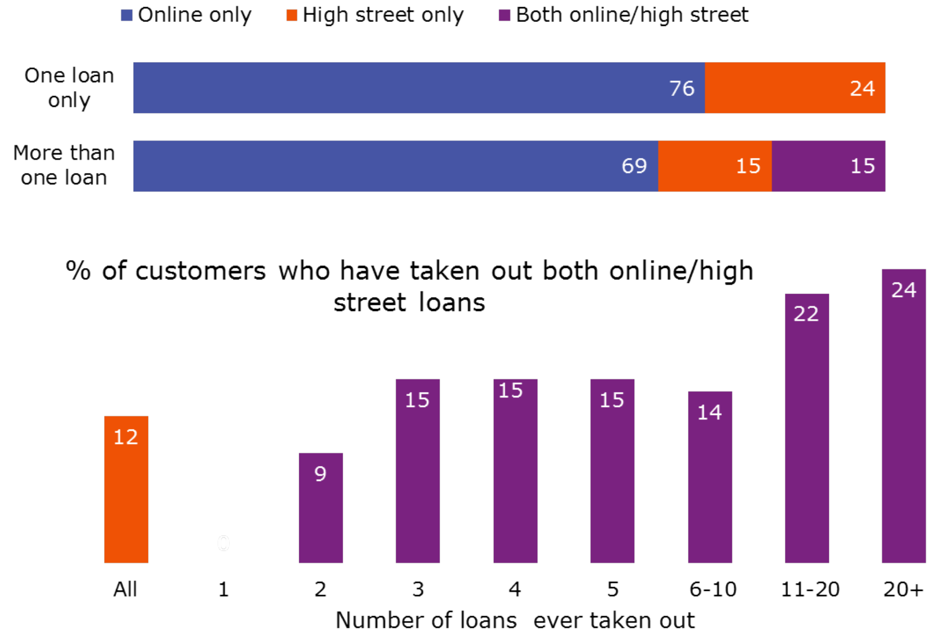
Dividing payday loan customers into mutually exclusive categories shows that seven in ten customers (71%) had used online lenders only, 17% had used high street lenders only, while one in eight customers (12%) had used both online and high street lenders.

Customers who had taken out both online and high street loans were asked which channel they mainly used. This enabled all customers to be categorised into those only or mainly using online lenders or only or mainly using high street lenders. From this categorisation around eight in ten customers (78%) only or mainly used online lenders, while two in ten customers (20%) only or mainly used high street lenders.

A very small number of customers (2%) who used both online and high street lenders were unable to say which they considered their main source of loans to be.

Those who have taken out more loans are more likely to have used both online and high street

Quant



Source: Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan
Base: All respondents with a valid channel of purchase (1,472); who have taken out one loan only (387); More than one loan (1,085); 2 loans (178); 3 loans (213); 4 loans (129); 5 loans (115); 6-10 loans (281); 11-20 loans (108); 20+ loans (61)

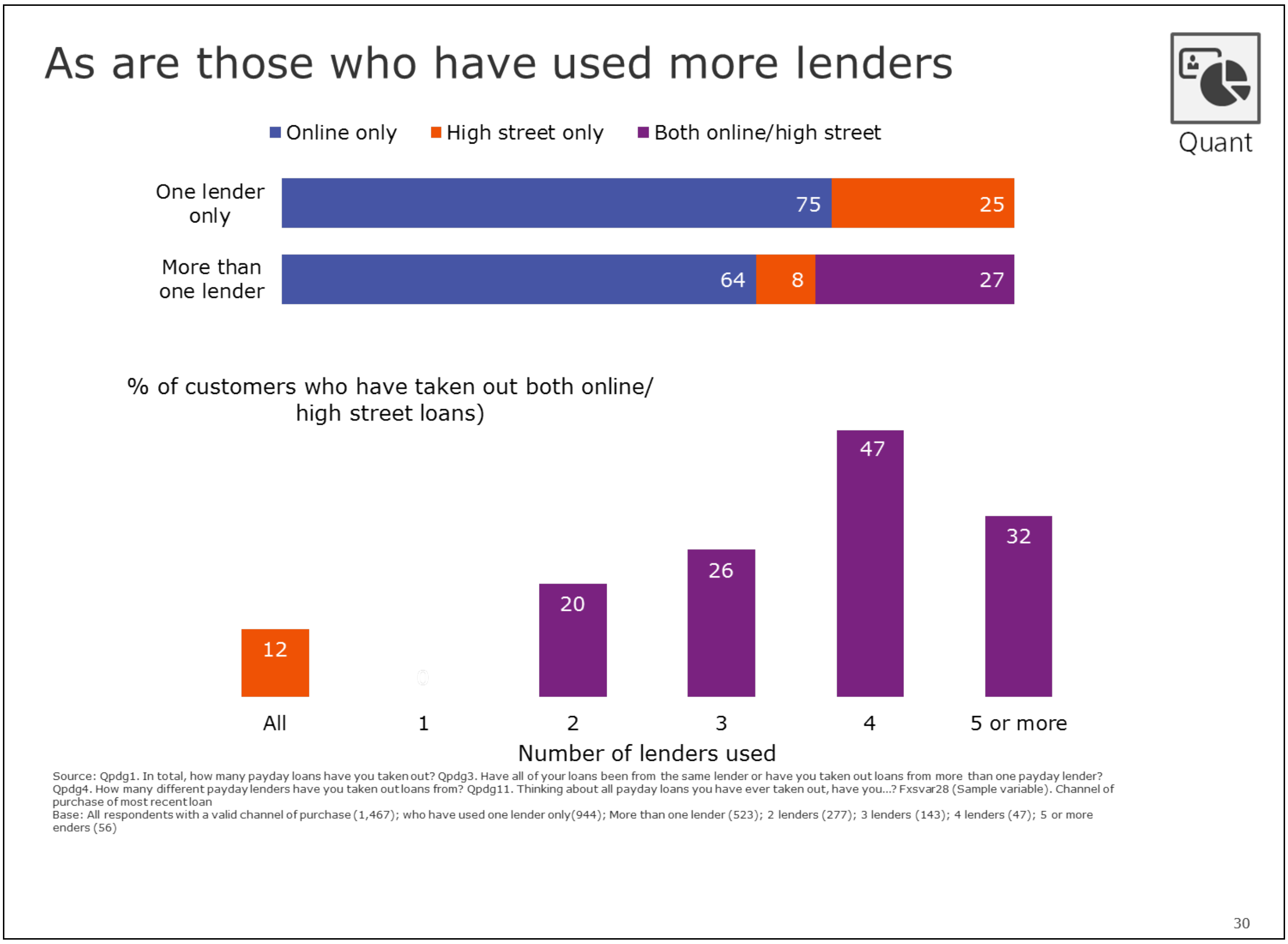
29

We have already seen that around one in five customers (21%) had only ever taken out one loan and therefore can only ever have used either an online or high street lender. It is therefore useful to look at customers who have only ever taken out one loan and those who have taken out more than one loan separately.

Just over three-quarters of customers who had only ever taken out one loan had done so through an online lender compared with a quarter (24%) who had taken out the loan on the high street. Among customers who had taken out more than one loan, around seven in ten (69%) had only ever used an online lender, 15% had only ever used a high street lender, and the same proportion (15%) had taken out both online and high street loans.

Perhaps not surprisingly the more loans that a customer had taken out the less likely they were to have used only one lending channel. Thus, while 12% of all customers had used both online and high street lenders this was true of around 15% of customers who had taken out between three and ten loans, and between a fifth and a quarter of customers who had taken out more than 10 loans.

This does, of course, mean that even among customers who have taken out 10 or more loans the majority of customers – more than three-quarters – have used only one channel, either online or high street lenders.

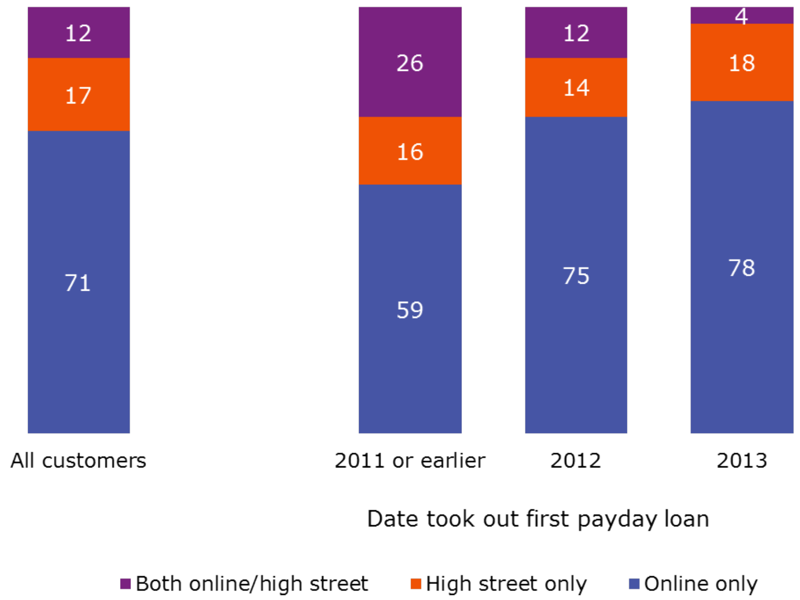


There is a similar association between the number of lenders used and types of channel. Among customers who had only ever used one lender, three-quarters (75%) had taken out a loan through an online lender compared with a quarter (25%) who had taken out loans through a high street lender. For customers who had used more than one lender, 64% had used only online lenders, eight per cent had used only high street lenders, while just over a quarter (27%) had taken out loans with both online and high street lenders.

Customers who had used more lenders were more likely to have taken out both online and high street loans. Thus, almost half (47%) of all customers who had used four lenders had used both online and high street lenders in the past.

And those who have been in the market longer

Quant



Source: Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg4. How many different payday lenders have you taken out loans from? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan
Base: All respondents with a valid channel of purchase (1,462); whose first loan was taken out in 2011 or earlier (352); 2012 (381); or 2013 (654)

31

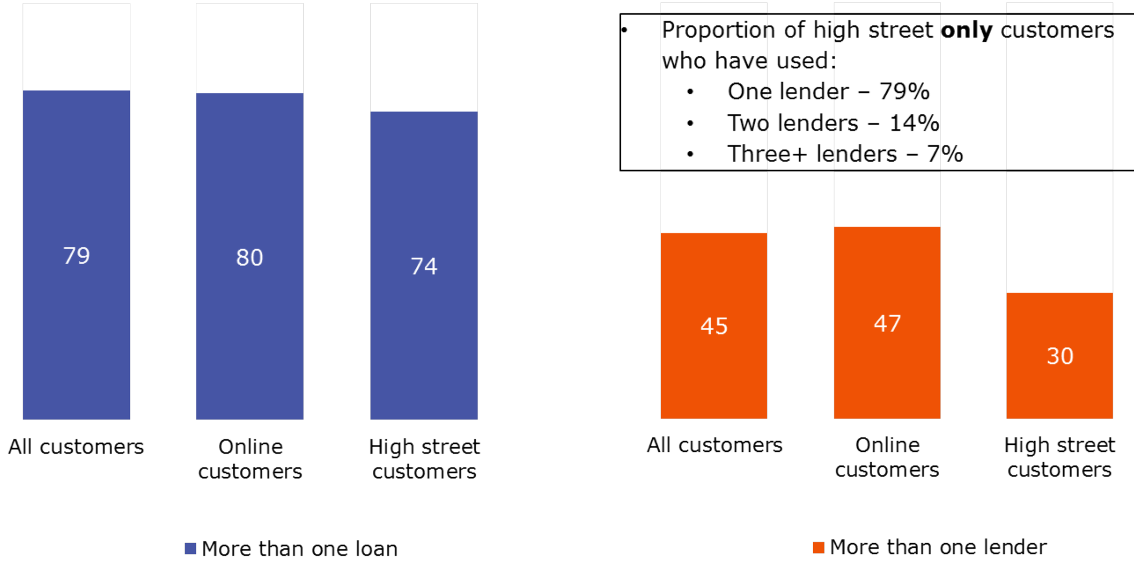
We have already seen that activity in the market in terms of number of loans taken out and number of lenders used is associated with length of time customers have been in the market. Perhaps not surprisingly, therefore, customers who had been in the market longer were more likely to have used both online and high street lenders compared with newer customers. Thus, for example, 26% of customers who first took out a loan in 2011 or earlier had used both online and high street lenders compared with only four per cent of customers who first took out a loan in 2013.

The proportion of customers who had only ever taken out an online loan was higher among newer customers – 78% of customers who entered the market in 2013 had only ever used an online lender compared with 59% of customers who entered the market in 2011 or earlier. While this may indicate the growth of the online lending market over the last couple of years it is also worth noting that the proportion of customers using only high street lenders is relatively consistent – so 18% of customers who first took out a loan in 2013 had only ever used a high street lender compared with 16% of customers who had first taken out a loan in 2011 or earlier. This suggests that while the high street is clearly the smaller sector within the overall payday lending market it is still important for a minority of customers, including those who have entered the market very recently.

High street customers slightly less likely to have multiple loans and to have used multiple lenders than online customers

Quant

- Proportion of high street **only** customers who have used:
  - One lender – 79%
  - Two lenders – 14%
  - Three+ lenders – 7%



Source: Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid number of loans (1,462); who mainly use online lenders (1008); mainly use high street lenders (423)
All respondents with a valid number of lenders (1,461); who mainly use online lenders (1007); mainly use high street lenders (423)

32

One question of interest is whether online and high street customers have different sorts of activity in the market. In the following analysis customers who had used both channels were classified as being mainly online or high street to allow a simple comparison between the two channels. It should be noted that given the predominance of online channels within the market it is not surprising that the profile of online customers is fairly similar to the profile of all customers.

Online customers had, on average, taken out more loans compared with high street customers. Eight in ten customers (80%) who only ever or mainly used online lenders had taken out more than one loan compared with 74% of customers who only ever or mainly used high street lenders. The median number of loans taken out by online customers was four compared with a median of three loans for high street customers.

Online customers were significantly more likely to have used more than one lender compared with high street customers (47% and 30% respectively). In fact, only 20% of customers who had used only (rather than mainly) high street lenders had used more than one lender, and only 7% had used more than two lenders.

High street customers take out lower value loans on average compared to online customers

Quant

Source: Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from? Fxsvar15 (Sample variable). Date on which first loan issued to this customer
Base: All respondents with a valid loan amount and main channel of purchase (1,462); who mainly use online lenders (1,008); mainly use high street lenders (423)

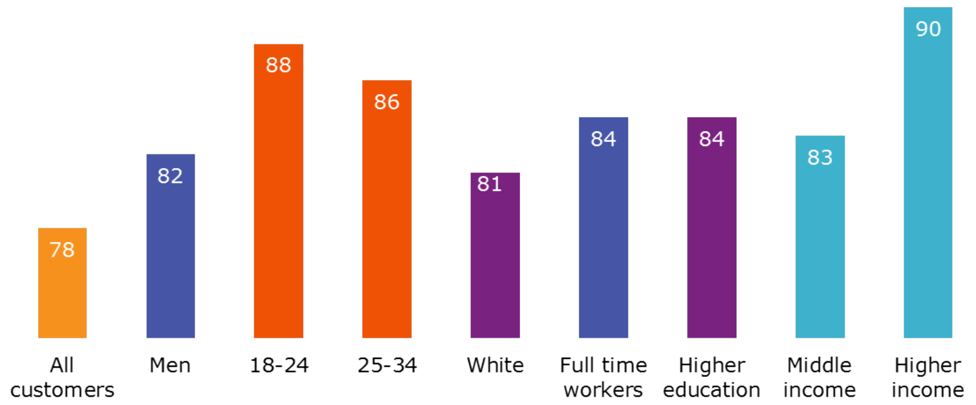
33

The average size of the sampled loan taken out by online customers was slightly higher than for high street customers. While 50% of customers who had only ever or mainly used online lenders had taken out a loan of £200 or more this was true of only 44% of high street customers. The average size of loan among online customers was £251 compared with £204 among high street customers.

Overall there is evidence that customers using online lenders are more likely than customers using high street lenders to have taken out more than one loan, to have used more than one lender, and to have, on average, a larger loan. The next part of this chapter looks at whether online and high street customers have similar socio-demographic profiles since this could be one factor explaining the difference in loan behaviour.

While 8 in 10 customers used online lenders, certain groups were over represented in this sector

Quant



Source: Qdgen. ENTER GENDER. Qdage. Age. Qdeth. Can I ask which best describes you? Qdwork. And what is your current working status? Qdedu. And what is your highest qualification? Qdinc. Please could you tell me your household's total income, including yourself?
Base: All respondents with a valid channel of purchase (1,462); Men (816); 18-24 (313); 25-34 (398); White (1,146); Full time workers (925); Higher education (433); Middle income (352); Higher income (244)

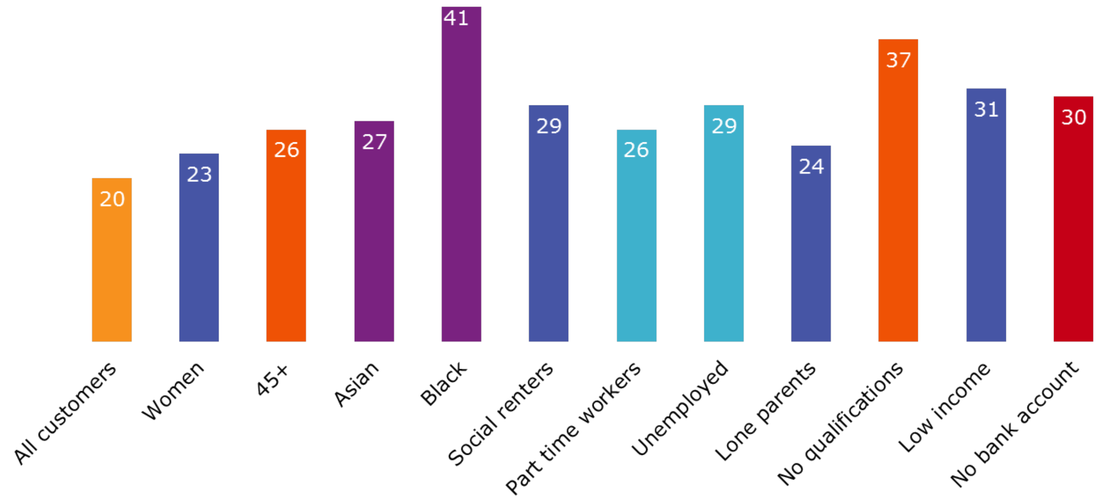
34

While almost eight in ten customers had only ever or mainly used online lenders, certain types of customers were over represented amongst online customers.

Although overall just less than eight in ten customers only ever or mainly used online lenders this was significantly higher among certain types of customers. Thus, a higher proportion of men, younger customers, White customers, those in full-time work, those educated to degree level or above, and those on middle or higher income only ever or mainly used online lenders.

Other groups were over represented in the high street sector

Quant



Source: Qdgen. ENTER GENDER. Qdage. Age. Qdeth. Can I ask which best describes you? Qdten. Can I just check, do you own or rent your accommodation? Qdwork. And what is your current working status? Qadult. How many adults currently live in your household, including yourself? Qchild. And how many children aged under 16 live with you? Qdedu. And what is your highest qualification? Qdinc. Please could you tell me your household's total income, including yourself? Qfc1. Do you have a bank account that is provided by a bank, building society, or credit union, either in your own name or joint names?
Base: All respondents with a valid channel of purchase (1,462); Women (585); 45+(373); Asian (44); Black (118); Social renters (389); Part time workers (198); Unemployed (118); Lone parents (119); No qualifications (158); Low income (394); No bank account (54)

35

By contrast while overall two in ten customers only ever or mainly used high street lenders, a significantly higher proportion of women, older customers, customers from Black and Minority Ethnic groups, social renters, those in part-time work or unemployed, lone parents, those with no qualifications, and those on low income used high street lenders.

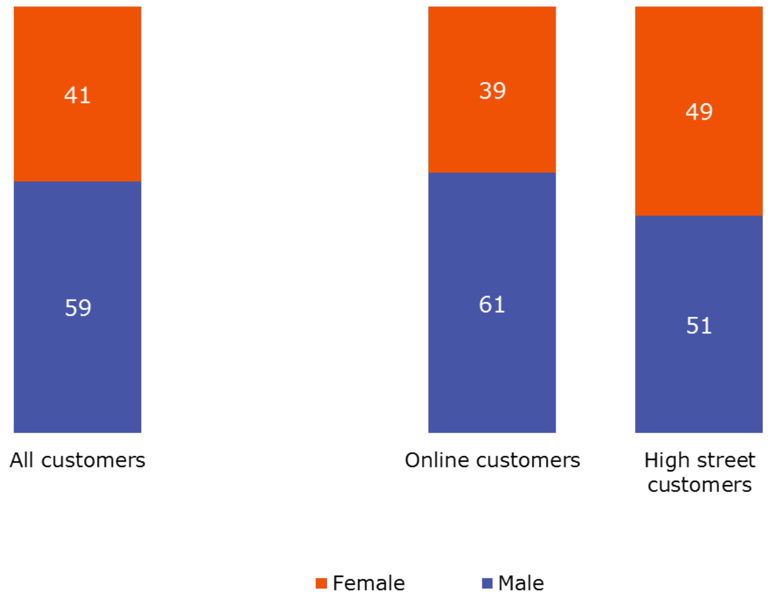
Although only a small proportion of payday lending customers (4%) had no bank account, these customers were more likely to use high street lenders rather than online lenders.

The next few charts show the detailed profile of online customers and high street customers to illustrate how the customer profile of each sector differs. Only very noticeable differences are commented on.

Given the differences in the socio-demographic profile of customers using online and high street lenders and given the relatively small proportion of customers who use both lender channels (some of which is driven by necessity rather than choice, as discussed later in the report) this does suggest that, to some extent, the online and high street sectors are catering for different customer bases - though there is overlap between the two.

Profile of online and high street sectors by sex

Quant

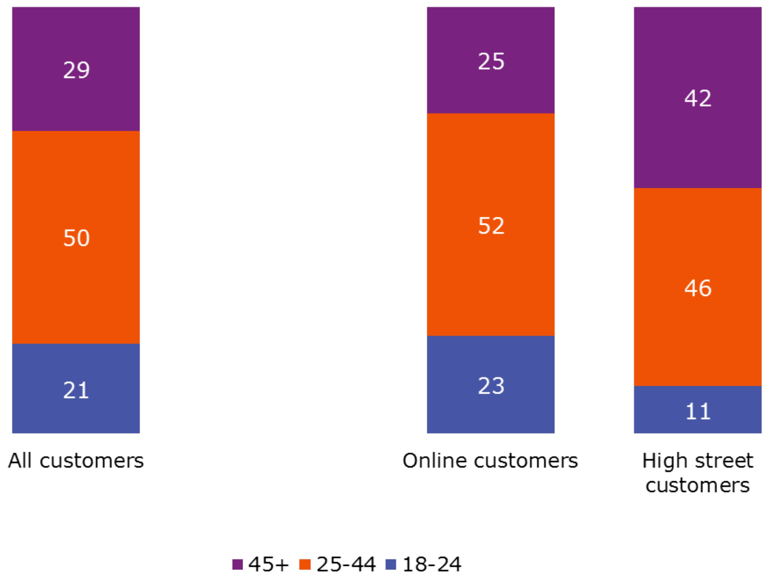


Source: Qdgen. ENTER GENDER. Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid gender (1,483); Online customers (971); High street customers (400)

36

Profile of online and high street sectors by age

Quant

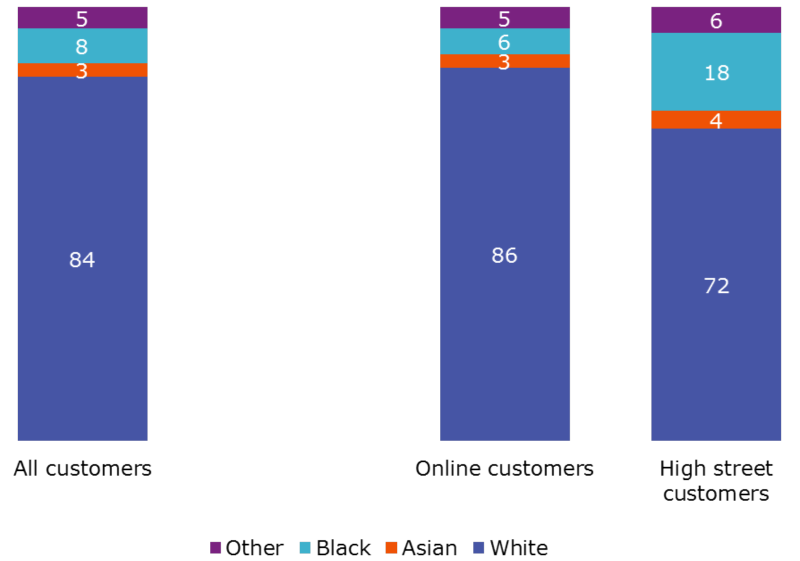


Source: Qdage. Age. Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid age (1,482); Online customers (991); High street customers (370)

37

Profile of online and high street sectors by ethnicity

Quant

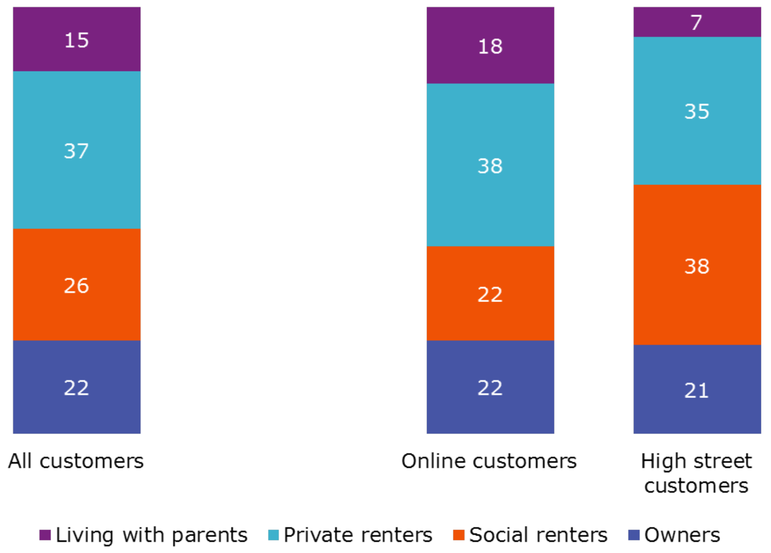


Source: Qdeth. Can I ask which of these best describes you? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid ethnicity (1,464); Online customers (960); High street customers (396)

38

Profile of online and high street sectors by accommodation type

Quant



Source: Qdten. Can I just check, do you own or rent your accommodation? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid accommodation type (1,439); Online customers (944); High street customers (388)

39

Profile of online and high street sectors by economic status

Quant

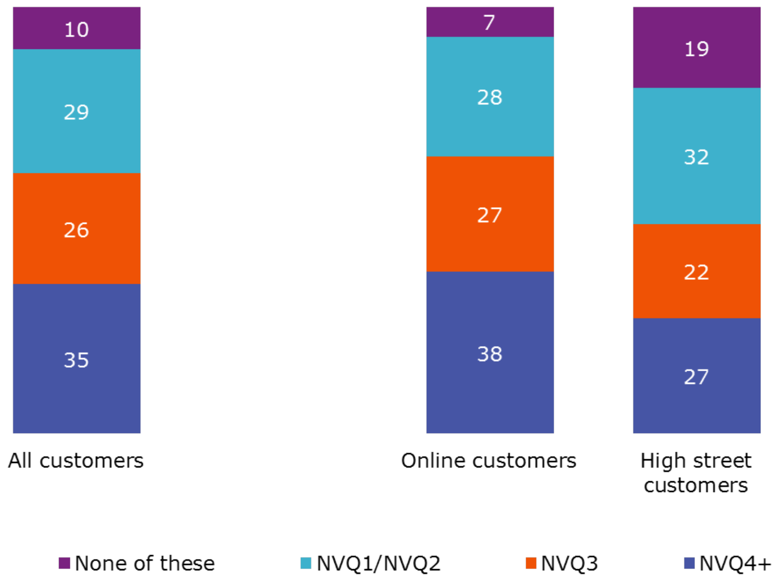
Source: Qdwork. And what is your current working status? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid working status (1,468); Online customers (966); High street customers (396)

40

High street customers were more than twice as likely as online customers not to be in work (29% and 13% respectively). By contrast online customers were significantly more likely than high street customers to be in full-time work (73% and 52% respectively).

Profile of online and high street sectors by qualifications

Quant



Source: Qeduc. And what is your highest qualification? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid highest education (1,421) and main channel of purchase; Online customers (939); High street customers (379)

41

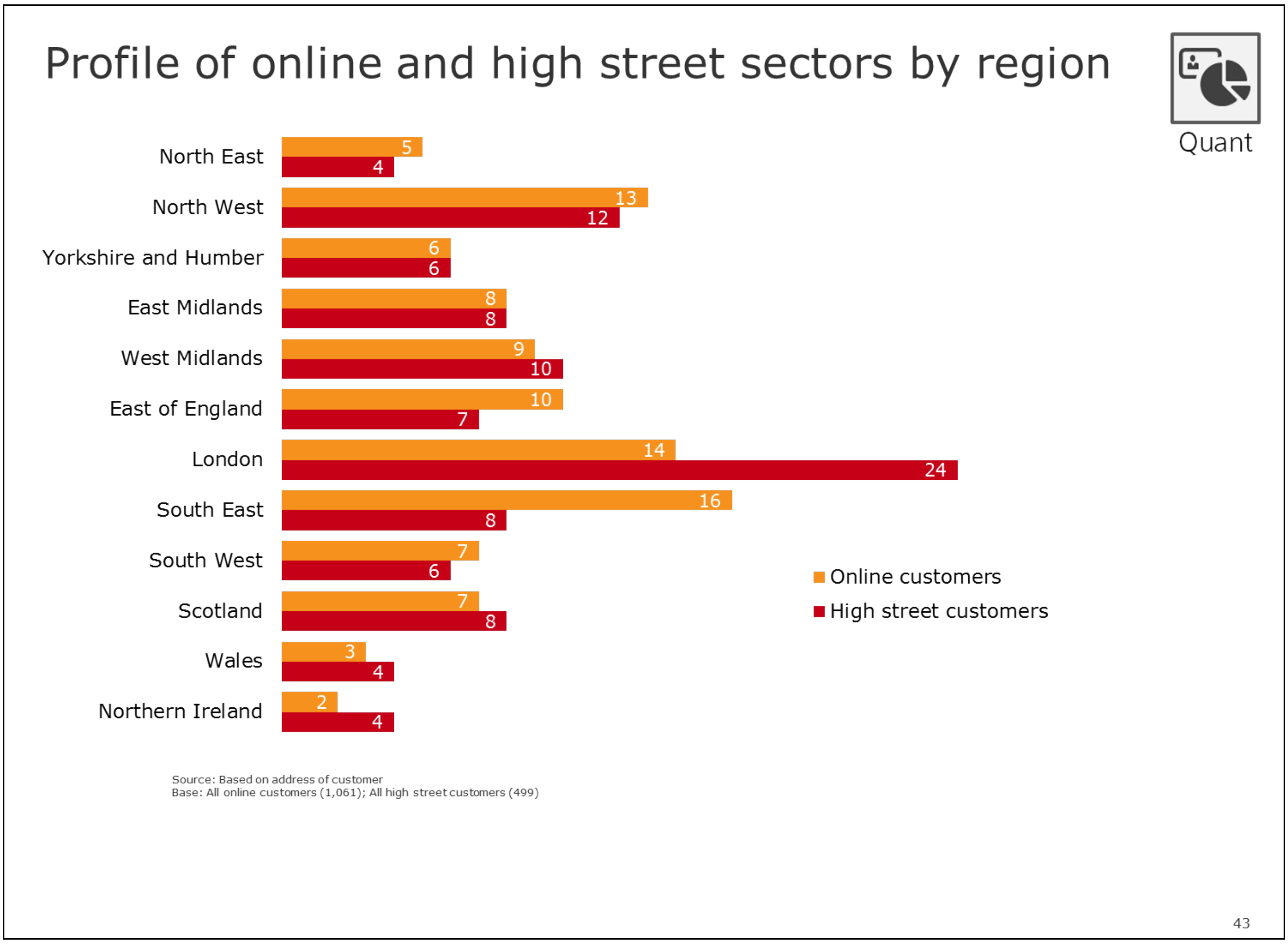
Profile of online and high street sectors by income

Quant

Source: Qdinc. Please could you tell me your household's total income, after tax and any other deductions? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents with a valid income value (1,031); Online customers (688); High street customers (277)

42

The income profiles of online and high street customers were notably different. High street customers were twice as likely as online customers to have a net household income of less than £18,000 per annum (60% and 30% respectively), while online customers were two and a half times more likely to have a net household income of more than £36,000 per annum than high street customers (32% and 12% respectively).



Although the geographic distribution of online and high street customers was broadly similar in most regions there were two noticeable differences. First, high street customers were much more concentrated in London than online customers (24% of high street customers lived in London compared with 14% of online customers). Second, this pattern was reversed in the South East which accounted for 16% of online customers compared but only eight per cent of high street customers.

Profile of online and high street sectors by ACORN category

Quant

Source: Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents (1,560) with a valid main channel of purchase; Online customers (1,008); High street customers (423)

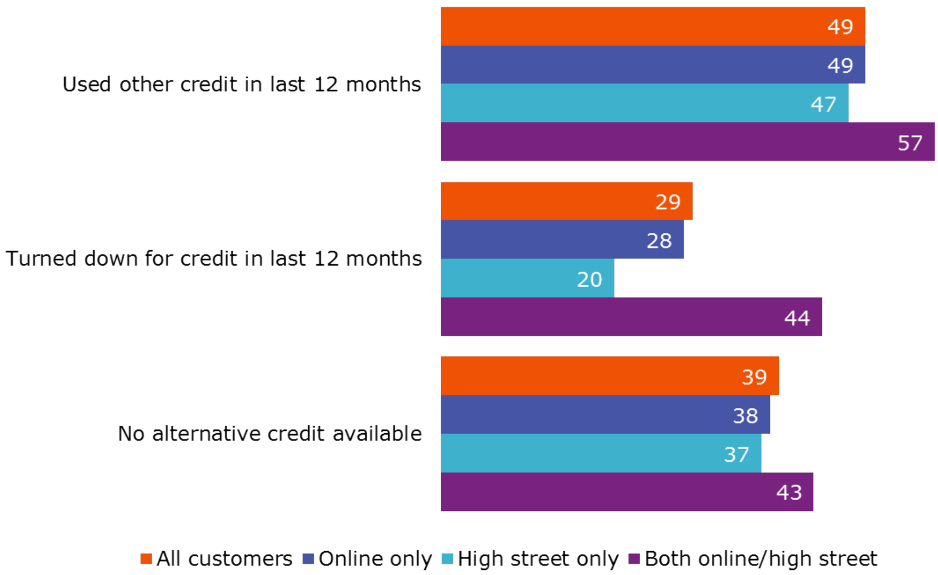
44

Online and high street customers are also concentrated in different types of area, with high street customers generally being over-represented in more deprived, financially stretched areas of the country. Thus, based on ACORN area types, 40% of high street customers lived in areas of ‘urban adversity’ compared with 29% of online customers. At the other end of the scale online customers were more than twice as likely as high street customers to live in ‘affluent achiever’ areas (9% and 4% respectively).

This geographic distribution of online and high street customers is broadly consistent with the socio-demographic profile of the two customer bases we have already seen.

Customers who have used both online and high street channels had different credit profiles

Quant



Source: Qfca1. Which, if any, of the following types of credit have you had in the last 12 months? Qfca2. And have you been turned down for any types of credit in the last 12 months? Qpdsb3. Now please think about any other options that you had instead of taking out a payday loan. I'm interested in whether you feel you could have borrowed the money in a different way. We want to know whether you could have used each option, regardless of whether you actually would have considered this. Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents exc. DK/REF – Used other credit (1,517); Turned down for credit (1,496); No alternative credit (1,560); Online customers (909); High street customers (363); Both online/ high street (161)

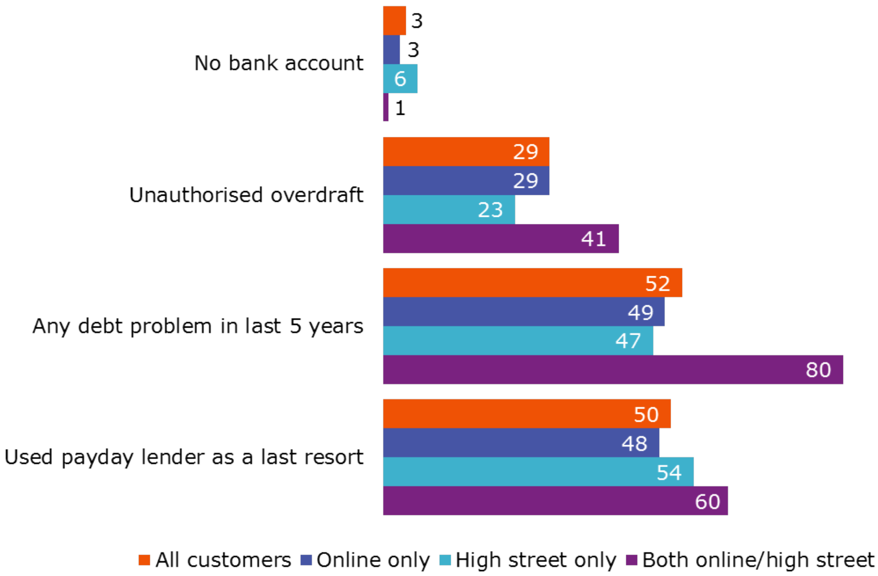
45

Unlike socio-demographic profiles, the credit and debt profile of online and high street customers was very similar. In fact, it was customers who had used <u>both</u> online and high street lenders who appeared to have a slightly different profile.

Thus, customers who had used both online and high street lenders were more likely than customers who had used only one type of lender to have also used non-payday loan credit (57%) and to have been turned down for credit in the past 12 months (44%). They were also more likely than other customers to believe that no alternative sources of credit were available to them other than payday loans (43%).

And are different in some other financial respects

Quant



Source: Qfc1. Do you have a bank account that is provided by a bank, building society or credit union, either in your own name or joint names? Qfc3. Have you gone over your agreed overdraft limit on nay of your accounts in the last 12 months? Qfc6. Have you (or your partner) experienced any of the following things in the last five years? Qpdsb10. Now consider a scale of 1-5, where 1 means that taking out a payday loan was your first choice for providing the money you needed and 5 means that a payday loan was the last resort for providing the money. Where would you place yourself on the scale when you took out the loan? Qpdg1. In total, how many payday loans have you taken out? Qpdg3. Have all of your loans been from the same lender or have you taken out loans from more than one payday lender? Qpdg11. Thinking about all payday loans you have ever taken out, have you...? Fxsvar28 (Sample variable). Channel of purchase of most recent loan Qpdg12. Where would you say you mainly get payday loans from?
Base: All respondents exc. DK/REF – No bank account (1,514); Unauthorised overdraft (1,445); Any debt problem (1,495); Used payday lender as last resort (1,537); Online customers (908); High street customers (606); Both online/ high street (158)

46

Similarly, customers who had used both online and high street lenders were more likely than other customers to have had an unauthorised overdraft in the last 12 months (41%), to have had a debt problem in the last five years (80%), and to say that they saw using payday lenders as a last resort (60%).

There were also significant differences in terms of who had ever been turned down for a payday loan in the past. Customers who had only ever used high street lenders were less likely than those who had only ever used online lenders to have been turned down for a payday loan (13% and 21% respectively). However, 46% of customers who had used both online and high street lenders had been turned down for a payday loan in the past.

These findings suggest that customers who have used both online and high street lenders show signs of greater financial stress than other customers. The fact that nearly half of such customers have been turned down for a payday loan at some point in the past may suggest that using both channels is being driven by necessity rather than choice, and that customers might see them as separate sectors. In other words, one reason why customers may switch from online lenders to high street lenders (or vice versa) is because they are unable to borrow any more in the sector they are in. Support for this finding comes from the qualitative research (see chapter 7).

7. Online and high street loans and movement between channels

The remaining chapters of the report look in more detail at some of the findings from the quantitative research in terms of behaviour among payday lending customers. Substantive analysis is also included from the qualitative research to provide further depth on the experiences of customers in the sector.

For most of the quantitative results presented from this point onwards customers were asked to respond in relation to their experience of taking out a specific loan (the ‘sampled loan’). There were other questions that referred to their wider experience of the payday lending sector and these will be clearly flagged in the report.

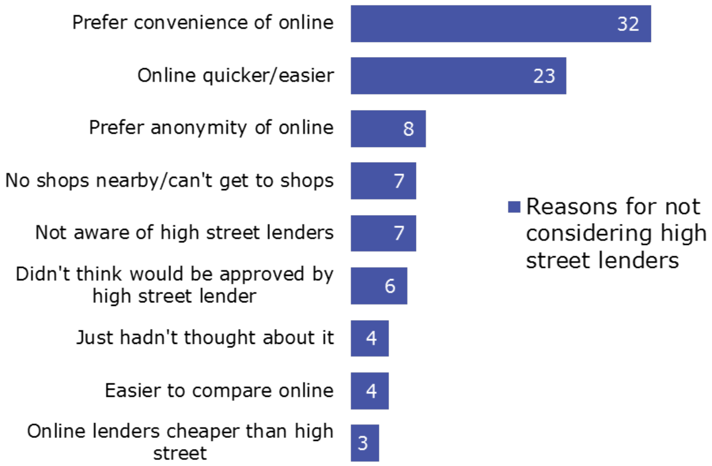
This chapter builds on the analysis of the online and high street channel presented in chapter 6 and specifically looks at the pros and cons of each channel as reported by customers, awareness of lenders in each channel and any evidence and reasons for movement between the two channels.

Most who have only used one channel would not consider other channel; speed/convenience main benefits of online

Quant

11% of online only customers (with > 1 loan) would consider high street lenders

26% of high street only customers (with > 1 loan) would consider online lenders



Main reasons for high street customers not considering online (small base)

- Prefer to speak to someone face-to-face
- No computer/internet access
- Don't like providing personal information online

Source : Qpdg13. Have you considered taking out a loan from a shop through a high street lender? / Qpdg14. Why have you not considered taking out a loan from a high street lender? / Qpdg15. Have you ever considered taking out a loan through the internet, by phone, text or app from an online lender? / Qpdg16. Why have you not considered taking out a loan from an online lender?
Base: Top text box: All online customers with more than one loan (289) / All high street customers with more than one loan (67); Chart: All online customers with more than one loan who would not consider high street (258); Right text box: All high street customers with more than one loan who would not consider online (50)

47

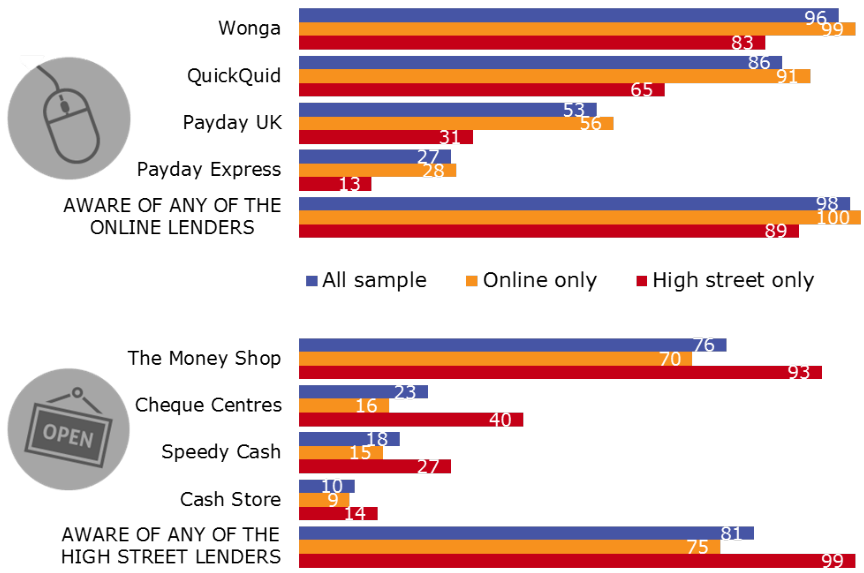
Most of those who had only used one channel – but had taken out more than one loan – would not consider the other channel of purchase. One in ten online-only customers (11%) with more than one loan would consider taking out a loan from a high street lender, and one in four high street-only customers (26%) would consider a loan from an online lender.

The most common reasons that online-only customers would not consider a high street lender relate to the perceived convenience and speed of online – 32% citing convenience and 23% that online is quicker and easier. Other less commonly cited reasons included preferring the anonymity of online (8%), having no shops nearby (7%), a lack of awareness of high street lenders (7%) and a feeling that they may not be approved by high street lenders (6%).

High street-only customers who would not consider online lenders were also asked their reasons for this. The base for this question was very small (50 customers) so the results should only be seen as indicative – but the most common reasons were a preference for face-to-face contact, having no computer or internet access and a reluctance to provide personal information online.

Most customers aware of largest lenders; awareness levels linked to channel of purchase used

Quant



25% of online only customers had not heard of any high street lenders

11% of high street only customers had not heard of any online lenders

Average number of lenders mentioned was 3.9.

This did not vary greatly by number of loans or number of lenders:

1 loan: 3.5
2 loans: 3.7
3 or more loans: 4.1

1 lender: 3.6
2 lenders: 3.8
3 or more lenders: 4.6

Source: Qpdsd1. Which, if any, of the following companies have you heard of?
Base: Chart: All respondents (1,560) / All only online customers (927) / All high street only customers (373); Text box 1: All online only customers (927) / All high street only customers (373); Text box 2: 1 loan (387) / 2 loans (178) / 3+ loans (907) / 1 lender (944) / 2 lenders (277) / 3+ lenders (246)

48

All customers were asked whether they were previously aware of the four largest online and four largest high street payday loan companies.

Most customers were aware of the largest lenders – for example 96% overall were aware of Wonga and 76% overall had heard of The Money Shop. Awareness levels were also linked to the channel of purchase used – so online customers were more likely to have heard of online lenders and high street lenders were more likely to have heard of high street lenders. For example, while Wonga was the best known lender overall, high street customers were actually more likely to have heard of The Money Shop (93%) than they were to have heard of Wonga (83%).

A minority of customers who had used only one channel had not heard of any companies operating in the other channel. A quarter of online-only customers (25%) had not heard of any high street lenders, and one in ten high-street only customers (11%) had not heard of any online lenders.

Overall the average number of lenders customers were aware of was almost four – and awareness levels increased somewhat as the number of loans taken and lenders used increased.

Reasons for choosing online or high street lenders/barriers associated with each

Qual

	High street only	Online only
Safety and legitimacy	Perceived as **safer** than online	Perception that high street is less **regulated**
Nature of interaction	■ Prefer **face to face** transactions ■ Build **relationship** with staff in the shop *It's like borrowing from my mum…They make sure that they build up a rapport with you…they make it a personal experience so you're less likely to default. But I prefer it*	■ **Anonymity** important due to **stigma** of using PDLs ■ Fear of being turned down in person ■ Perception that high street is for the poor/dispossessed *I would have to be really desperate to go into one of those shops*
Convenience	Shop is **nearby**, seen everyday, convenient – very **visible**, whereas may not have access to a computer or the internet	■ No high street shop nearby ■ Online is **faster**, more **convenient**, 24/7 access ■ Perception that high street lenders **require more information** and are thus more likely to refuse
Contiguous with usual financial behaviour	Already using **pawn-broking** services – then payday loans used as a supplement	■ Already deal with finances online
Lack of knowledge or experience of other market	Expectation that the same loans and rates would be available online, but unwilling to use an online lender *"I've never looked online for a loan"*	Expectation that high street lenders do not offer the same products as online lenders: perception that they offer limited services or only fixed term 1-month loans *"I've never been into one of those shops"*

49

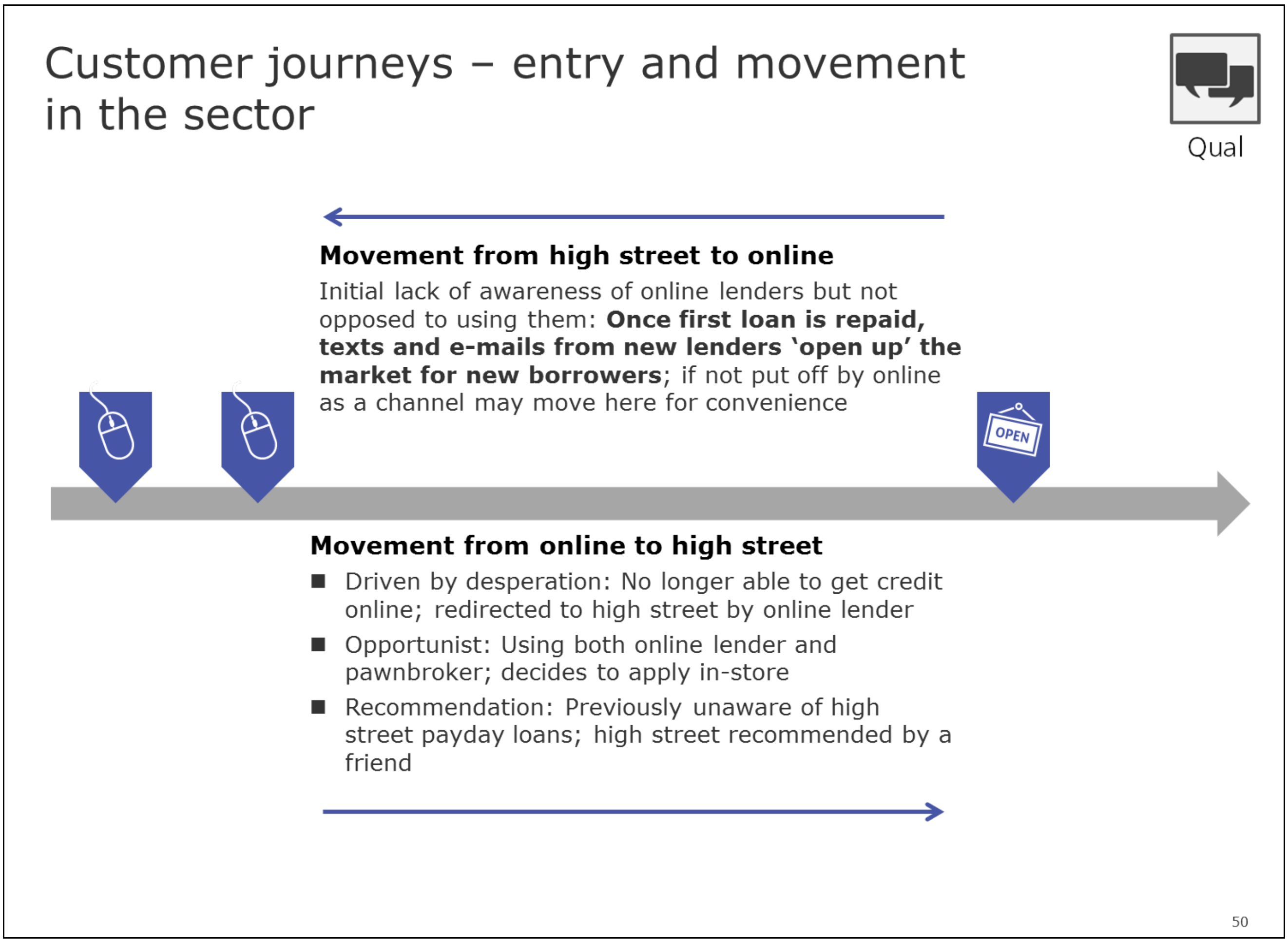
The quantitative results show that the high street and online channels were fairly distinct. This chart, based on the qualitative findings, outlines the reasons the two groups of customers remained largely wedded to their channel preference.

The qualitative interviews suggested that both high street and online customers distrust the other channel as being unsafe or unregulated.

The nature of the interaction was of central importance, with high street customers valuing face to face contact where a relationship developed. On the other hand, it was anonymity that was valued by online customers, who associated high street stores with poverty, desperation and social stigma.

A customer's choice of channel was contiguous with their usual financial behaviour. High street customers were used to using other high street services such as cheque cashing or pawn broking, in similar contexts. Online customers were likely to be using online banking already.

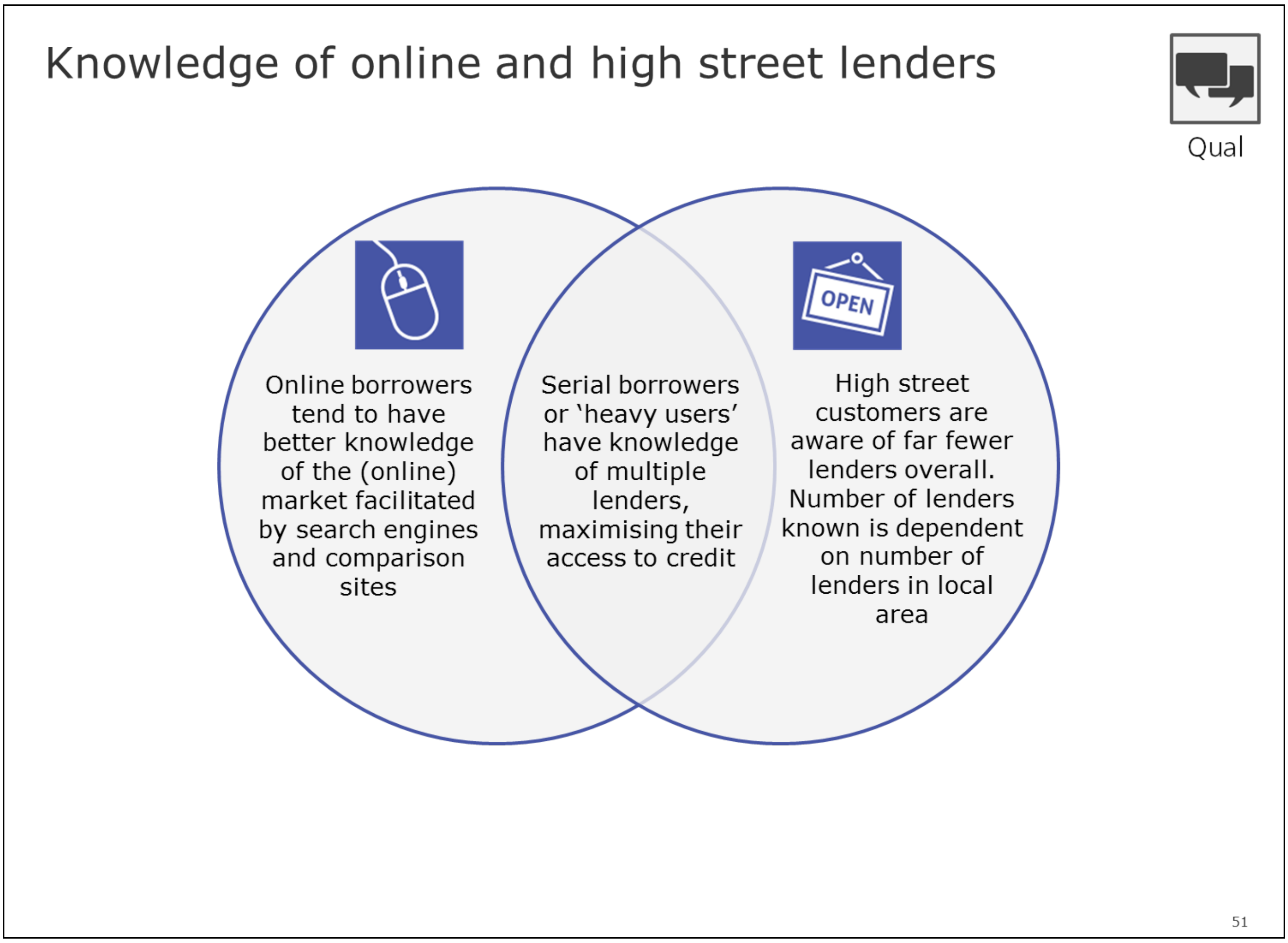
Both groups tended to lack experience of the other distribution channel, though with one interesting difference. Whereas high street customers expected to be able to get the same loans with the same terms and conditions online, online only customers perceived high street shops as offering quite different products, with some unaware that payday loans were available on the high street.



Though there is limited movement from one channel to another, the qualitative research showed that movement may be driven by (i) communications from payday lenders, (ii) recommendations or (iii) exhaustion of all online credit due to heavy borrowing from multiple lenders, all of which open up the market for customers.

Customers who were previously unaware of the existence of the other channel or other lenders may become aware following their first loan, either through texts and e-mails they receive from other lenders, seeing information in-store that alerts them to the availability of payday loans on the high street, or via a recommendation by a friend or family member.

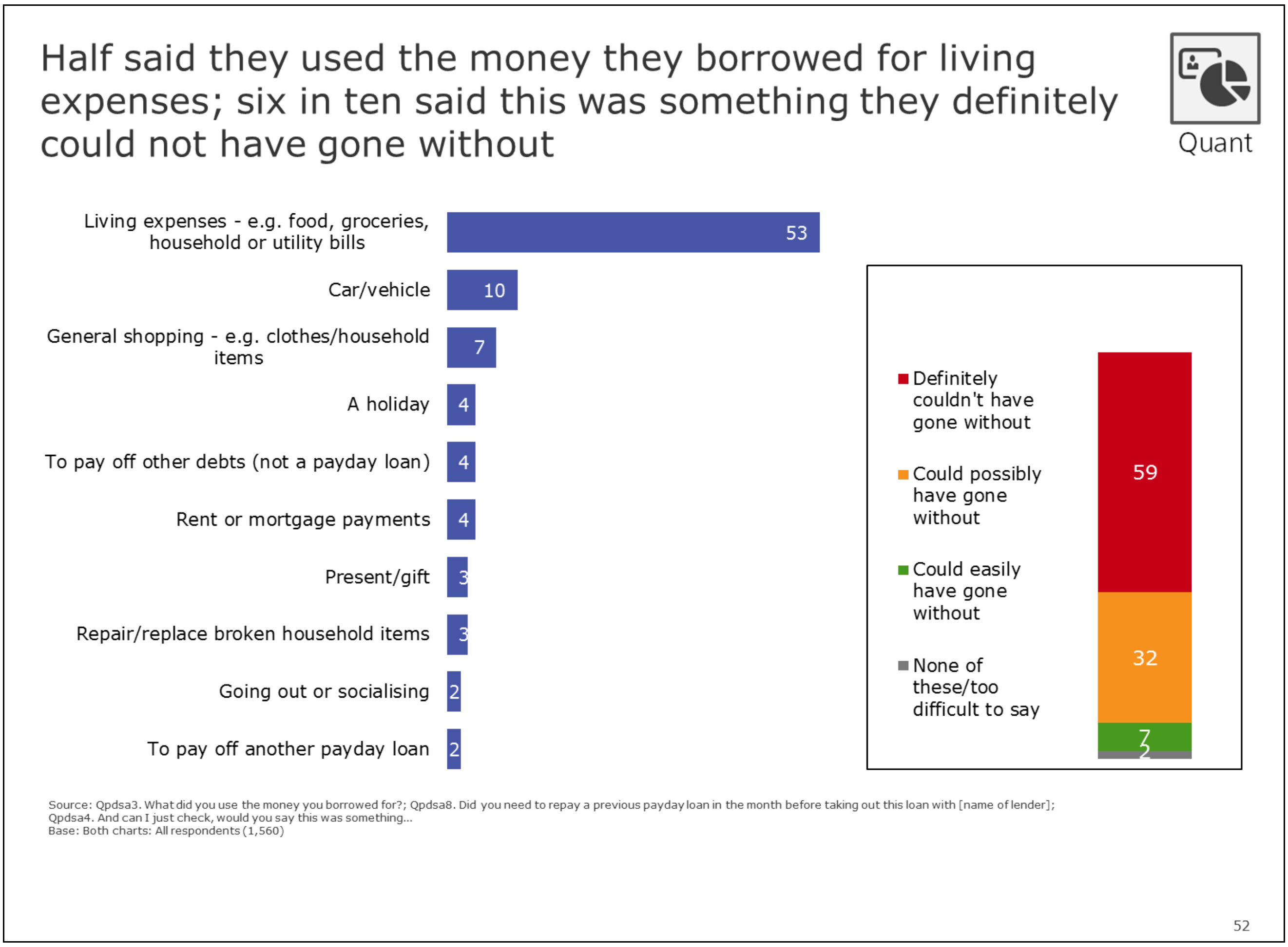
Another reason customers might move from online to high street is desperation driven by the exhaustion of all online credit due to multiple, concurrent loans from multiple lenders. These are customers who have exhausted all available credit online, and are redirected to high street lenders. These customers usually have several unpaid payday loans and are often heavily in debt. Given the quantitative findings that those who have used both channels are more likely to have debt problems and to have been turned down for a loan in the last 12 months, it is likely that this is a significant driver of movement.



As expected and reflecting the quantitative results, online borrowers in the qualitative research tended to have a higher awareness of other lenders, as the process of searching for one lender may reveal several, whereas high street customers' knowledge was largely dictated by the number of shops offering payday loans in their area. Unsurprisingly, customers who knew the most lenders were the serial borrowers who had used multiple lenders.

8. The context of taking out a payday loan

This chapter deals with the context of taking out a payday loan, including why people take them out, how this may be linked to changing financial circumstances and whether payday loans tended to be a first choice option or a last resort – or somewhere in between.



Around half of customers who took out payday loans said they spent the money on living expenses, by far the most common mention here. This will cover a wide variety of different things - as illustrated by the qualitative results later in this chapter – but it does suggest that a large proportion of customers are taking out loans to deal with day-to-day expenses and not for one-off purchases.

Other customers spent the money on their car or vehicle (9%), general shopping (7%), holidays, to pay off other debts or rent or mortgage payments (all 4%).

Just two per cent said they needed the loan in order to pay off <u>another</u> payday loan. However, when asked directly, a far greater proportion said they needed to repay a previous payday loan in the month before taking out the sampled loan (see next chart)[15].

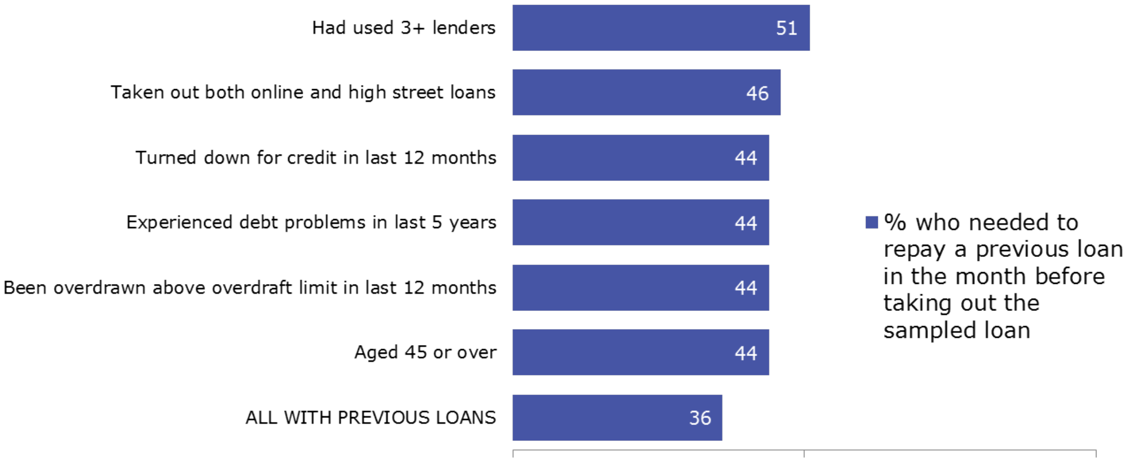
Customers were also asked how easily they could have gone without what they spent their loan on. Overall, six in ten (60%) said they could definitely <u>not</u> have gone without it – but three in ten (32%) said they possibly could have gone without and almost one in ten (8%) said they definitely <u>could</u> have gone without.

[15] For the question presented on this chart customers were asked 'What did you use the money you borrowed for' and were not prompted to any of the response options. Therefore it is likely that their answers were based on the specific things they spent the money they borrowed on even if (in some cases) their need for the money may have been linked to the need to recently pay off another payday loan.

Over a third of customers with a prior loan needed to repay a previous payday loan in the month before taking out this loan – particularly common among groups with financial problems

Quant

Of those with previous loans, 36% said they needed to repay a previous payday loan in the month before taking out their sampled loan (equating to 25% of all customers)



Source: Qpdsa8. Did you need to repay a previous payday loan in the month before taking out this loan with [name of sampled lender]?
Base: Text box: '36%' based on all with previous loans (1,010); '25%' based on all respondents (1,560) / Chart: Had ever taken out payday loan in order to pay off debt to payday lender (124); Used 3+ lenders (228); Taken out both online and high street loans (145); Turned down for credit in last 12 months (288); Experienced debt problems in last five years (533); Overdrawn about overdraft limit in last 12 months (301); Aged 45 or over (292)

53

While only two per cent said they needed to take out a payday loan specifically to pay off another payday loan (see previous chart), a far greater proportion said they had needed to repay a payday loan in the previous month to taking out the sampled loan (when asked directly about this). More than a third (36%) of those who had previous loans said they needed to repay a previous payday loan in the month before taking out their new loan. This equates to a quarter of all customers (25%) and points to the presence of a large proportion of serial borrowers in the sector – becoming dependent on payday loans – which is a theme developed further in chapter 13.

This behaviour was particularly common among certain groups of customers, based on both behaviour in the payday lending sector and a range of financial issues. Customers who had used three or more lenders and those who had taken out both online and high street loans were more likely to have needed to repay a previous loan in the month before. It is also clear that those with a range of financial problems (been turned down for credit in the last 12 months, experienced debt problems in the last five years, had been overdrawn above their limit in the last 12 months) were more likely than others to have needed to repay a payday loan in the previous month.

Two thirds of customers said their need for a loan was linked to a change in their financial circumstances – in most cases temporary

Quant

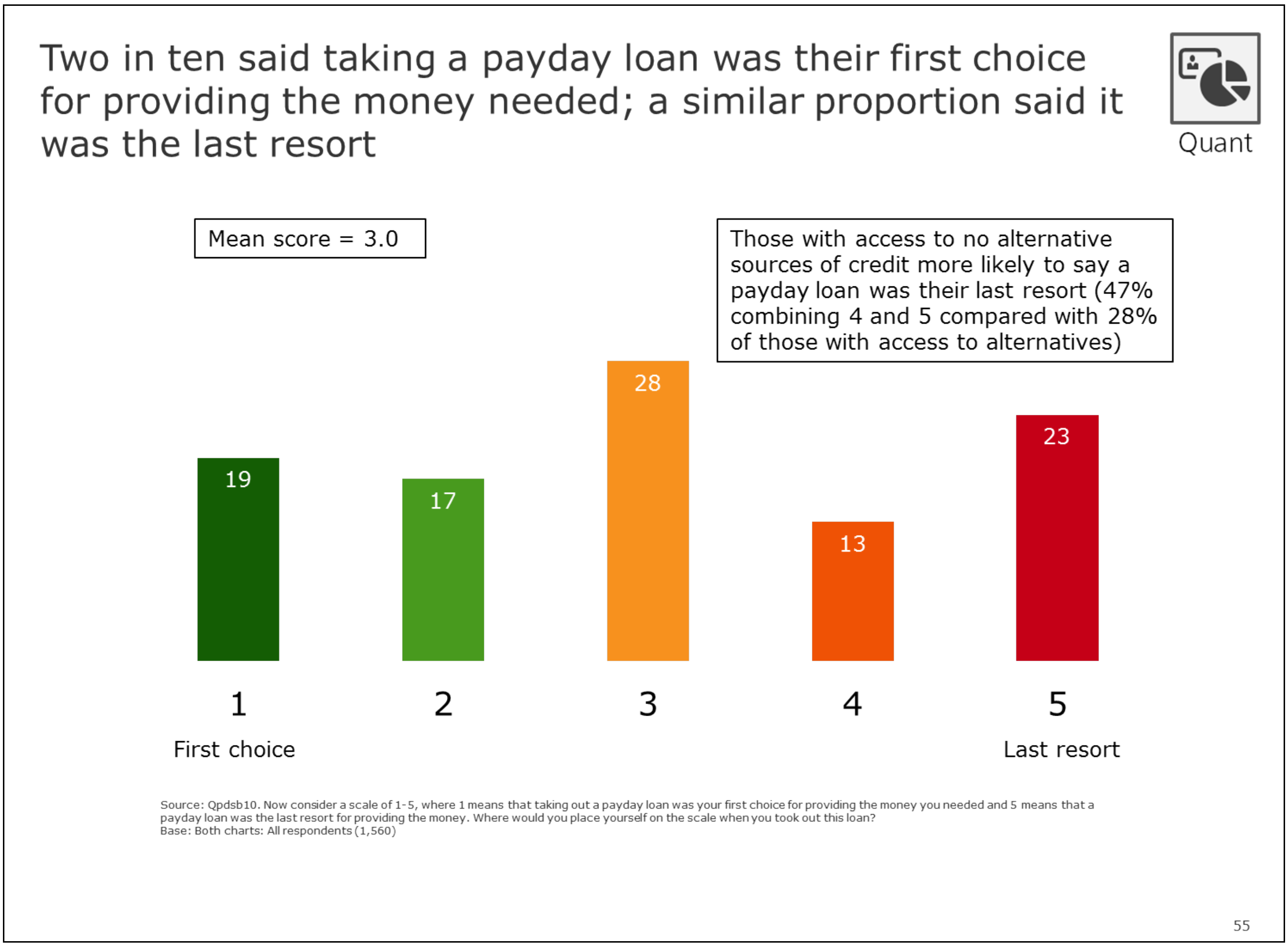
- 52% said that their need for a loan was linked to an unexpected increase in expenses and outgoings; 19% to an unexpected decrease in income. 31% said their need for a loan was not due to either of these factors
- Of those who had put their need for a loan down to a change in financial circumstances, more than nine in ten (93%) said they thought this be temporary; 5% expected the change to be permanent and 2% said they didn't know

Source: Qpdsa6. Did you need this loan because of / Qpdsa7. And did you believe that this change in your financial circumstances would be temporary or permanent.
Base: First bullet: All respondents (1,560), Second bullet: All who linked their need for a loan to a change in financial circumstances (1,003)

54

For two thirds of customers (67%) their need for a loan was linked to an unexpected change in financial circumstances. Half (52%) said their need for a loan was linked to an unexpected increase in expenses or outgoings and two in ten (19%) said it was linked to an unexpected decrease in income (for a small number of customers – 5% - it was linked to both of these things). For three in ten (31%), their need for a loan was not linked to any change in financial circumstances.

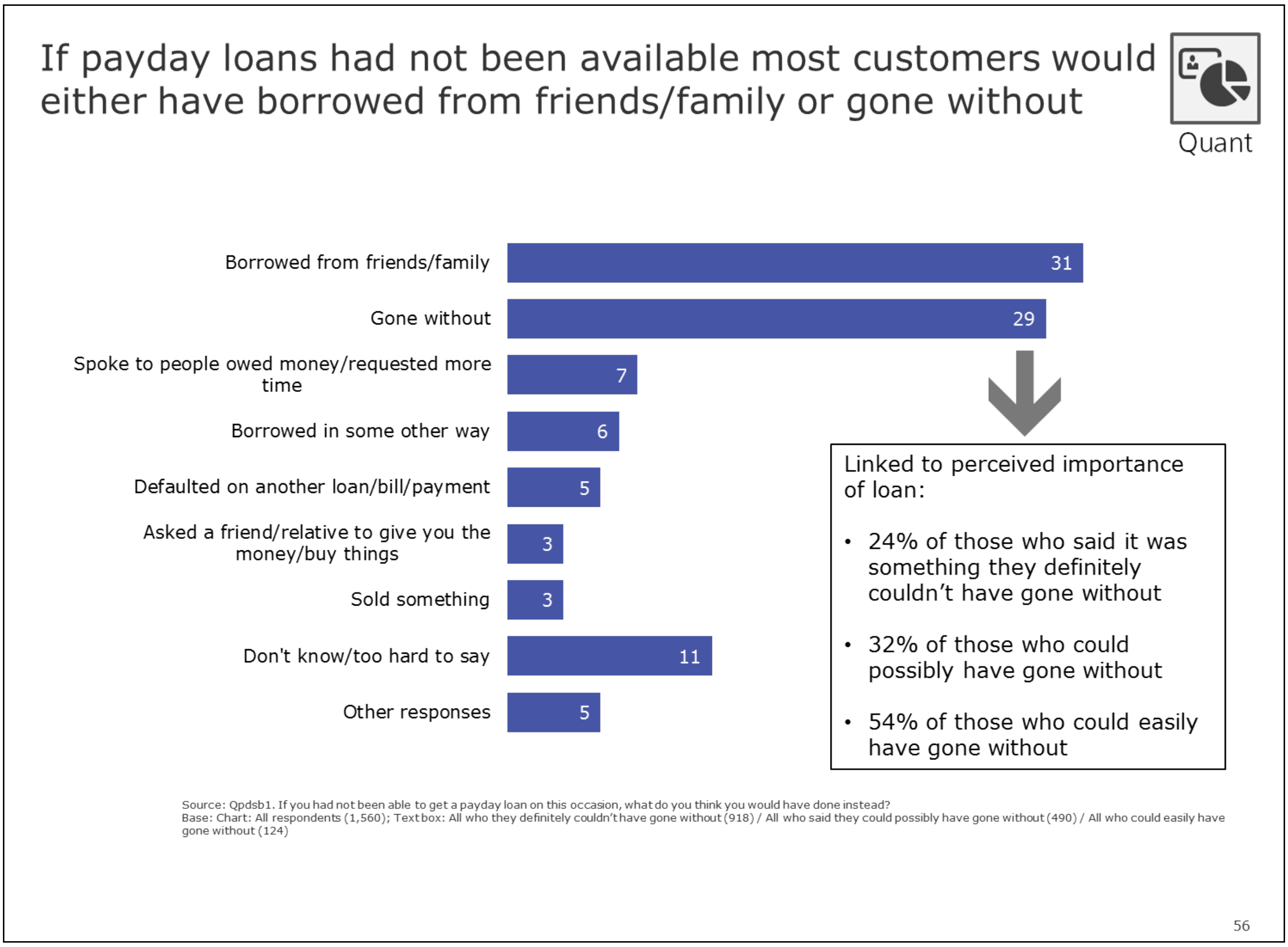
Of those who put their need for a loan down to a change in financial circumstances, more than nine in ten (93%) said they expected this change to be temporary, while five per cent expected it to be permanent. Two per cent said they did not know whether it would be temporary or permanent.



Customers were asked to judge whether taking out a payday loan was their first choice or last resort for providing the money they needed, on a scale from 1 (first choice) to 5 (last resort).

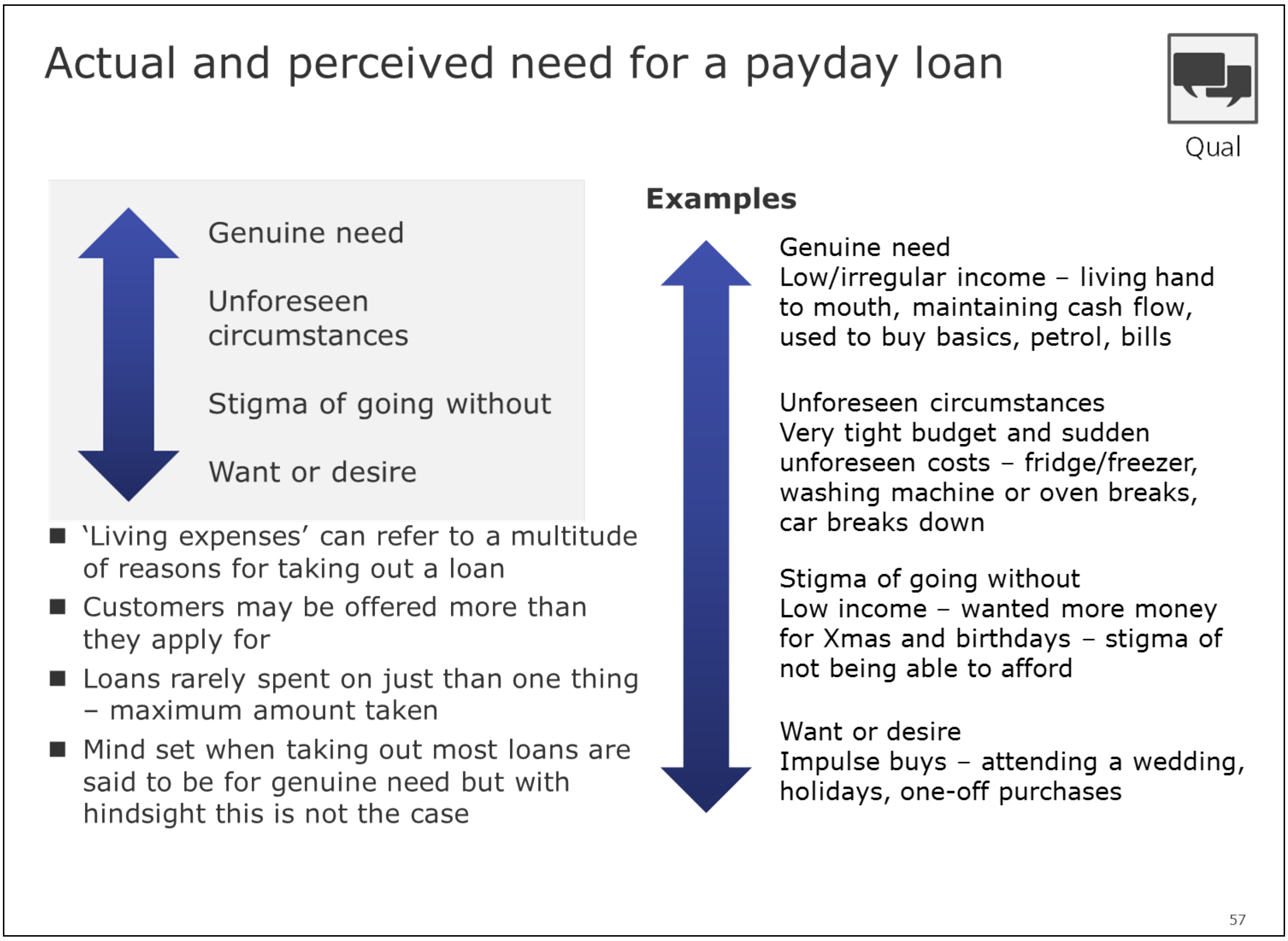
Customers are divided fairly evenly across the spectrum; two in ten (23%) said a payday loan was their last resort but a similar proportion said it was their first choice (19%). The average score here was 3.0 – exactly halfway across the spectrum. This suggests a heterogeneous population; payday lending customers cannot all be characterised as only taking out a payday loan due to the absence of all other options.

There were some differences in response to this question based on whether customers had access to alternative forms of credit (covered in chapter 9). Those without access to alternatives were far more likely to say that taking out a payday loan was their last resort: 47%, compared with 28% of those with access to alternatives.



Customers were asked to consider what they would have done if payday loans had not been available on this occasion. The most common responses were to borrow instead from friends and family (31%) or to go without (29%), both selected by three in ten customers. Others said they would have spoken to people they owed money/requested more time (7%), borrowed in some other way (6%) or defaulted on another loan, bill or payment (5%).

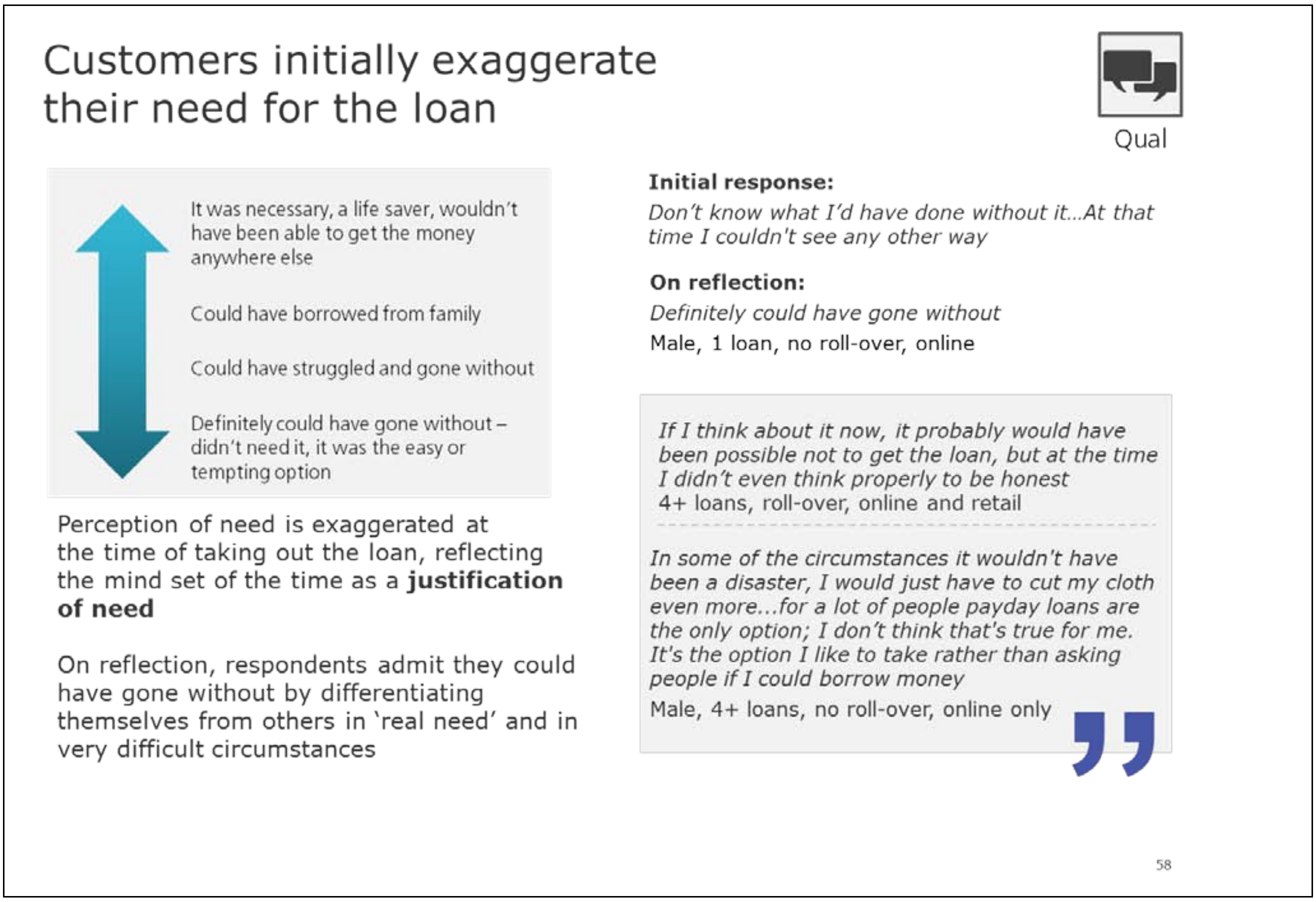
Those who had previously said they could have got by without whatever they spent the payday loan on were more likely to have said they would have gone without had a loan not been available. However, a quarter (24%) of those who earlier said they could definitely not have gone without whatever they spent the loan on said here that they would actually have been most likely to go without had a loan not been available. This might be linked either to a complete absence of any alternative – leaving them no option but to go without – or perhaps point to the fact that some of those who said they could not have gone without may actually have been able to get by. This latter point also emerged from the qualitative research and is covered later in this chapter.



'Living expenses' is a broad term that could encompass many reasons for taking out a loan, and its emergence in the survey as the main reason for needing a loan could be reflective of the fact that payday loans were rarely taken out for a single expense. Although customers in the qualitative research would often have an amount in mind when applying for a loan, at the point of approval they would often be offered a higher amount, with almost all of those interviewed taking the maximum offered.

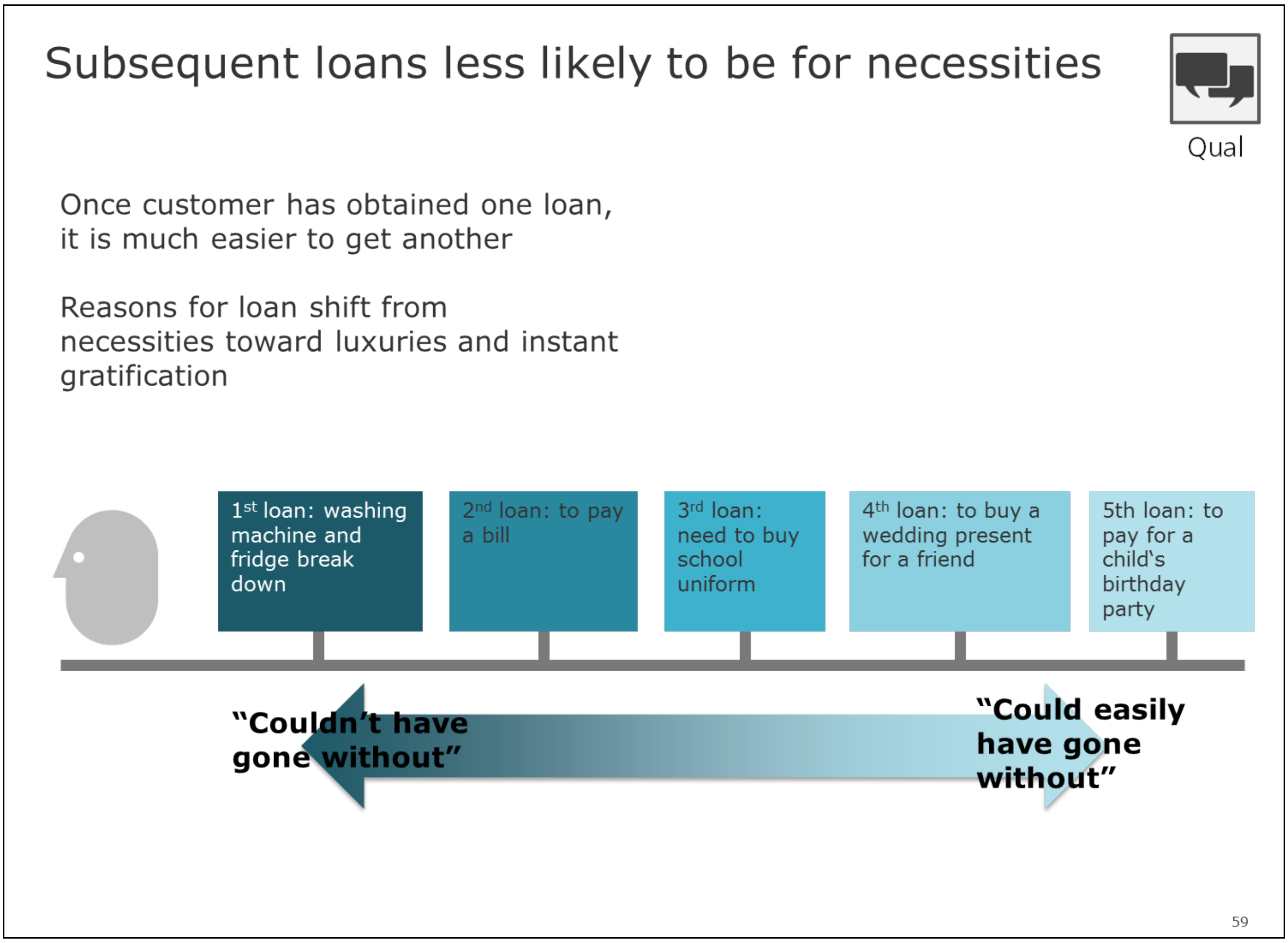
It is also reflective of the fact that there was a great deal of variation in the reasons for taking out a loan, with the chart above depicting a 'spectrum of need' reminiscent of the distribution between 'first choice' and 'last resort'. Some customers could be described as being in genuine need, using payday loans to pay for basics and maintain their cash flow. Others could be described as perceiving themselves to be in genuine need, as they were unable to see another way out of their situation. At the other end of the scale, some customers said that their reason for taking out the loan was to satisfy a desire, to make a purchase that they could not afford for example.

The qualitative research suggests that the mindset at the time of taking out a loan tended to push people's perception towards genuine need, exaggerating their need for a loan.



This chart uses qualitative findings to help unpick the contradiction between customers saying they couldn't have gone without the loan but also saying that if the loan had been unavailable they would have gone without.

When asked about need, customers initially exaggerated and stressed that they had no alternative, but on reflection said that they did not really need the loan after all and could have struggled through. This initial over-claim could reflect a customer's mindset at the time of taking out the loan. Customers may be justifying their need for a loan to themselves at the time of taking it out, and therefore repeat this rationalisation later when asked about their reasons for getting a loan.



According to the qualitative findings, the reasons for getting loans evolve over time, shifting from necessities to less essential items. Once customers have overcome the initial hurdle of convincing themselves to get their first loan, it becomes easier for them to justify subsequent loans. Reasons for subsequent loans become far less about genuine need and more about satisfying wants and desires, or to fund social occasions.

Ease of access to funds changes attitudes to debt

Qual

It allows customers to **act on an impulse** and do things they would not ordinarily do

The availability of funds **conceals the possibility of going without** and masks the need to confront lack of affordability

Less need to budget and manage finances as before; can **changing attitudes to debt**

It turned out I went against everything I was brought up with

Female, 4+ loans, roll-over, online and retail

What I've found here in the UK, credit is too easy. In the Philippines, my parents would just sent me an allowance, that's it... So here I've developed this attitude towards credit that if I can't afford it over my disposable income I'll just get some more

Male, 2-3 loans, no roll-over, online only

I was prepared to battle it out until my friend mentioned Wonga. When my mum said she couldn't lend me the money I thought I'll have to cope with it, until I saw the thing about Wonga

Female, 4+ loans, roll-over, online and retail

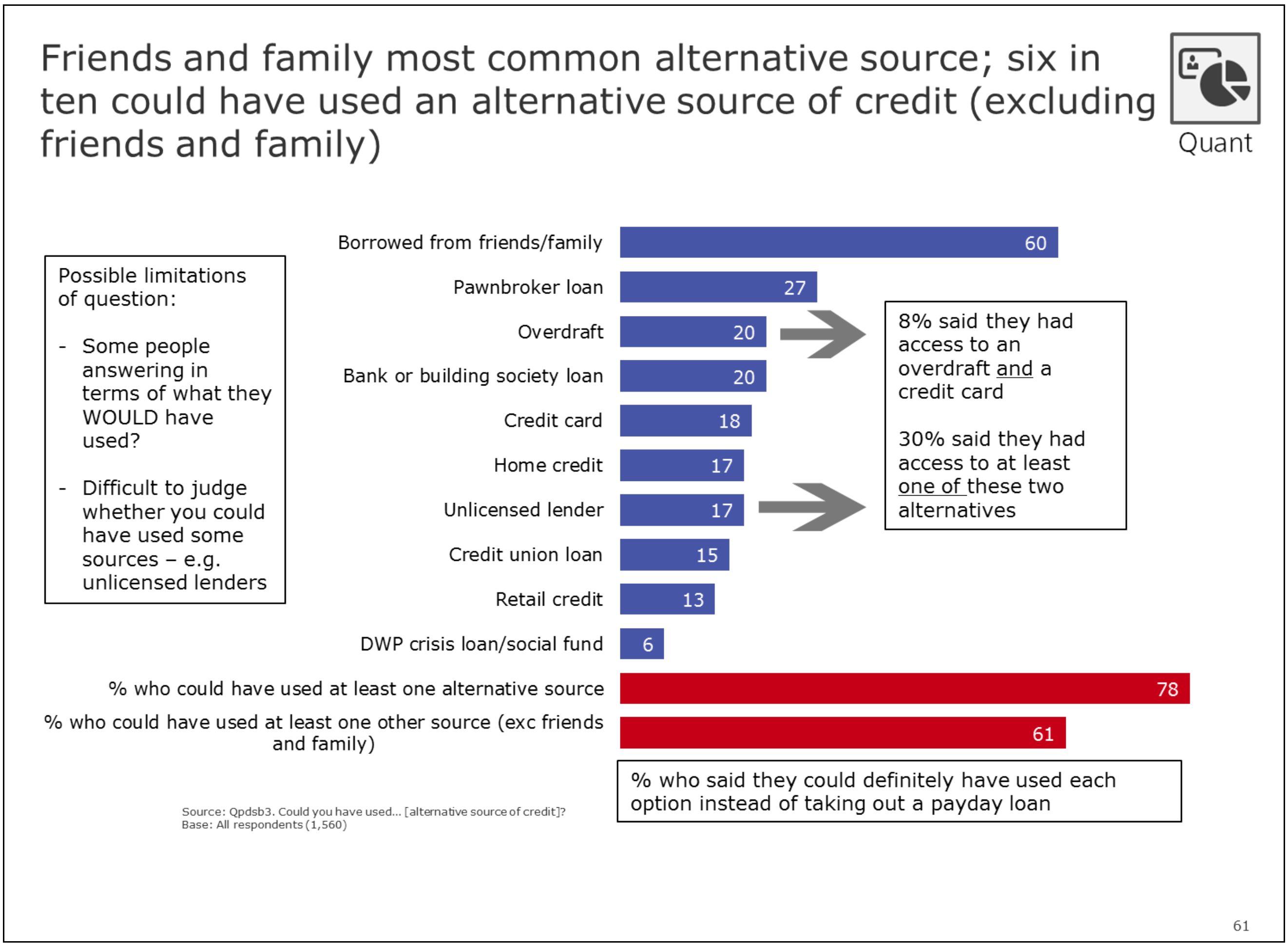
60

We found in many cases in the qualitative research that the ease of access to payday loans had altered customer's attitudes to debt.

Payday loans allowed customers to make decisions quickly and on an impulse. They also allowed many customers to behave in ways they would not ordinarily. Customers no longer had to budget as they had before, to consider struggling through if they could not afford something, particularly after one loan had been taken.

9. Taking out payday loans over alternatives

A key focus for both the quantitative and qualitative research was access to alternative forms of credit. These results are included in this chapter, including what alternatives were available to payday lending customers and, if they did have alternatives, why they chose to take out a payday loan over these alternatives.



This chart shows which alternative forms of credit customers could have used rather than taking out a payday loan. The bars are just based on those who said they could definitely have used each source – so excluding both those who said they definitely could not have used each source and those who did not know whether they could have used it or not. For most sources only a small proportion of respondents said they did not know whether they could have used this option, though the 'don't know' proportion was a little higher for credit union loans (16%) and DWP crisis loans.

The focus at this question was on what alternatives customers could have used and not on what alternatives they would have used – and the questionnaire was very carefully designed to encourage respondents to answer the question on the basis of the former. However, from listening to some interviews it was clear that respondents would sometimes think in terms of what they would have done and the task of judging whether you could have used other sources would not always be straightforward (for example, how do you judge if you could have used an unlicensed lender if you had never looked into or considered this?). As a result, some caution needs to be applied when looking at these results; they may tend to under-estimate availability of other sources of credit.

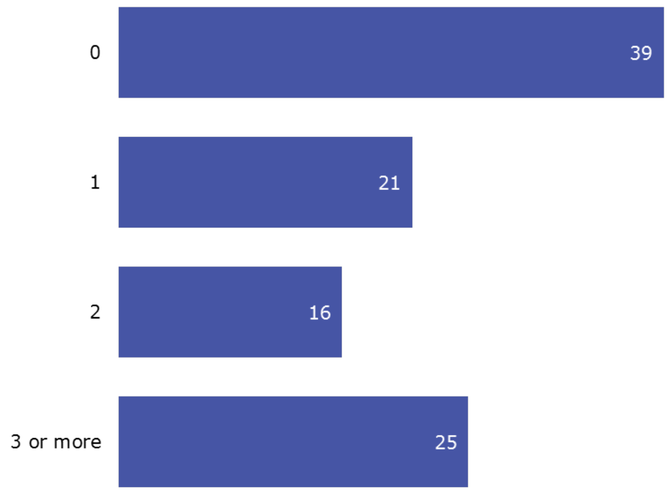
Overall, eight in ten (78%) said they could have used at least one alternative source, if borrowing from friends and family is included. Excluding friends and family, six in ten (61%) could have used at least one other source – so four in ten (39%) did not have access to any other source of credit.

By far the most common alternative cited was borrowing the money from friends and family, with six in ten (60%) saying they could definitely have done this. Three in ten (27%) said they could have accessed a pawnbroker loan. Two in ten (20%) said they could have used an overdraft (‘though in two thirds of cases they would need to go over their overdraft limit to do this). Also around two in ten said they could have used a bank or building society loan (20%), a credit card (18%), home credit (17%) or an unlicensed lender (17%).

One in ten (8%) cent said they could have used both an overdraft and a credit card, while three in ten (30%) said they could have used at least one of these two options.

Four in ten had no alternatives; a quarter of customers had access to three or more alternative sources of credit (excluding family and friends)

Quant



Groups more likely to have access to 3 or more alternatives include:

- Those with degree level qualifications (32%)
- Home owners (30%)
- Those with monthly incomes of £2,000+ (30%)
- Those aged 25-44 (28%)
- Customers citing 'the reputation of the lender' as their most important factor (28%)

Source: Qpdsb3. Could you have used... [alternative source of credit]?
Base: Chart: All respondents (1,560); Text box: Home owners (276); Degree level qualifications (451); Monthly incomes £2,000+ (474); Aged 25-44 (742); Citing 'reputation of the lender' as most important factor (233)

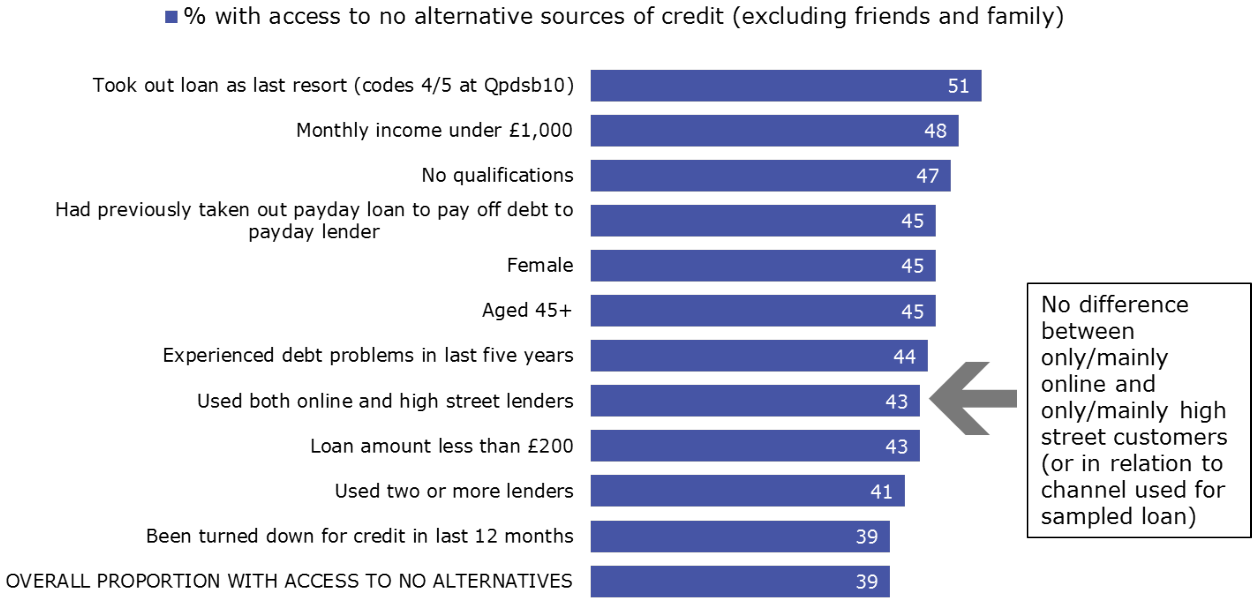
62

While four in ten (39%) had access to no alternatives, a quarter (25%) said they had access to three or more alternative sources of credit – perhaps again pointing to the broad mix of customers taking out payday loans.

Customers more likely to have access to multiple alternatives included home owners, those with degree level qualifications, on relatively high monthly incomes and aged 25-44. Customers who cited the 'reputation of the lender' as the most important factor when choosing a payday loan were also more likely to have access to three or more alternatives.

Overall four in ten had access to no alternatives; highest among low income groups and those taking out payday loan as last resort

Quant



Source: Qpdsb3. Could you have used... [alternative source of credit]?
Base: Took out loan as last resort (536); Monthly income under £1,000 (179); No qualifications (174); Previously taken out loan to pay off another payday lender (138); Female (623); Aged 45+ (406); Debt problems in last 5 years (726); Used online and high street (162); Loan amount < £200; (781); Used two or more lenders (523); Turned down for credit in last 12 months (388); All respondents (1,560)

63

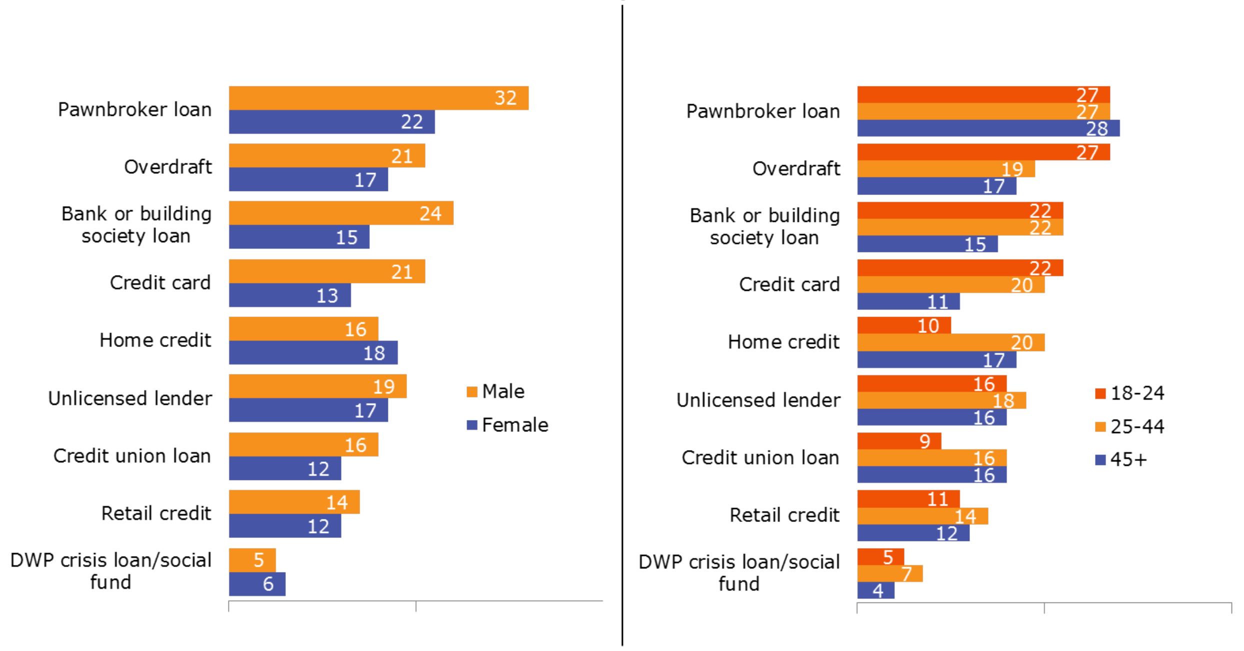
This chart shows a number of groups who were particularly unlikely to have access to alternative forms of credit. The groups who stand out here are largely in contrast to those who had access to several alternatives, including those with low monthly incomes, taking out a loan as a last resort, having no qualifications and with a range of financial problems.

Customers who had used both online and high street lenders were less likely to have access to alternatives compared with those who had only used one channel of purchase (whether online or high street). This tallies with an earlier finding that customers using both channels tended to have experienced more financial problems and so may have been restricted in their choice of alternative forms of credit (see chapter 6).

Customers who took out fairly small loans were also less likely to have access to alternatives. This may either reflect the earlier finding that those taking out higher loans tended to be earning higher incomes (and, as shown on the previous chart, those better off tended to have more access to alternatives) or perhaps that they felt payday lenders were the only viable option for borrowing relatively small sums of money.

Access to different alternatives varies by sex and age: men more likely to have access to pawnbroker loans, bank loans and credit cards; 18-24s more likely to have access to overdrafts

Quant



Source: Qpdsb3. Could you have used... [alternative source of credit]?
Base: First chart: All male respondents (860) / All female respondents (623); Second chart: All 18-24 year olds (334); 25-44 year olds (742); 45+ year olds (406)

64

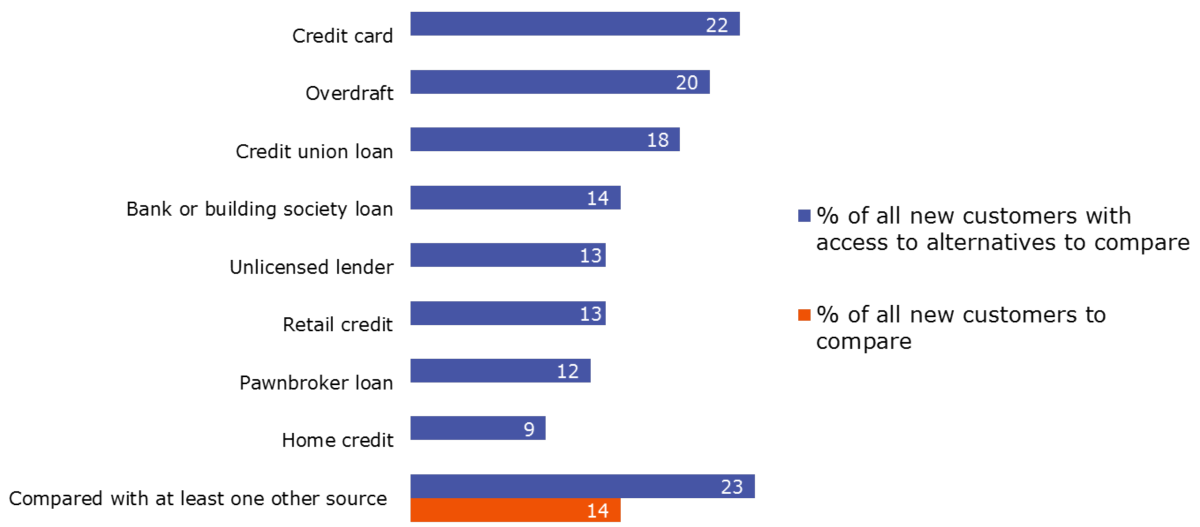
The chart above shows how access to the range of alternative sources of credit varies by sex and age.

Men were more likely than women to have access to pawnbroker loans (32% versus 22% of women), bank or building society loans (24% versus 15%) and credit cards (21% versus 13%). Women were not significantly more likely than men to have access to any specific alternatives but were equally as likely to have access to home credit and DWP crisis loans/the social fund.

Customers aged 18-24 were more likely than those aged 25-44 or 45+ to have access to overdrafts (27%). 18-24 year olds were less likely to have access to home credit (10%) and credit union loans (9%). Customers aged 45+ were less likely than younger customers to have access to most alternatives and were particularly unlikely to have access to credit cards (11%) compared with both of the younger age groups.

One in seven of all new customers got as far as comparing the pros and cons of alternatives (excluding friends and family) and payday loans; those with access to credit card and overdraft most likely to compare

Quant



Source: Qpdsb7: Did you get as far as finding out information to compare the pros and cons of the alternative(s) against the pros and cons of a payday loan?
Base: All new customers with access to each alternative: Credit card (85); Overdraft (124); Home credit (80); Pawnbroker loan (126); Credit union loan (62); Bank or building society loan (126); Unlicensed lender (82); Retail credit (71) / All new customers with access to any alternatives (323) / All new customers (531)

65

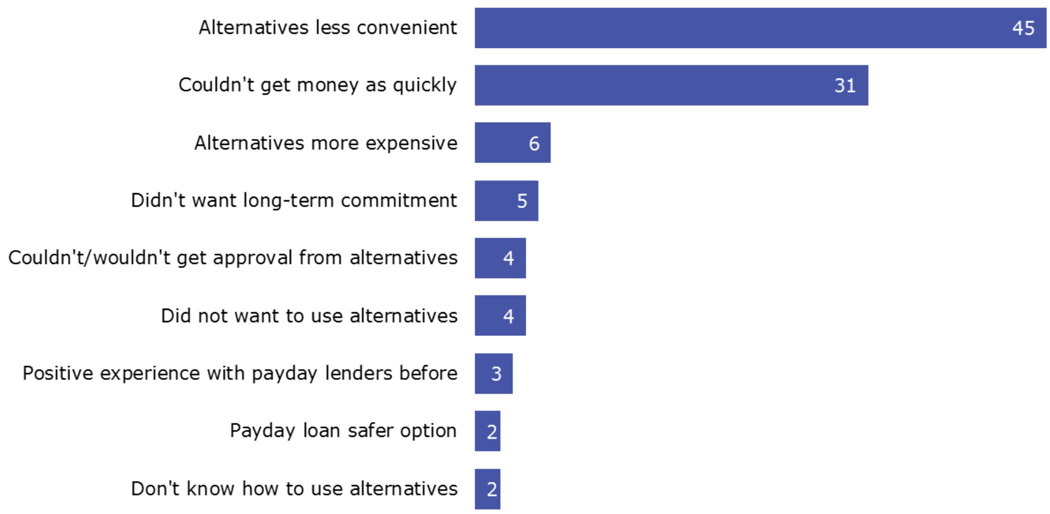
Customers who could have used at least one alternative form of credit (apart from friends and family) were asked whether they got as far as comparing the pros and cons of these alternatives against the pros and cons of payday loans. The results presented here are just based on new customers – so those for whom the sampled loan was their first payday loan.

Overall, 14% of all new customers compared the pros and cons of taking out a payday loan with the pros and cons of at least one other option. This equates to 23% of those who earlier said they had access to at least one alternative form of credit. Thus, only a minority of customers actually compared payday loans with other sources.

Of those with access to each alternative, the ones most commonly compared were credit cards (22% of those who could have used a credit card compared this with a payday loan), overdrafts (20%) and credit union loans (18%).

Convenience and speed were the main reasons for favouring a payday loan over alternatives

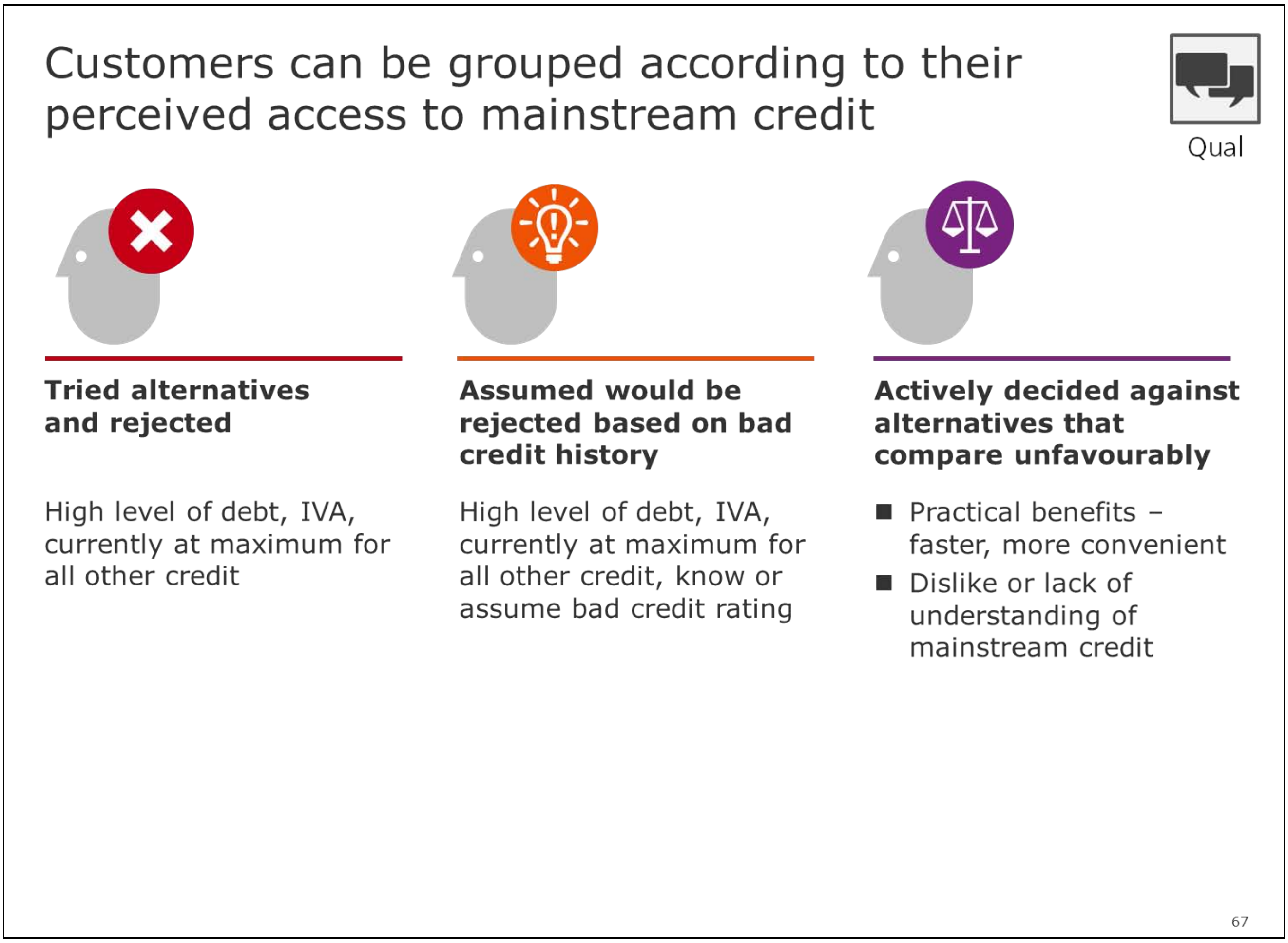
Quant



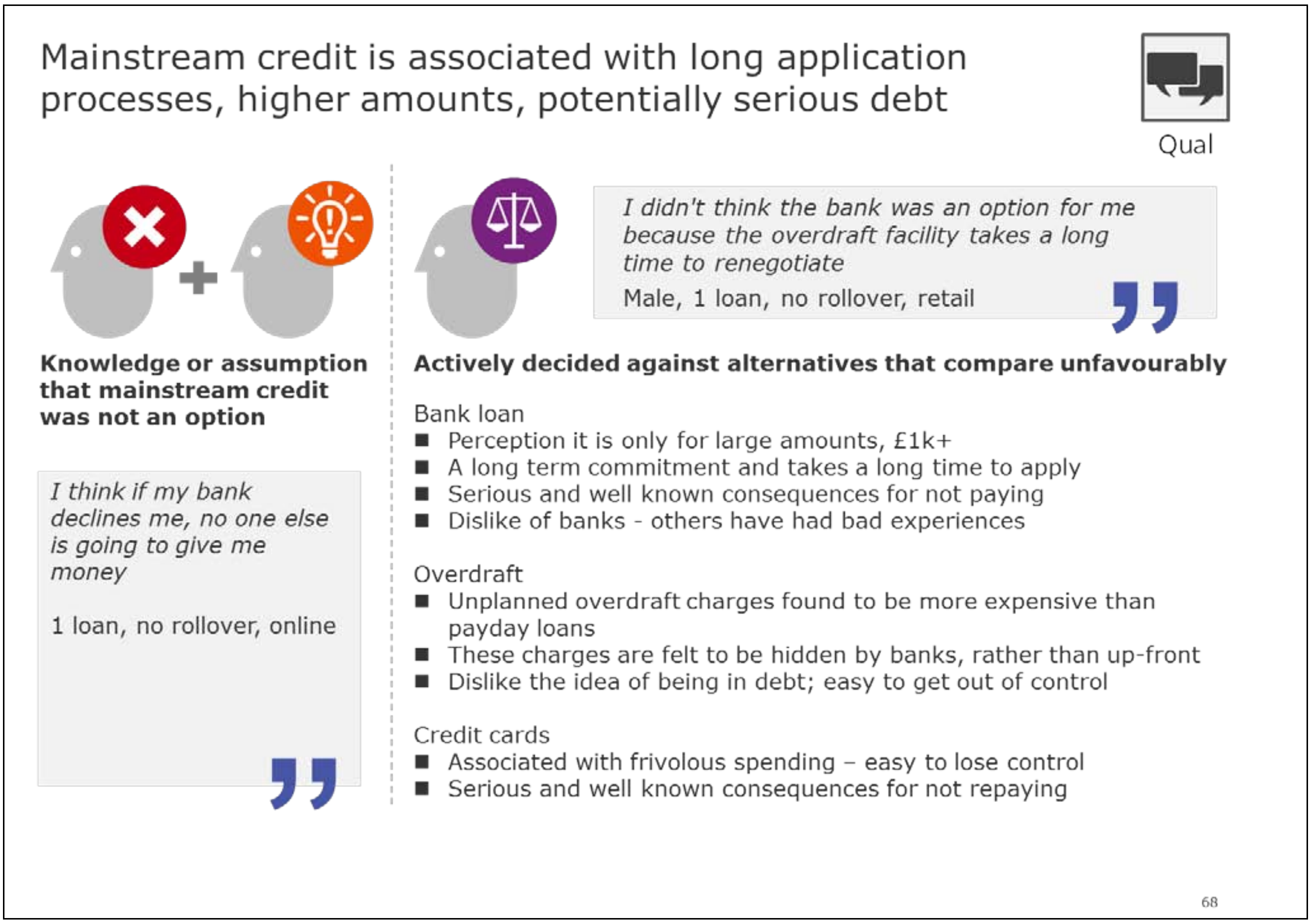
Source: Qpdsb6. Why did you decide to take out a payday loan rather than using the alternative(s) you said you could have used?
Base: All who could have used another source of credit instead of a payday loan (962)

66

Two main reasons stood out for favouring payday loans over alternative forms of credit that were available: a perception that alternatives were less convenient (45%) and that they could not get the money as quickly from alternatives (31%). Other factors were mentioned – a view that alternatives were more expensive, not wanting a long-term commitment – but convenience and speed were the key factors, and this was also apparent in responses to the qualitative research.



Three typologies emerged in relation to the perception of access to mainstream credit alternatives, amongst customers in the qualitative research. The first group had tried mainstream credit alternatives and had been turned down based on having a poor credit rating. The second group had assumed they would not be approved for mainstream credit based on the knowledge or assumption that their credit rating was poor, or that they were at the maximum credit limit with existing credit sources. The third group had made more of an active decision against using mainstream finance, either due to the practical benefits associated with payday loans, such as speed; or because they disliked or distrusted mainstream credit. Distrust or dislike of banks was fairly prevalent in the quantitative survey, with 33% agreeing with the statement ‘I try to avoid banks as much as possible’.



The first two groups noted on the previous chart did not use mainstream credit as they knew or assumed they could not, but the third group had reasons for not approaching them.

Some customers in the third group perceived bank loans as inappropriate to their needs, feeling they were better suited for larger amounts and were not quickly accessible.

Credit cards were associated with spiralling debt that could easily get out of control.

For bank loans and credit cards, there is an association with: long term application processes; long term commitments; and potentially very high debts with serious consequences. Perhaps counter-intuitively for some customers, payday loans were being chosen over alternatives as a result of customers disliking the idea of being in debt.

Unplanned overdraft charges were either known or expected to be higher than the cost of payday loans, and were deemed to be a hidden or unknown cost when compared to the overall cost of a payday loan. Some customers had compared these costs with payday loans and actively chosen the cheapest option.

Reasons for not using alternative sources of credit

Qual

Borrowing from friends/family

- Social network lack funds to lend
- Social stigma of asking to borrow, particularly for large amounts
- Would require justification for the reason for needing the loan – can't ask if not a necessity

Friends or family can be used to negotiate routes into mainstream credit market – borrowing on their behalf

Home credit loans: varied responses

- Humiliating – creditors come "into your space"
- Bad reputation
- Very high interest rates

Though some do consider and use:

- A social norm – family and friends use
- Manageable and flexible repayments – smaller amounts and no fees if you miss a payment

Pawnbrokers

- Would not consider pawnbrokers - distancing from type of customer who uses them
- Perception that it is not good value
- Would consider, but nothing (left) to sell, or nothing to sell of significant value

Credit union

- Lack of awareness of this form of credit
- Need to set up in advance and may need to pay in before taking the loan
- Money cannot be accessed quickly

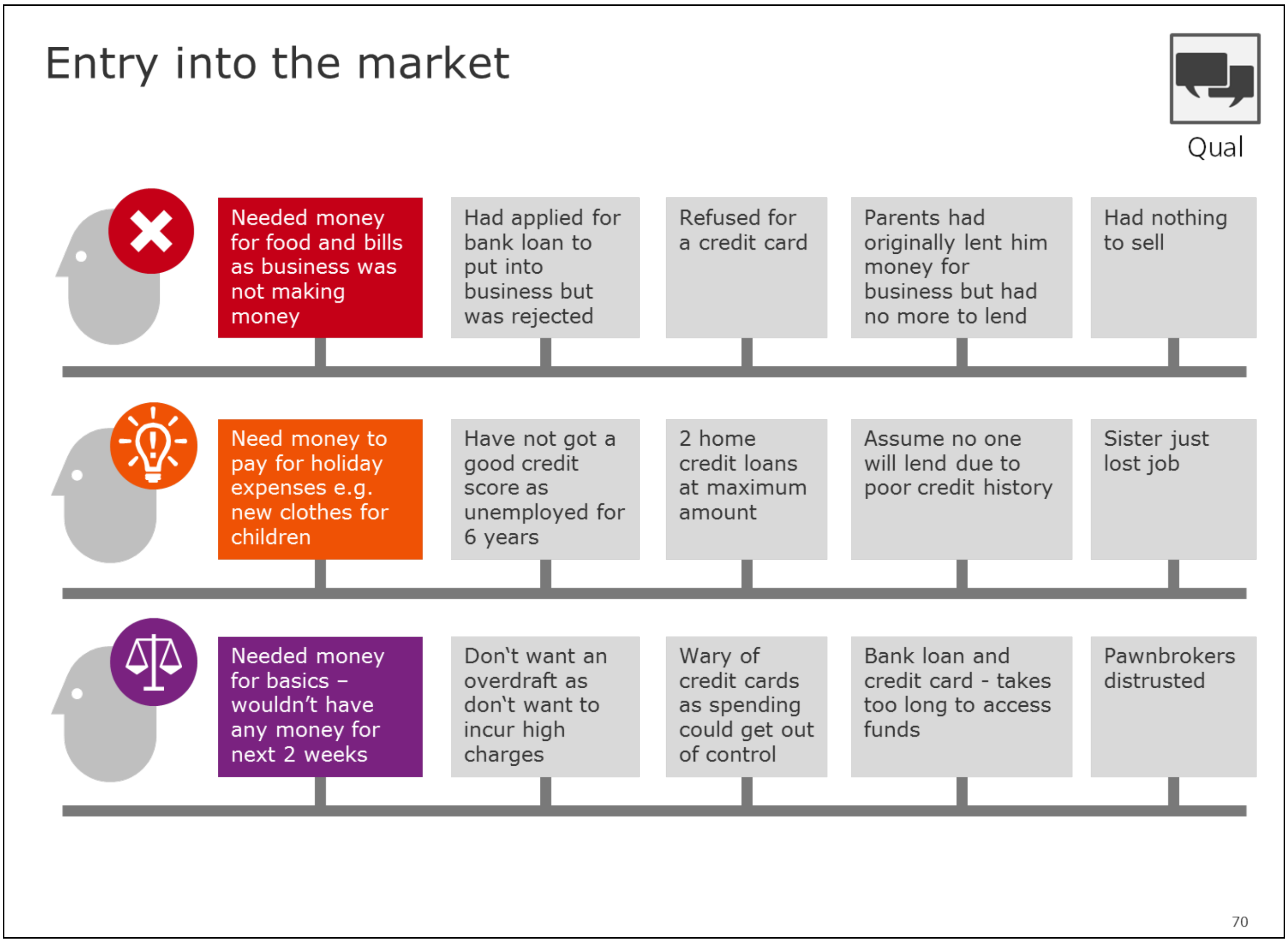
69

Customers interviewed in the qualitative research were either unable to borrow from friends and family or unwilling to do so, with many citing social stigma as a primary reason to avoid this form of borrowing. This was particularly pronounced when they felt they did not really need the loan so did not want to justify why they wanted the money.

Pawnbrokers were perceived by some as being for the poor and dispossessed, and these customers had not and would not consider using them. This was not unlike attitudes to high street lenders amongst online only customers. Others who had used pawnbrokers in the past were either dissatisfied with the amount they had received, or had nothing at the time of adequate value to pawn.

Two attitudes emerged in relation to home credit loans, with one group deeming them to be both a humiliating and high-cost form of borrowing. Others had used them in the past and felt they offered benefits in relation to the flexibility of repayments, but had not used them in this instance because they were already at their maximum credit level.

There was low awareness of credit unions amongst those interviewed, but those who were aware of them felt they were unsuitable because of the time it took to access funds and to set up an account.



These customer journeys, derived from qualitative research findings, depict examples of how the three typologies might enter the market, in terms of the alternatives that they attempted to try first and the reasons for not using other alternatives. It is mainly the third group who are making comparisons, for whom payday loans are less of a last resort and more of an active choice.

Perceived benefits of payday loans by comparison

Qual

A discreet and discrete form of borrowing with a number of benefits

No need to justify reason for loan, no need to tell family (or partner), or no longer having to rely on borrowing from family (particularly online)

Contained: not a long-term commitment but a short term fix

- Perception that payday loans do not affect your credit rating
- Not associated with the same consequences as 'mainstream' debt
- Short term nature means it does not feel like debt if repaid on time
- More appropriate for small amounts
- Customer feels in control – induced by slider

Mainly because it was private, doing it and not having to tell people, on my computer at home
Male, 1 loan, no roll-over, online

I'd rather be independent and sort out my own problems rather than run to other people
Male, 4 loans, no roll-over, online only

The debt's gone, but with a credit card it's spread...it's just a case of I'll pay it and it won't stretch...the credit card is the long haul
Male, 1 loan, roll-over, retail

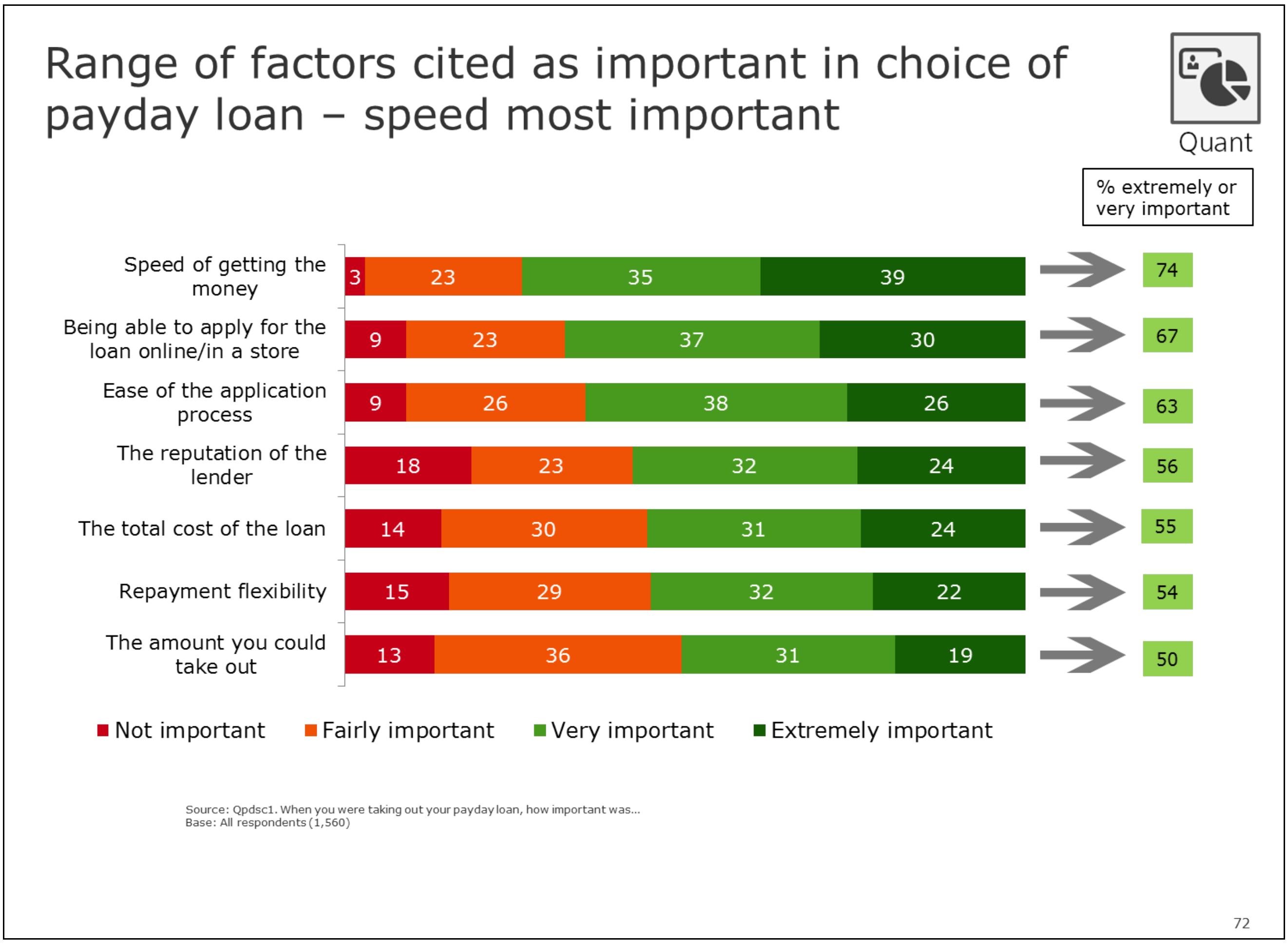
71

The qualitative research suggests that the reasons customers choose payday loans over alternative are not just because they are quick, though this is clearly important. Unpacking what is meant by 'alternatives less convenient' (see the result from the quantitative survey earlier in this chapter), payday loans offer customers a discreet form of borrowing in that it is private and potentially anonymous, but also discrete in the sense that it is contained. It is seen as a short-term fix, rather than a long-term commitment; it is bounded.

A further perceived benefit of payday loans over alternatives is that they are not associated with the same consequences as mainstream debt. This is due to a perception that they do not affect your credit rating, but also that being so short term, they do not feel like debt in the way people are used to thinking about debt. Payday loans are thus attractive over alternatives as customers perceive they will not only start quickly but also be over quickly.

10. Importance of various factors in choosing a payday loan

In the quantitative survey customers were asked to assess the importance of various factors, such as speed of getting the money, the channel of purchase and the ease of the application process, in their choice of a payday loan. The results from this and some related findings from the qualitative research are presented in this chapter.



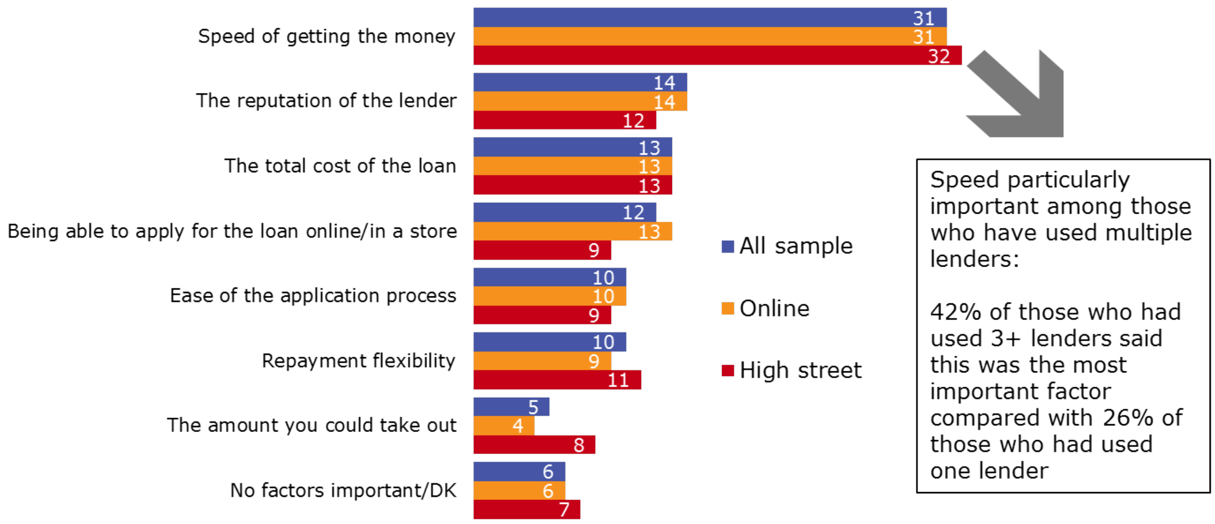
In the quantitative survey customers were asked to rate the importance of seven different factors that might be associated with a payday loan, from extremely important (the dark green sections of the bars on the right) to not at all important (the dark red sections of the bars on the left).

All factors were seen as reasonably important, with at least half rating each as either extremely important or very important. However, the factors seen as most important by customers were the speed of getting the money (which 74% saw as extremely or very important), being able to apply for the loan online/in a store (67%)[16] and the ease of the application process (63%).

[16] This option was worded as 'Being apply to apply for the loan online' for customers with an online loan and 'Being able to apply for the loan in a store' for customers with a high street loan.

Speed of getting money seen by three in ten as the most important factor; few differences between online/high street

Quant



Source: Qpdsc1. When you were taking out your payday loan, how important was…/ Qpdsc2. You said that a number of factors were equally important. Which of these would you say was the most important factor?
Base: All respondents (1,560); All online customers (1,061); All high street customers (499)

73

If customers said that more than one factor was equally important they were asked to choose the single most important factor. For those who had already identified a single factor as most important (at the previous question) this was already known. The above chart shows the most important factor for all customers.

Here the speed of getting the money stands out as by far the most important factor. Overall, three in ten (31%) rated speed as the most important factor compared with around one in ten for most of the other factors.

There was very little difference between those taking out an online or high street loan. It was apparent that those who had used multiple lenders were particularly likely to see speed as most important (42% of those who had used three or more lenders judged the speed of getting the money to be the most important factor) so this may become increasingly important the more active customers become in the market.

There were few notable differences in the importance levels attributed to various factors across a range of socio-demographic groups. It was however interesting that customers aged 18-24 were more likely than older customers to rate the reputation of the lender as being most important (22% of 18-24 year olds versus 13% of 25-44 year olds and 10% of those aged 45 or over) and less likely to rate the speed of getting the money as being most important (23% of 18-24 year olds versus 32% of 25-44 year olds and 33% of those aged 45 or over).

Speed is not just about accessing funds but the speed of the process

Qual

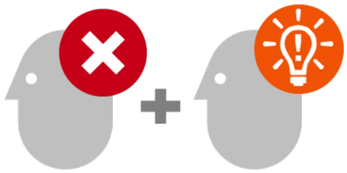
Speed trumps value - most important factor to some – borne out by the additional fee paid for immediate transfer

However, speed remains important even when there is not a major time pressure:

- Relief of getting the money
- Getting it over with - not having to stop and think about it, as rational consideration may change your mind

The longer it takes the longer I doubt things; it was like an impulse thing
2-3 loans, male, no-rollover, online

It's not something you've thought about, it's one of the quick things that you do
4+ loans, roll-over, online and retail



Payday loans are guaranteed
1 loan, no roll-over, online

74

Speed was very important to customers in the qualitative research, both in terms of speed of the process and the speed of accessing the money. This is for three reasons, and reflects the psychological state customers described when seeking a loan: 1) customers feel they need the money <u>now</u>, in order to deal with their impending financial issue, with some describing themselves as 'panicky' at the time of applying; 2) they want to know that have the money as soon as possible and that the financial issue they have been dealing with is sorted out, and 3) they want to get the process of application over as soon as possible so that they can 'return to normal'. In some cases the speed of application and accessing the money trumps the value of the deal, with customers in some cases saying that they paid more for a speedy 'peace of mind'.

11. Shopping around for payday loans

This chapter deals with shopping around between payday lenders. Specifically it looks at whether customers do shop around to compare lenders, which groups are more likely to shop around, what shopping around involves and the reasons that some customers do not compare lenders.

The chapter begins with an overview of how shopping around is defined by customers, based on responses to the qualitative research, which provides context for the quantitative findings on shopping around that follow.

What does 'shopping around' actually consist of?

Qual

Online

Typing 'short term loans' or 'fastest way to get a loan' into a search engine:

- Clicking on first two or three, spending about 10 minutes, picking one and applying
- If rejected, try another one
- Some use of comparison sites
- Scanning through sites and leaving the page if encounter anything not liked, e.g. requiring payslips
- Some spend an hour searching and comparing but often unable to identify best deal for them

High street

Very little shopping around or interest in doing so. Choice may be based on:

- The shop walked past most often
- What is open at the time
- The only shop known

Once you go into one of the shops, difficult to back out – decision is made

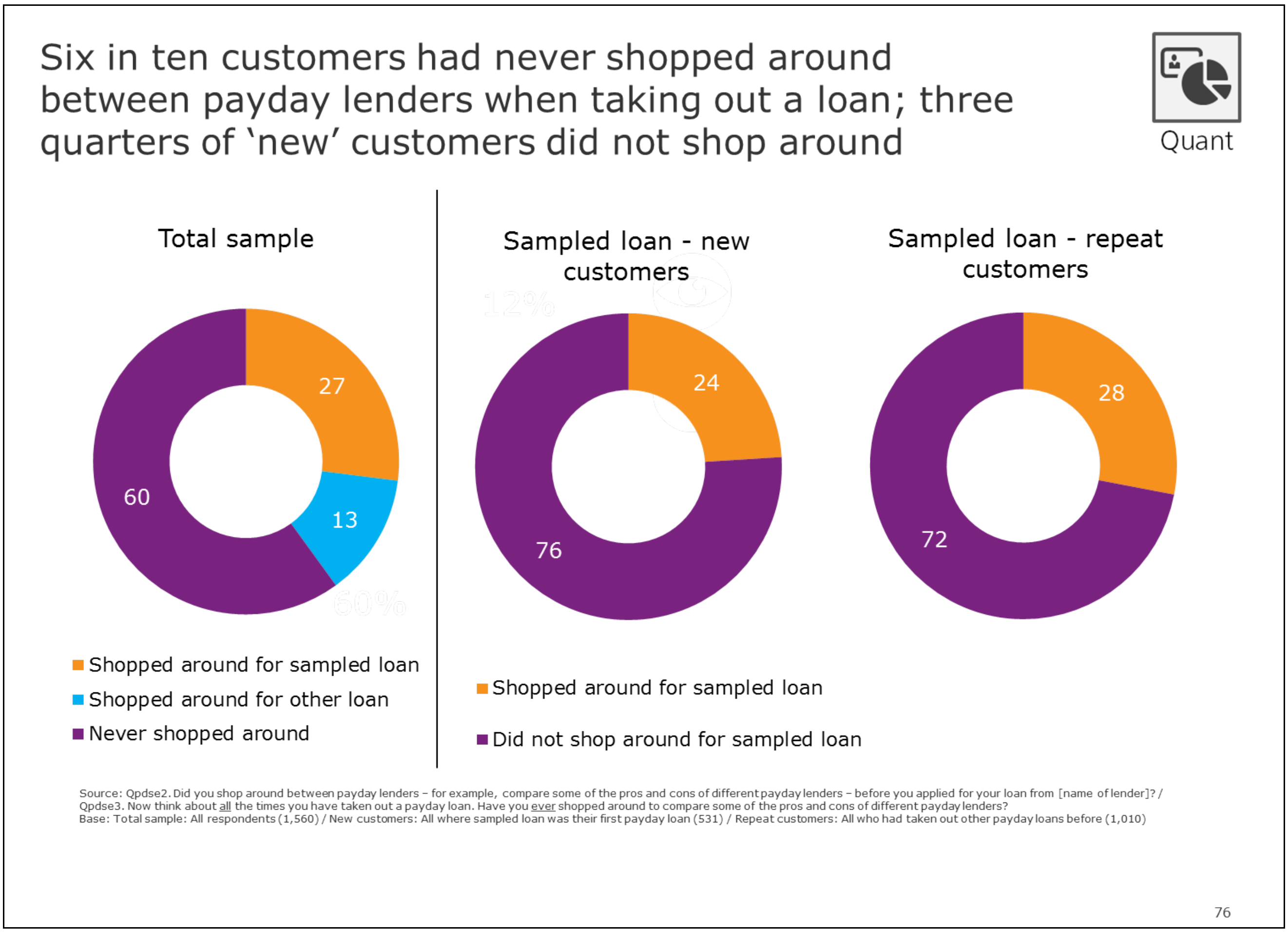
I just went because it's there

75

In general, shopping around appeared to be a very cursory experience. The qualitative research suggests that for online applications, the process generally entailed: typing 'short term loan' or 'fastest way to get a loan' into a search engine; looking at the top two or three sites, spending a total of between one and ten minutes reviewing the sites; selecting a site that they liked the look of, or where the loan application appeared very clear; applying for the loan; if rejected they would select the next site in the list. If during the application process there were some aspects that the customer did not like, such as having to provide evidence of income, then they would search again.

The quantitative survey indicated that 42% of those who shopped around visited comparison sites. The qualitative research found that where comparison sites were used, that consumers did not find them particularly helpful. This was because comparison sites did not compare 'like for like' loans and so comparison was very difficult.

There was limited evidence of shopping around on the high street. This was linked to the fact that in many local areas, particularly outside London, there may be a perception of less choice on the high street. The familiarity of seeing an outlet every day, or it happening to be open when a loan was needed, and a perception that all such shops were the same were all reasons not to shop around on the high street. Consumers also said that they found it difficult to walk away from an offer of a payday loan in a high street outlet, feeling that once they had walked into a store they had already made the decision to take a loan out there.



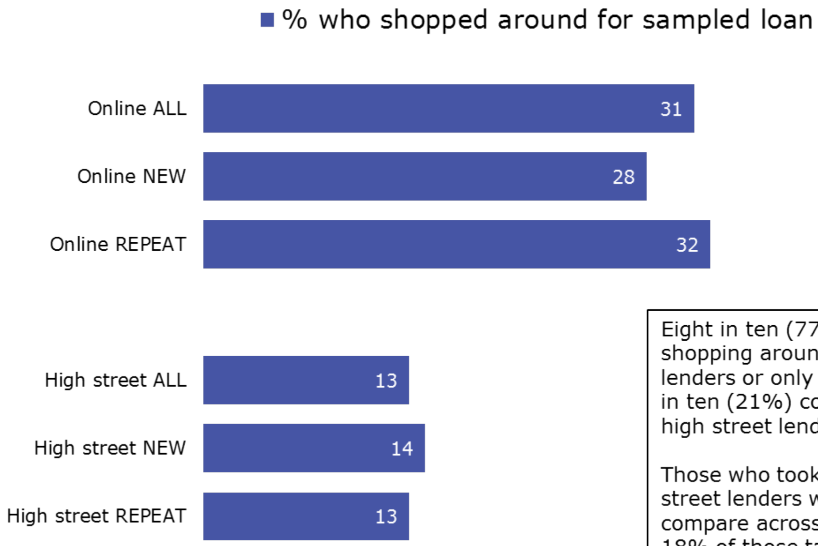
Overall, three in ten customers in the quantitative survey (27%) shopped around for their sampled loan (the specific loan they were asked about in the interview). Those who did not shop around for this loan but had taken out other loans were asked whether they had ever shopped around for a payday loan. Twelve per cent said they had shopped around for another loan – but not the sampled loan. Thus, four in ten customers (40%) had ever shopped around for a payday loan while six in ten (60%) had never shopped around when taking out a payday loan.

Based only on the sampled loan, 24% of new payday loan customers shopped around compared with 28% of repeat customers.[17]

[17] These are customers who had taken out at least one loan before the sampled loan, based on survey responses.

Online customers far more likely than high street customers to shop around

Quant



Eight in ten (77%) of those customers shopping around compared only online lenders or only high street lenders; two in ten (21%) compared both online and high street lenders.

Those who took out loans from high street lenders were more likely to compare across channels (44% versus 18% of those taking out an online loan).

Source: Qpdse2. Did you shop around between payday lenders – for example, compare some of the pros and cons of different payday lenders – before you applied for your loan from [name of lender]?
Base: Online: All (1,061) / New (368) / Repeat (689); High street: All (499) / New (163) / Repeat (321)

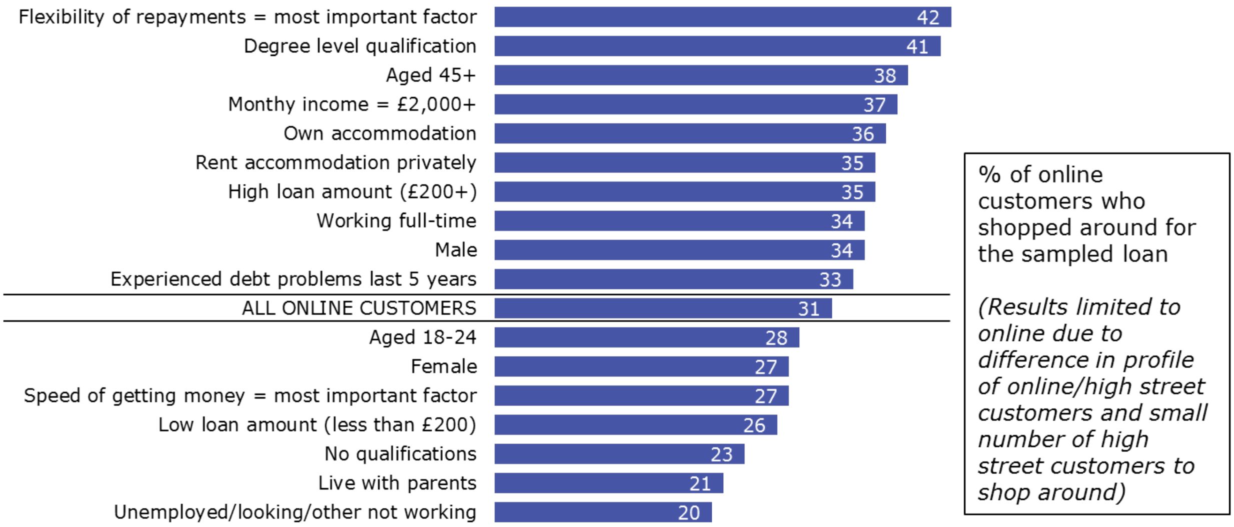
77

Customers who took out loans from online lenders were far more likely to have shopped around compared with those taking out loans from high street lenders. This is probably unsurprising; firstly there are more online lenders in the sector and secondly, it is in theory much quicker and easier to compare lenders online.

Those taking out loans from high street lenders were more likely to compare across both channels (high street and online) compared with those taking out loans from online lenders. This reflects findings around how customers compare lenders across the two channels which will be included later in this chapter.

Those more qualified, on higher incomes, favouring flexibility and with experience of debt problems among those more likely to shop around

Quant



Source : Qpdse2. Did you shop around between payday lenders – for example, compare some of the pros and cons of different payday lenders – before you applied for your loan from [name of lender]?
Base: All customers where sampled loan was online (1,061) and: with degree level qualifications (331); citing flexibility of repayments as most important factor (102); with monthly income > £2,000 (386); Aged 45+ (216); Rent accommodation privately (377); Loan amount > £200 (500); Own accommodation (186); Working full-time (722); Male (613); Experienced debt problems in last five years (479); Aged 18-24 (290); Female (405); citing speed of getting money as most important factor (299); Loan amount < £200 (519); with no qualifications (84); unemployed/looking/not working (160); living with parents (184)

78

The above chart gives an overview of some of the groups more and less likely to shop around for the sampled loan. It only includes those who took out online loans, to allow for a like-for-like comparison – as otherwise the groups less likely to shop around would simply be those more likely to take out high street loans (as we know that shopping around is less common for high street loans).

Customers with higher qualifications and earning higher incomes were more likely to shop around. So, for example, 41% of those with degree level qualifications shopped around compared with 23% of those with no qualifications. Other differences which stand out are:

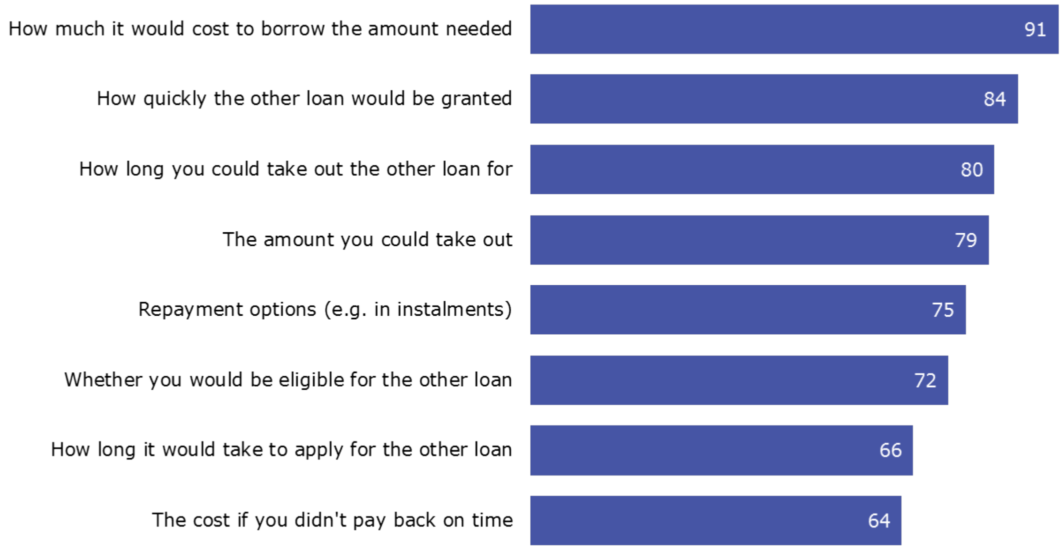
- Customers taking out higher value loans were more likely to shop around compared with those taking out lower value loans: 35% of those taking out loans for £200 or more shopped around, compared with 26% of those taking out loans worth less than £200.
- Those citing flexibility of repayments as the most important factor were more likely to have shopped around, particularly when compared with those citing the speed of payments as most important (42% versus 27%).
- Customers who had experienced debt problems in the last five years appeared slightly more likely to have shopped around (33% of this group shopped around, compared with 28% of those with no debt problems)[18]. In their case shopping around may have been more to do with necessity than choice, as they may have been turned down by some lenders. This is backed by another finding from the quantitative survey, with 34% of those who had

[18] This difference is not significant at a 95% confidence level. However, if we look at the proportion of all customers who ever shopped around, those with debt problems were significantly more likely to have shopped around (46%, compared with 34% of those with no debt problems).

experienced debt problems in the last five years having been refused a loan at some point compared with 10% of those without debt problems in this period.

Most customers who compared lenders said they found out basic information

Quant



Source: Qpdse5. You say that you compared different payday lenders before taking out this loan. Did you find out...
Base: All who have ever shopped around to compare payday lenders (545)

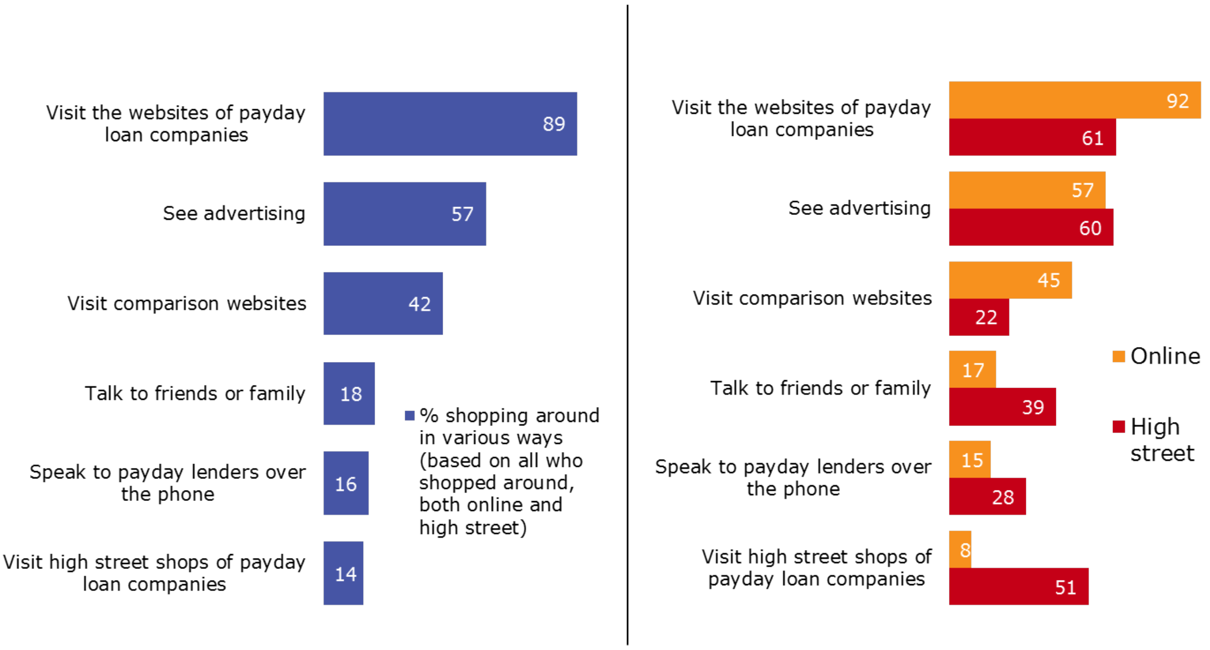
79

The above chart shows the range of attributes customers who did shop around said they found out when comparing lenders. Nearly all said they found out how much it would cost to borrow the amount needed (91%), and most found out other aspects too; most commonly, the speed the loan would be granted (84%), how long the loan would be taken for (80%), the amount that could be taken out (79%) and repayment options (75%).

It should be noted that these measures are based on claimed customer behaviour and it is not clear how widely customers reviewed this information. Some of the qualitative findings presented in this chapter suggest that the experience of shopping around was a very cursory experience for some customers, with often only a small amount of time spent comparing lenders or loans.

Comparing websites and advertising most common sources of information; some high street customers utilised online methods

Quant



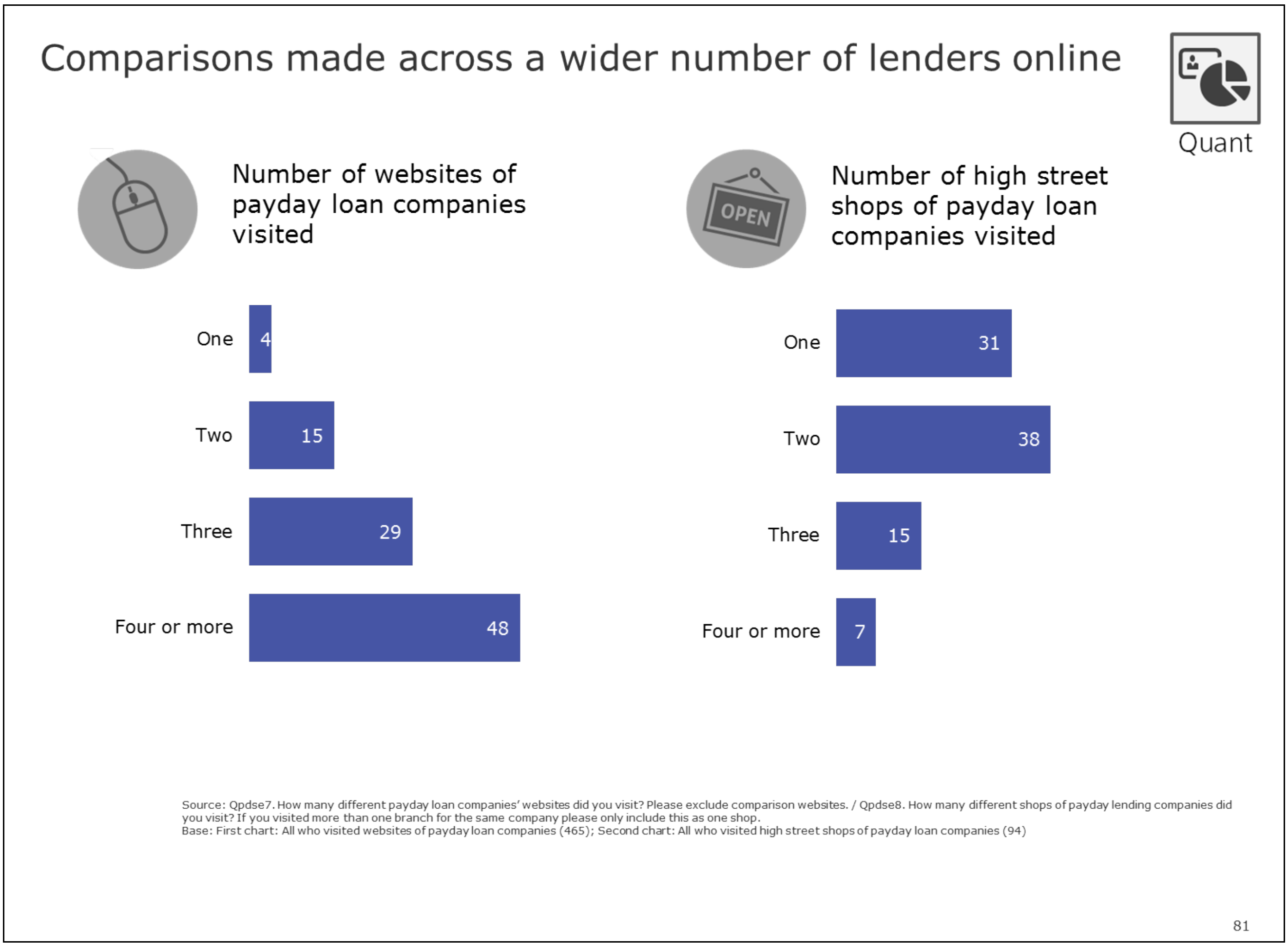
Source: Qpdse6. And how did you go about getting information that allowed you to compare the pros and cons of different lenders? Did you...
Base: First chart: All customers who shopped around for any loan (545); Second chart: All online and high street customers who shopped around for sampled loan (297 / 66)

80

Customers who shopped around were also asked what information sources they used when comparing lenders. The blue bars on the left are based on all those who shopped around and the bars on the right divide these customers based on whether they ultimately took out the loan from an online lender or high street lender.

Overall, the most common methods used to compare were visiting websites of lenders (89%), seeing advertising (57%) and by visiting comparison websites (42%).

There were some clear differences between those taking out online and high street loans. As would be expected, those taking out online loans were more likely to visit websites of lenders (92%) and comparison websites (45%) while those taking out high street loans were more likely to visit shops (51%), as well as talk to friends and family (39%). However, it is interesting to note that those taking out high street loans still often used online methods to compare – and in fact more customers who took out high street loans visited websites of lenders (61%) than visited shops (51%).

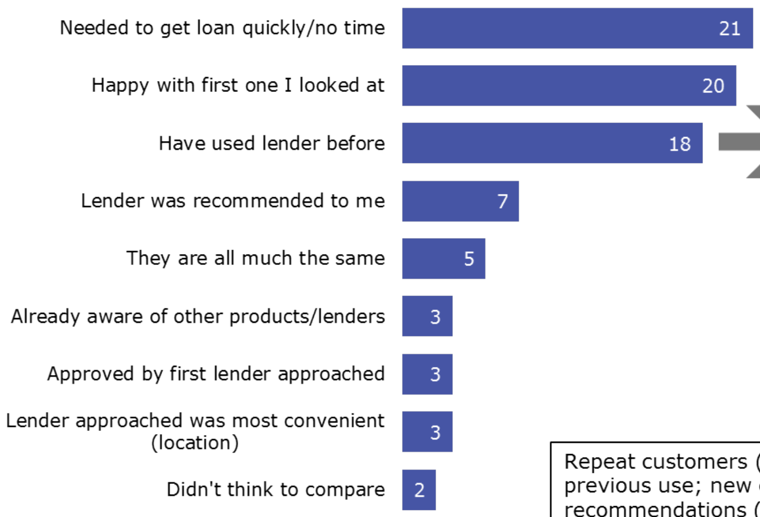


All customers who shopped around were asked how many lenders they compared. There were clear differences between online and high street in terms of number lenders compared, with a greater number of websites being visited compared with shops. Again this is probably unsurprising, given the greater choice of online lenders and the greater ease of comparison. Most customers who visited websites said they looked at least three websites (77%), whereas most of those who visited shops only went to one or two shops (69%).

It is worth noting that a substantial minority of customers (31%) said they only visited one shop when comparing lenders. This is likely to be linked to the fact that high street customers used other methods (for example, visiting websites as shown on the chart on the previous page) as part of their process of shopping around, in addition to visiting shops.

Lack of time, being happy with first lender approached and previous relationship with lender cited as main reasons for not shopping around

Quant



'Not enough time' was the most common reason cited for not shopping around more among those who did shop around (35%)

Among those who did not shop around due to using the same lender before the most common reasons for this were:

- Happy with the service provided before (58%)
- Easier/more convenient due to already having details (14%)
- More chance for being approved for a loan as a repeat customer (10%)

Repeat customers (unsurprisingly) more likely to mention previous use; new customers more likely to mention recommendations (13%); otherwise few differences between new and repeat customers

Source: Qpdsf2. Why did you not compare the pros and cons of different lenders when taking out your loan from [name of lender] on [date of loan]?
Base: All who did not compare lenders when taking out the sampled loan (1,191); Top box: All customers who shopped around for any loan (545); Second box: All who did NOT shop around before taking out sampled loan because they had used the lender before (199); Bottom box: New customers who did not shop around before taking out sampled loan (308)

82

All customers who did not shop around to compare lenders when taking out the sampled loan were asked their reasons for this. The most common reasons were the need to get a loan quickly/having no time to compare (21%), being happy with the first lender looked at (20%) and having previously used the lender (18%).

Customers who shopped around were also asked why they had not shopped around more. Not enough time (35%) was also cited as the most common reason for not shopping around more among this group.

Among those who did not shop around due to having previously used the lender, the main reason for not looking elsewhere was being happy with the service provided before (58%), though some also mentioned it being easier to remain with this lender due to them already having their contact details (14%) and having more chance of being approved for a loan by a lender they had used before (10%).

There were limited differences in terms of reasons for not shopping around between new and repeat customers. As would be expected, repeat customers were more likely to mention previous use of lenders while new customers were more likely to mention recommendations – but otherwise there were few differences between these two groups.

Barriers to shopping around

Qual

Reasons for not shopping around at all

- Mind-set when taking out the loan – just want money quickly; heightened if panicking about getting the loan
- Just looking for approval from anyone; not expecting approval but just testing
- An impulse decision
- Laziness, disengagement

Barriers to shopping around if tried

- Unaware of price comparison sites, then can't compare like with like
- Wanting to reduce the number of companies that have your details
- All lenders, interest and charges seem the same

I just wanted to do it really quickly and get it over and done with…let me do this before I change my mind
1 loan, no roll-over, online

I had blinker vision on, it was get it done, get it sorted, don't think about it
1 loan, no roll-over, online only

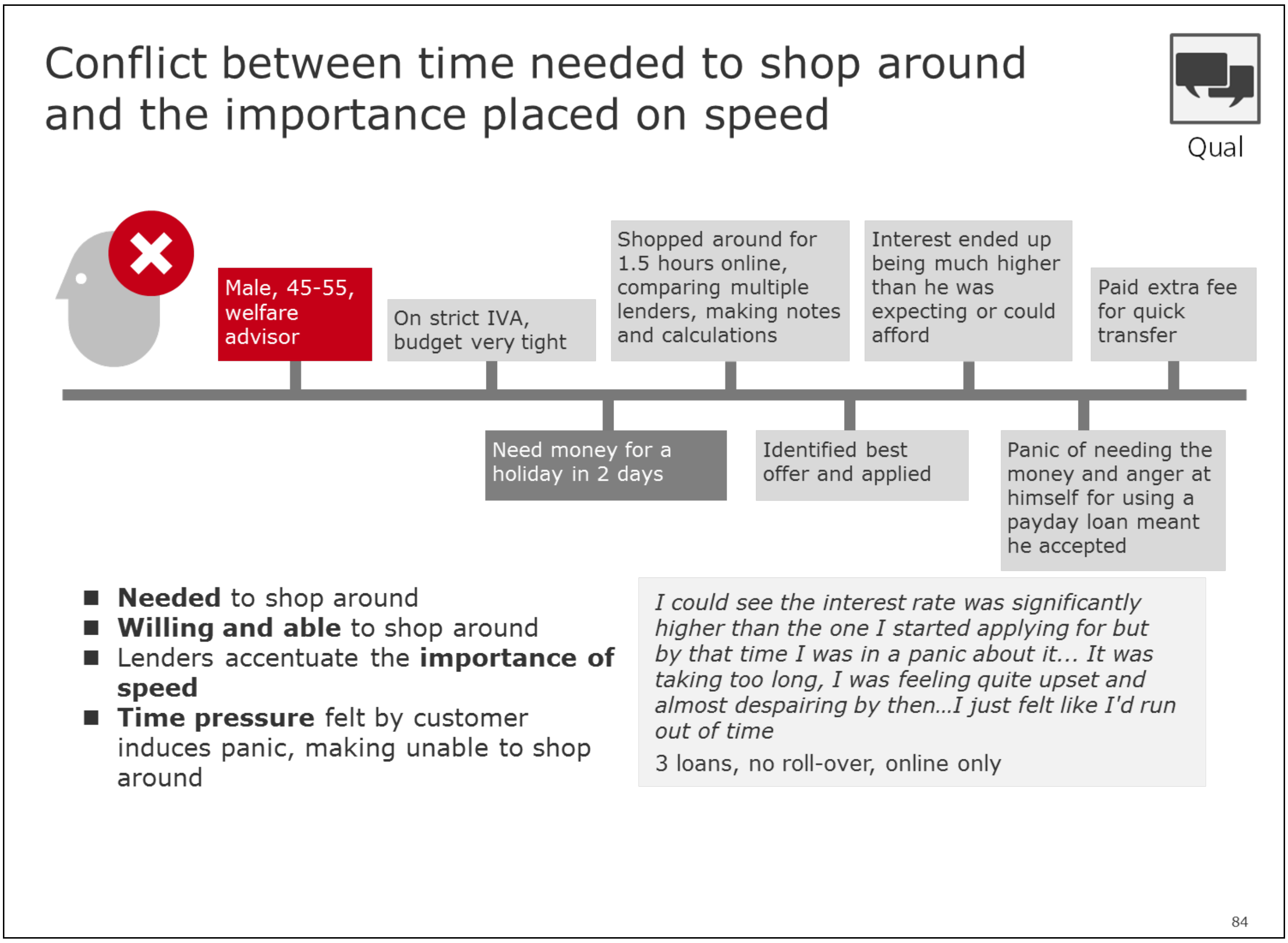
I don't think there is a good deal with pay day loans. Because there's so much competition with payday loans, they're all such a similar interest rate, they're all on such a similar repayment terms, I don't think you can shop around with payday loans…they're all on such a similar scale that for the sake of £10, is it worthwhile shopping around?
4+ loans, roll-over, retail and online

83

It was mentioned earlier that customers in the quantitative survey cited 'not enough time' as a barrier to shopping around. The qualitative findings suggest that this is a reflection of how people often feel when they are applying for a loan. Some feel desperate; they feel they need the money quickly and they want their financial issue to be resolved. Some described themselves as 'lazy' and said they could not be bothered to shop around.

As discussed earlier, comparison sites do not appear to assist with shopping around as they do not compare 'like for like'. Although a customer may type in a loan amount and borrowing period, the comparison sites show different loan amounts and different loan periods and so the representative examples are different.

Other reasons for not shopping around amongst customers in the qualitative research included: finding it difficult to compare financial issues such as APRs; intentionally limiting the number of lenders with whom they have sent their details due to privacy concerns; and a perception that lenders' charges are very similar.



This chart provides an example of a customer who felt in desperate need of a loan in order to pay for an already booked holiday and had a very tight budget, but at the same time recognised that it was good practice to shop around for the best deal. Having spent some time looking for the best deal and starting to get worried that they were not going to get the money they needed he was re-directed from one website to another where it appeared his application had been accepted but at a higher fee than expected. Panic set in; he accepted the loan plus a quick transfer fee. Although the loan cost more than expected, he felt peace of mind once the transaction was complete.

This example suggests that even customers who have the need and ability to shop around are often unable to do so effectively, as a result of the difficulties of comparing deals online and the importance placed on speed. The customer was unable to identify a loan with immediate transfer, despite spending over an hour on comparison sites. The time pressure felt by the customer, accentuated by the lenders' focus on speed, undermined his ability to secure a loan that suited his budget.

Nine in ten customers taking out their first loan with a lender said they applied directly to their lender for the loan

Quant Qual

88% of new customers (those taking out a loan with a lender they had not used before) said they applied directly to their lender for their loan

8% said they applied through a broker or other third party

3% said they did not know whether they applied direct to the lender or through a broker/other third party

- Overall there was low awareness or understanding of brokers
- Those who are charged a fee and do not receive a loan assume at the time that there is a glitch; does not prevent them doing the same again in the future
- Customers suspicious when asked to provide their details to compare multiple lenders at once – will not risk sharing their information this way
- A minority were aware of brokers sites and avoided them

Source: Qpdse1. Can I just check, did you apply for your loan directly through [name of sampled lender] or did you apply through a broker or other third party?
Base for quantitative results: All customers taking out a loan with a lender they had not used before, based on survey responses (849)

85

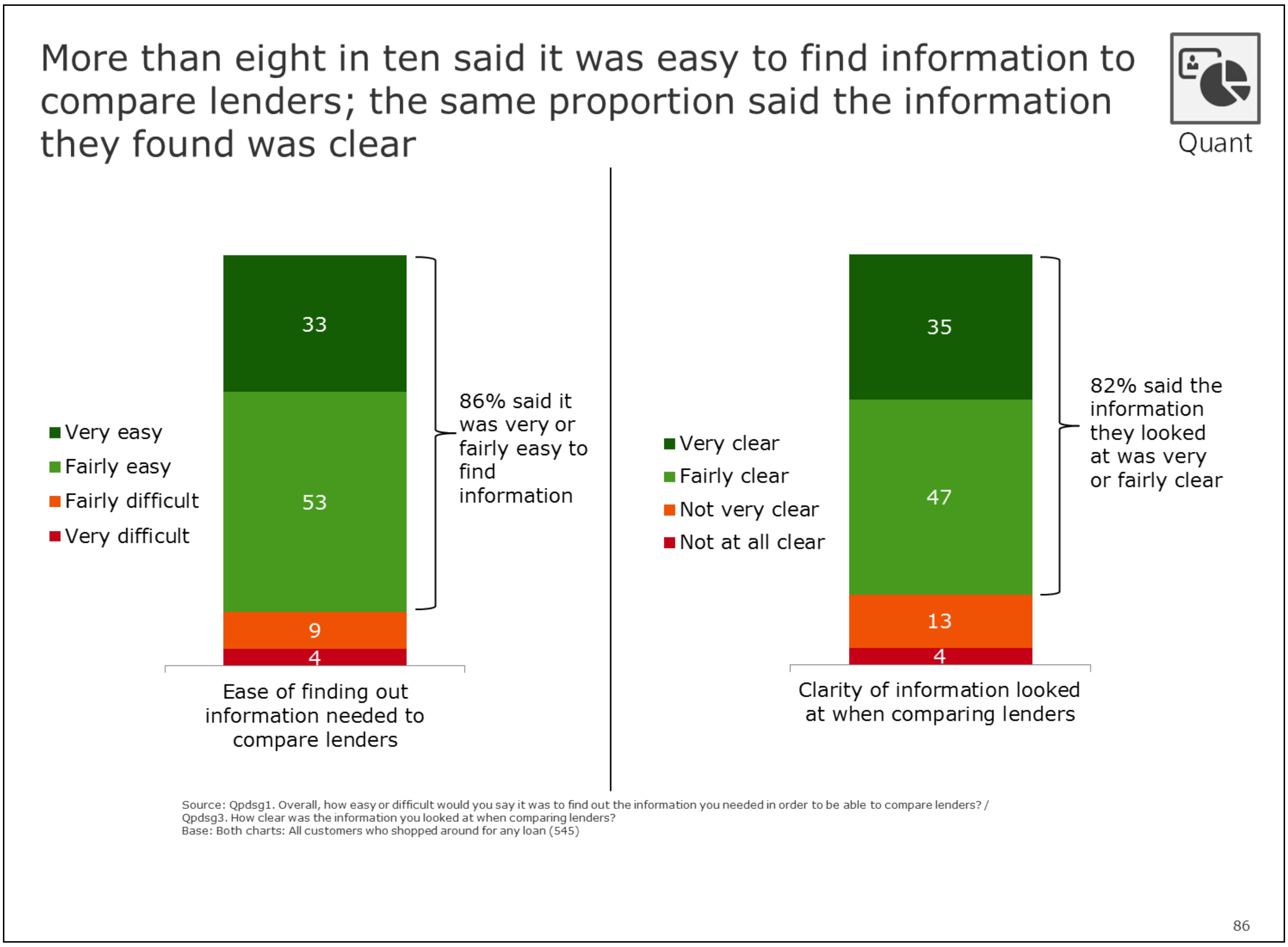
Nine in ten customers in the quantitative survey that were new to the sampled lender (88%) said they applied directly to the lender they took their loan out from. Eight per cent of customers that were new to the sampled lender said they applied to a broker or other third party while three per cent were not sure whether they applied directly to the lender or not. Brokers were more common for those taking out loans from online lenders: 10% of online customers said they applied through a broker compared with two per cent of high street customers.

Findings from the qualitative survey (included on the right hand side of the above chart) which suggest that few customers are aware of brokers, and that some of those who were aware treated brokers with a degree of caution or suspicion.

We understand that the transactional data provided by lenders suggests that a larger proportion of loans were taken out through brokers than the findings presented here suggest. This appears therefore to be indicative of lack of understanding on the part of the consumer about whether the company being approached for a loan is a payday lending company or a broker.

12. Awareness and understanding of information, costs and charges

Customers who had ever shopped around for a payday loan were asked in the quantitative survey about the ease of finding information to compare lenders and the clarity of information obtained. All customers were then asked questions about costs and charges, including their understanding of the repayment amount at the time their loan was taken out. The qualitative research sought to explore customer understanding of information, costs and charges in more depth and these results are also presented in this chapter. Also included here are results from two questions on financial literacy which were included in the quantitative survey.



Most customers who shopped around between lenders said it was easy to find out the information they needed to compare lenders. A third (33%) said it was very easy to find this information and half (53%) said it was fairly easy to find this.

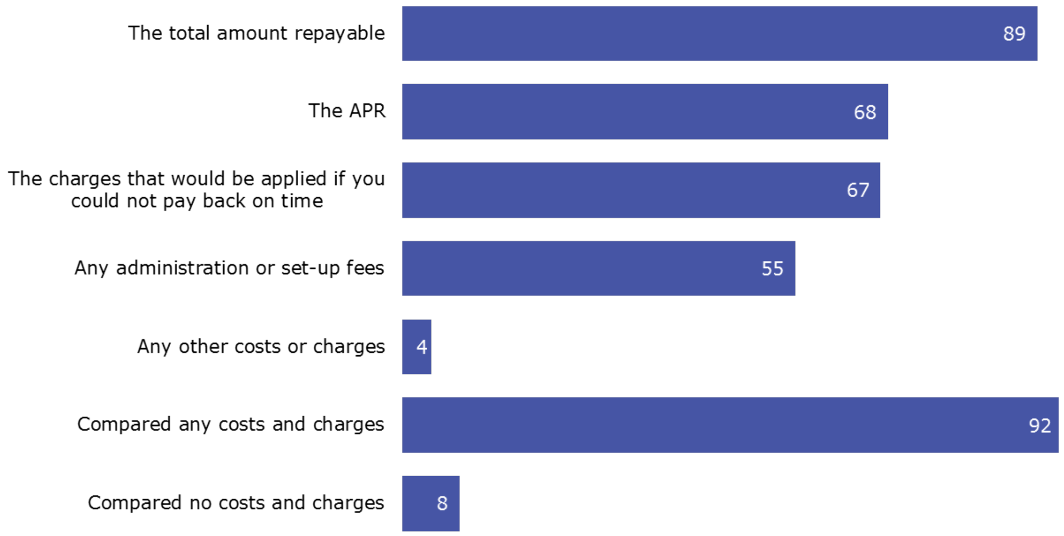
Most also said that the information they looked at when comparing lenders was clear. A third (35%) felt the information was very clear and almost half (47%) said it was fairly clear.

It should be noted that these measures are subjective and it is not clear what benchmark a customer will be using when reporting how clearly information was presented.

Some of the qualitative findings presented in the previous chapter suggest that some customers found it more difficult to compare lenders than is suggested here and that the level of information that is reviewed is often minimal.

Nine in ten looked at the total amount repayable before taking out their loan; two thirds looked at the APR and the charges that would be applied for late payment

Quant



Source: Qpdsh1. Before taking out the loan, did you look at any of the following costs or charges?
Base: All respondents (1,560)

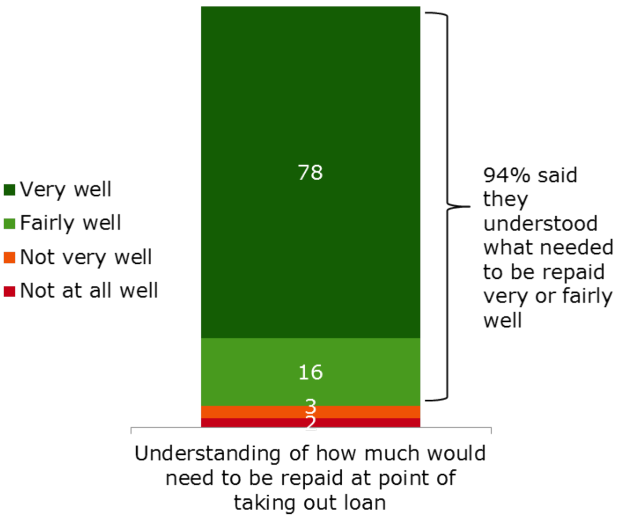
87

All customers – regardless of whether they shopped around – were asked what information on costs and charges they looked at when taking out their loan. Nine in ten (89%) looked at the total amount repayable, two thirds at the APR (68%) and the charges that would be applied for late payment (67%). Just over half (55%) of customers said they looked at any administration or set-up fees.

Almost one in ten (8%) said they did not look at any costs or charges – not even the total amount repayable – at the time of taking out their loan.

Most claimed to have a good understanding of what they would need to repay

Quant



Source: Qpdsh2. At the point of taking out the loan, how well did you understand how much you would have to repay?
Base: All respondents (1,560)

88

All customers were asked to think back to the point they took out their loan and consider how well they understood what they needed to repay.

Most customers claimed to have a good understanding of what they would need to repay. More than nine in ten said they understood this very or fairly well (94%), including almost eight in ten who said they understood very well.

Overview of financial literacy

Quant

Respondents asked two questions on financial literacy:

You have taken out a loan for £500, and the interest rate you are charged is 10 per cent per month. There are no other fees. At this interest rate, how much money would you owe <u>in total</u> after one month?

And if you didn't pay anything off, at this interest rate (10 per cent) how much would you owe after two months – again assuming there were no additional fees?

- 59% answered first question correctly (£550)
- 34% answered the second question correctly (more than £600)

Those more likely to answer the simple interest question correctly include: men (66%), full-time workers (65%), those with degree level qualifications (71%), owner occupiers (72%) and those with three or more loans (66%, supported by qualitative findings)

Source: Qfc8 and Qfc9 (as above)
Base: All respondents exc. DK/REF (1,484). NB. those saying 'don't know' to the first question were not asked the second question but have been included in the base as incorrect. Men (860); Full-time workers (975); Those with degree (451); Owner occupiers (276); 3+ loans (865)

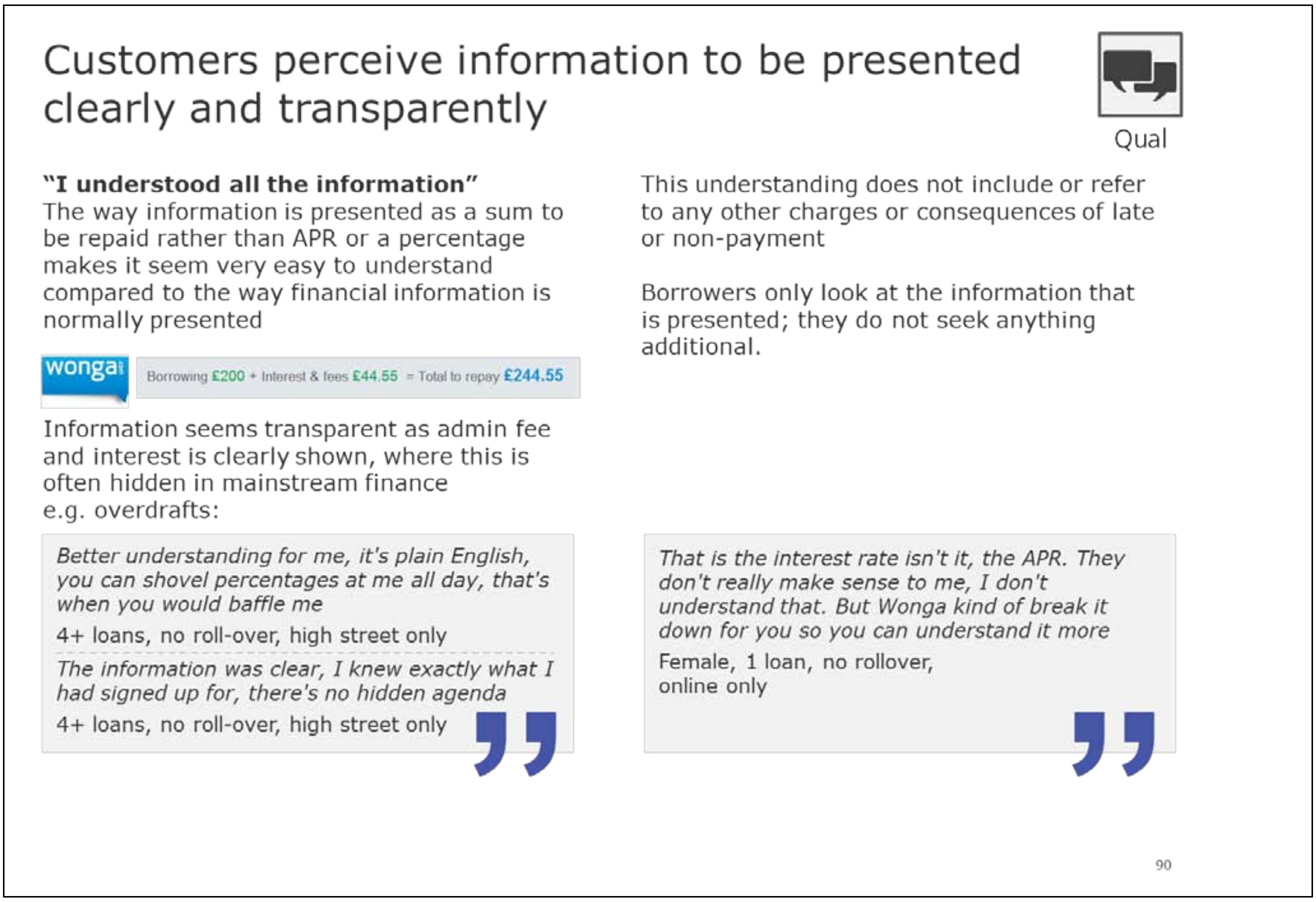
89

To add some context to customers' understanding of financial terms, two questions were included in the quantitative survey on financial literacy – the first to assess understanding of simple interest rates and the second of compound interest calculations.

Six in ten (59%) answered the simple interest question correctly and just over three in ten (34%) answered the compound interest question correctly.

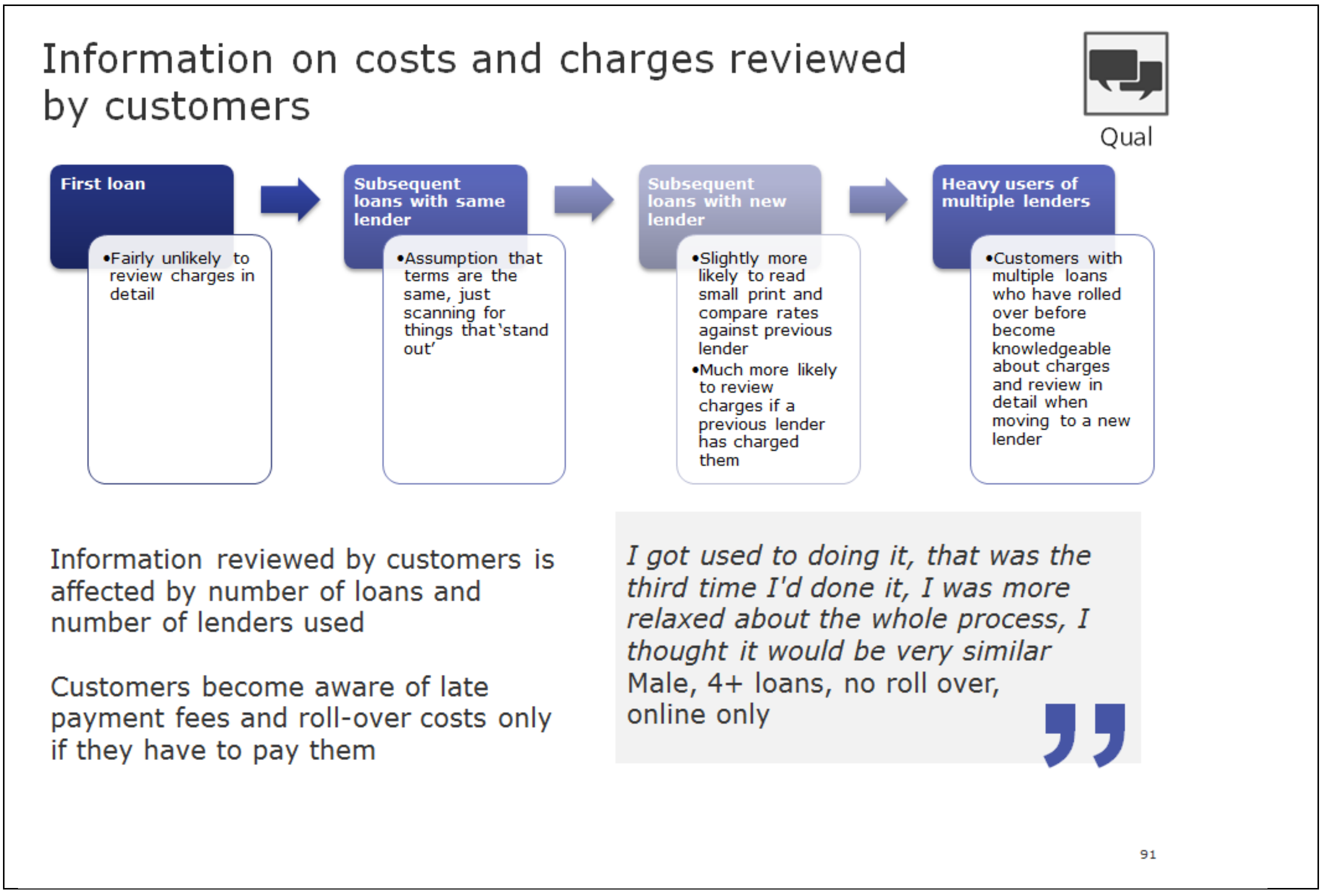
Based just on the simple interest question, those more likely to answer correctly included men (66%), full-time workers (65%), those with degree level qualifications (71%) and owner occupiers (72%). Customers with three or more loans were also more likely to answer correctly (66%).

While the results reported here suggest that a proportion of customers struggled with interest rate calculations this does not necessarily challenge the earlier finding that most customers understood how much they needed to repay. In many cases they would have been told – or found out – the amount to be repaid at the time of taking out their loan and so therefore would not require any further knowledge of interest rates in order to be aware of this information.



The quantitative survey indicated that more than nine in ten (94%) customers understood how much they needed to repay either very well or fairly well. Customers in the qualitative research said they felt repayment charges were generally clear and transparent - especially where a 'slider approach' is used. Customers said that the fact that interest is expressed as a sum rather than as a percentage or only as APR means they understand costs much more clearly than in mainstream finance. As the interest and initial fee (if applicable) is provided from the outset, consumers perceived the information to be upfront and unlikely to have any hidden charges.

However, when discussing this further in the qualitative interviews, customers were not generally clear about the penalties that they might have to pay, especially where it was the first time they had taken out a loan. Overall, these customers stated that they look at what they think they need to know – and nothing more.



The qualitative research suggested that customers are unlikely to review roll-over or penalty charges when taking out their first loan. If they do not incur any charges, they are unlikely to look for information about these when taking out subsequent loans with the same lender.

Customers tend to become aware of roll over or penalty charges only when they have incurred them. While it may be late in the day this does prompt customers to look more closely at the fees charged by the lender as well as to start comparing across lenders, should they take out subsequent loans.

Reasons for not reviewing costs/charges more widely

Qual

Denial
Customers do not want to think about the possibility that they might not repay in time – 'don't want to know'
Or they are confident that they will be able to repay, so deem the information irrelevant

Quick and easy
Process of applying is so fast – the need for speed means customers don't want to spend time seeking out information

Difficult to understand
Costs and charges are in jargon and are described as 'legalese' – hard to understand compared to how straightforward the rest of the information is
Those who had sought out further information struggled to understand it despite considering themselves to be fairly financially literate and well educated

I didn't understand but I didn't make an effort to try and understand
1 loan, no roll-over, online

I don't think it's clear about the penalty charges if you fail to (pay) although they tell you the rates ..you have to drill down the FAQs…all the info is there but you have to dig for it
4+ loans, roll-over, online

You don't read the fine print because it all seems so easy…you just don't think when you're getting the money
4+ loans, roll-over, retail and online

My only understanding was that I had to pay that money in one month
1 loan, no roll-lover, retail only

92

In the qualitative research customers said they do not review charges more widely for three reasons: firstly that they are confident that they will repay on time or do not want to consider the possibility that they will not pay on time; secondly 'looking up the small print' does not fit with the simplicity and speed of the application and approval system; and because where they do look at the charges they often have difficulty understanding them (such as percentages, compound interest, etc.) or have difficulty in applying the charging schedule to their specific loan.

13. Repaying loans

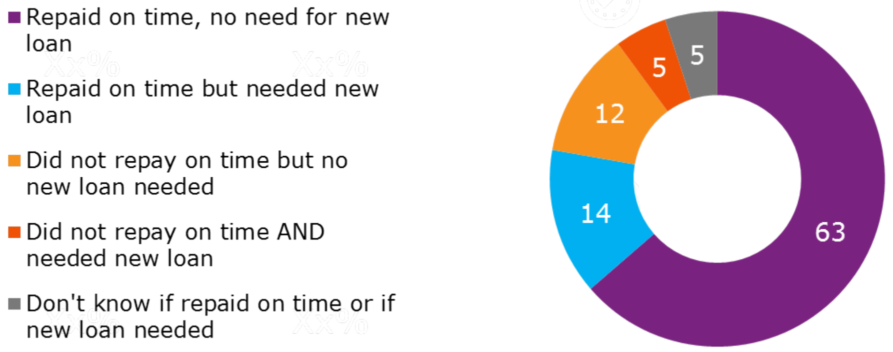
A key focus of the research was around the experience of repaying loans. This chapter includes a wide range of results in this area, drawn from both the quantitative and qualitative research. The follow-up survey also included a number of questions around repayment and these results are presented separately in chapter 15.

Two in ten customers failed to repay in full by repayment date; some who did repay in full needed new loans

Quant

72% of customers said their repayment date has passed at the time of the interview.

Of those whose repayment dates had passed, 79% said they repaid in full by the repayment date, 18% did not repay in full and 2% said they did not know. We can categorise customers further according to repayment behaviour:



Source: Qpdsi2. Did you repay the loan in full by the repayment date? / Qpdsi11. And, can I just check, did you have enough to get by until your next payday without a new loan, or did you need to take out a new loan?
Base: All respondents (1,560); All whose repayment date had passed (1,092)

93

Overall seven in ten (72%) customers had passed their repayment date when they took part in the quantitative survey. Most of those who had not passed their repayment date were drawn from the contemporaneous sample – though three in ten (28%) of these customers actually had passed their repayment date, even within around ten days of taking out their loan.

Of those whose repayment date had passed, eight in ten (79%) said they had repaid their loan in full by the repayment date, with two in ten (18%) saying they had not repaid in full.

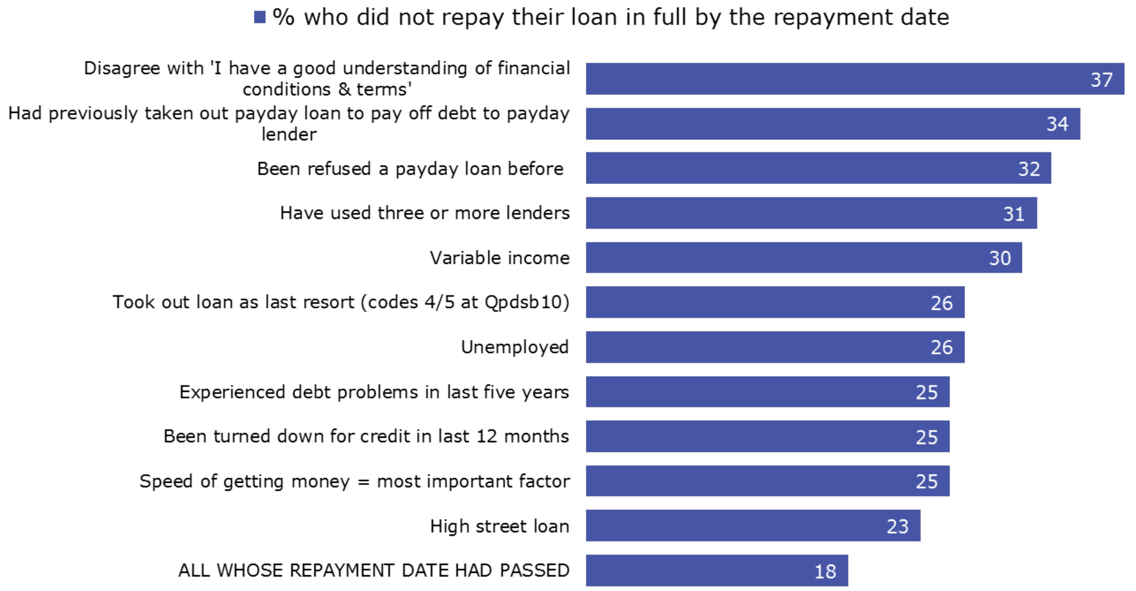
The chart above looks in more detail at those whose repayment dates had passed and divides these customers into groups, based on whether they repaid on time and whether they had a need for a new loan:

- 63% repaid in full on time and did not require a new loan in order to get by;
- 14% repaid in full on time but then needed a new loan in order to get by;
- 12% did not repay in full on time but did not need a new loan in order to get by; and
- 5% did not repay on time and still needed a new loan in order to get by.

These groups will be discussed later in this chapter when the qualitative results are presented, with particular focus on those who needed to take out new payday loans on a regular basis in order to get by.

Some groups more likely to fail to repay loan by repayment date, including those with past financial difficulties

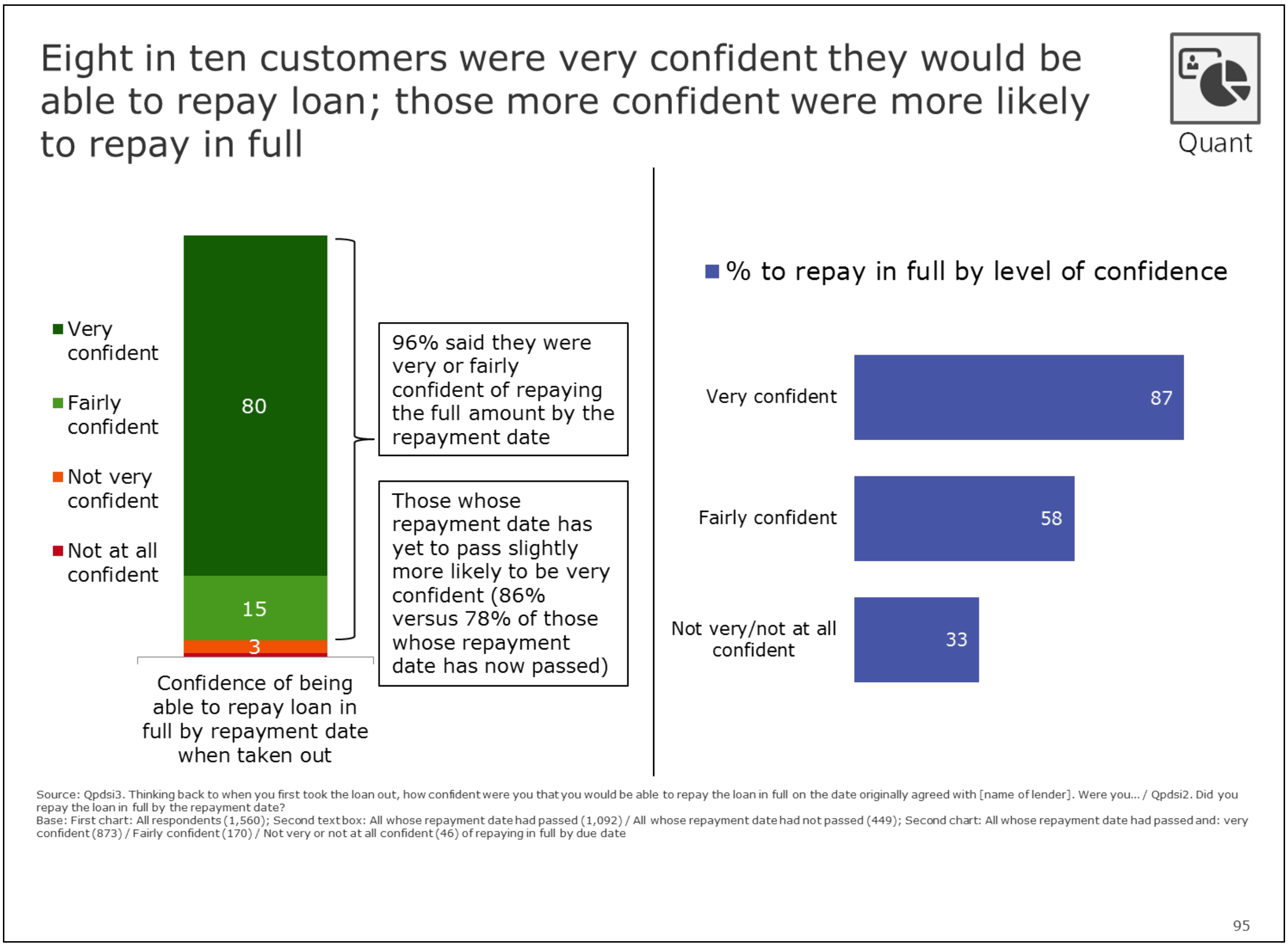
Quant



Source: Qpdsi2. Did you repay the loan in full by the repayment date?
Base: All whose repayment dates had passed (1,092) and: Disagree with 'I have a good understanding of financial conditions and terns' (156) / Taken out loan to pay off other lender (119) / Been refused a payday loan (211) / Used 3+ lenders (185) / Have variable income (240) / Unemployed (95) / Too out loan as last resort (391) / Had debt problems in last five years (533) / Been turned down for credit in last 12 months (281); Cited speed of getting money as most important factor (338) / Sampled loan from a high street lender (443)

94

The chart above shows a number of groups that were less likely to have repaid their loans in full by the original repayment date. This includes those who felt themselves not to have a good understanding of financial conditions and terms, those with past financial problems (including being refused for payday loans before) and those who had used a greater number of payday lenders. Customers with variable (rather than steady) incomes were also less likely to have repaid in full by the repayment date.



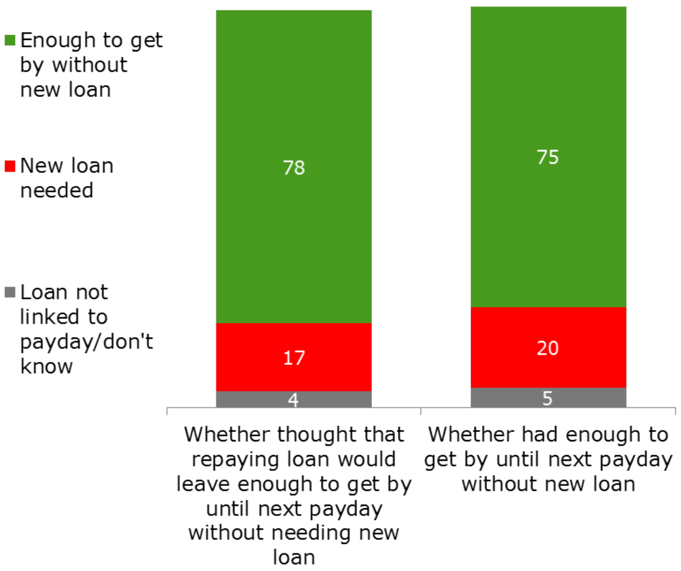
All customers were asked how confident they were in their ability to repay the loan at the point it was taken out. Eight in ten customers (80%) said they were very confident of repaying their loan by the date originally agreed and a further 16% were fairly confident.

Customers with repayment dates yet to pass were slightly more likely to say they were very confident of repaying their loan (at the point it was taken out) compared with those who had not yet reached their repayment date (86% versus 78%).

The right hand chart above shows that confidence in ability to repay relates closely to the reality of whether customers actually repaid on time, with 87% of those who said they were very confident of repaying actually repaying on time, compared with 33% of those who were not very or not at all confident of repaying on time. Nevertheless, it is worth noting that even among those who were very confident of repaying on time, still a minority failed to do this.

Almost two in ten expected to require a new loan to get by to their next payday; a similar proportion did need a new loan. Four in ten of those who did need a new loan had not expect to need one

Quant



- 86% of those who thought they would not need to take out a new loan said they did not need one; 10% said they did need to take out a new loan
- 59% of those who expected to need a new loan did need one; 30% did not need another loan

- Only half (51%) of those who needed a new loan had expected to need one (at the point of taking out their previous loan)
- 40% of those who needed a new loan had NOT expected to need one

Source: Qpdsi5. Continue to think back to when you first took this loan out. Did you think that repaying the loan on time would leave you enough money to get by until your next payday without taking out a new loan / Qpdsi11. And, can I just check, did you have enough to get by until your next payday without a new loan or did you need to take out a new loan?
Base: Chart: All whose repayment date had passed and who answered both of the above questions (1,088) / Text box 1, bullet 1: All who thought they would NOT need to take out a new loan (1,266) / Text box 1, bullet 2: All who expected to need a new loan (238) / Text box 2, both bullets: All who needed a new loan (204)

96

Customers who had passed their repayment date were asked whether they thought that repaying the sampled loan on time would leave them enough money to get by until their next payday, without needing a new loan. Around two in ten (17%) said they thought they would need a new loan in order to get by, with eight in ten (78%) feeling they had enough to get by.

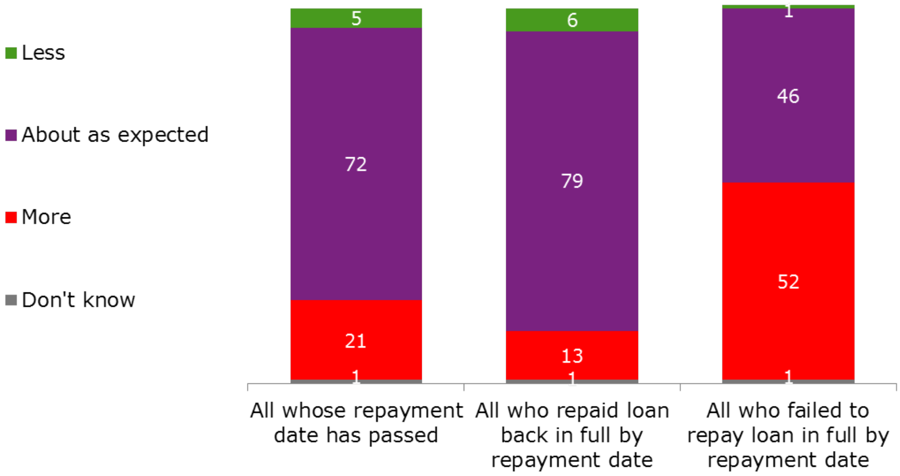
A little later in the survey the same group of customers were asked whether they actually had enough to get by until their next payday – or whether they needed a new loan. The results here were similar, with two in ten (20%) saying they needed a new loan and three quarters (75%) saying they had enough to get by without the need for a new payday loan.

Comparing responses at these two questions, 10% of those who said they did not expect to need a new loan said at the later question that they did need a new loan to get by until their next payday. Of those who said they expected to need a new loan, six in ten (60%) later said that they did need one, with three in ten (30%) not going on to need a new loan.

Half (51%) of those who actually needed a new loan to get by until their next payday had expected to need a new loan. Four in ten (40%) of those who needed a new loan said they had not expected one at the point of taking out the sampled loan.

Two in ten said the total repayment amount was more than they expected when the loan was taken out; much more common among those who failed to repay on time

Quant



Source: Qpdsi10. Taking everything into account, was the total amount that you had to repay more than, less than or about what you originally expected when you took out this loan?
Base: All whose repayment date had passed (1,088)

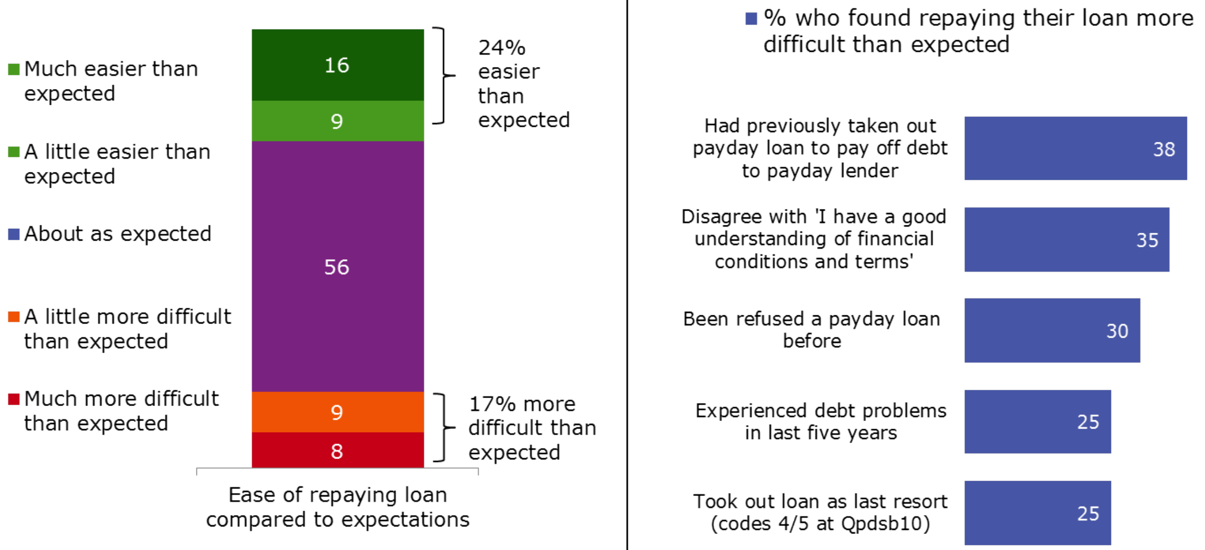
97

All customers whose repayment date had passed were asked whether the repayment amount was more than, less than, or about what they expected. Overall, seven in ten (72%) said it was about as expected, two in ten (21%) said it was more than expected and five per cent that it was less than they expected.

Responses differed greatly by whether customers repaid their loan in full by the repayment date. Among those who failed to repay in full, half (52%) said the amount due for repayment was greater than they had expected. This may have been due to misunderstanding the repayment amount – which may in turn have been a factor in their failure to repay. Alternatively, they may have included late payment charges in what was actually repaid but not have included this in their original understanding of what they would need to repay.

One in six said getting the money needed to repay the loan was more difficult than expected; certain groups more likely to struggle

Quant

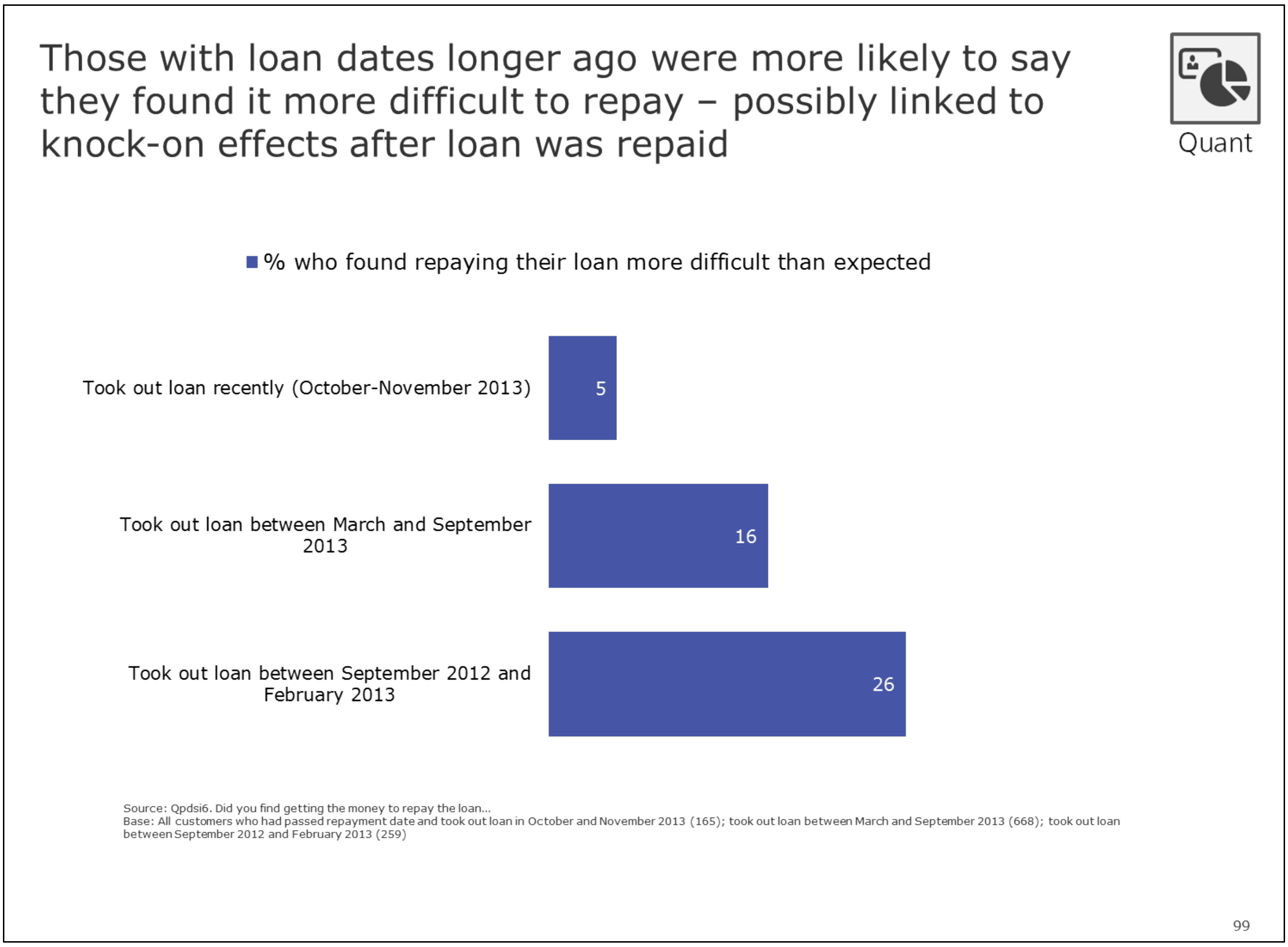


Source: Qpdsi6. Did you find getting the money to repay the loan...
Base: First chart: All whose repayment date had passed (1,092); Second chart: All whose repayment dates had passed AND had previously taken out payday loan to pay off debt to payday lender (119) / Disagree with 'I have a good understanding of financial conditions and terms' (156) / Been refused a payday loan (211) / Experienced debt problems in last five years (533) / Too out loan as last resort (391)

98

Overall, six in ten customers (56%) whose repayment dates had passed said that getting the money to repay the loan was about as easy or difficult as they expected. One in four (24%) found getting the money easier than expected and one in six (17%) found it more difficult than expected.

Certain groups were more likely to find getting the money more difficult than they expected, including those who had previously taken out payday loans in order to pay off debts to other payday lenders, those with a poor understanding of financial conditions and terms, those refused loans before, those who had experienced debt problems in the last five years and those who said they took out a payday loan as a last resort.

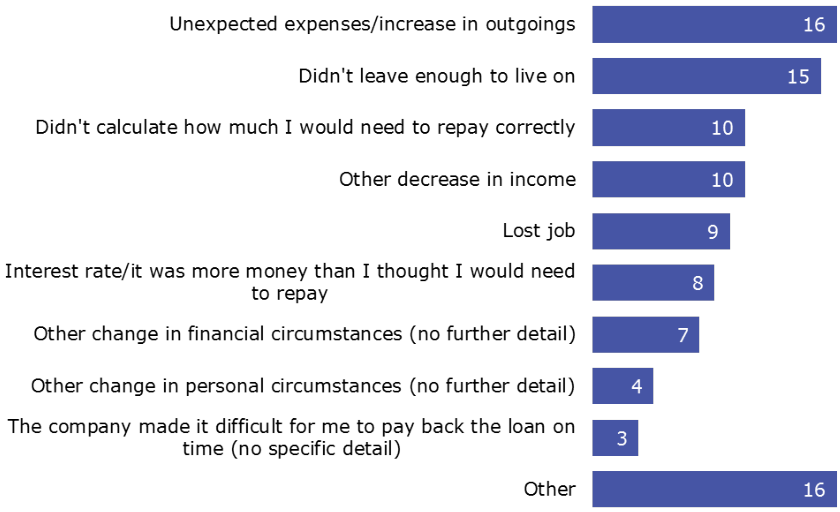


It was notable that customers who took out their sampled loan longer ago were more likely to say they found it more difficult than expected to repay their loan. A quarter (26%) of those who took out their loan between September 2012 and February 2013 said they found it more difficult than expected to repay this loan, compared with five per cent of those who took out their loan in October and November 2013[19]. It is possible that this difference is linked to possible knock-on impacts after repayment – for example customers' may have repaid their loan on time and felt this was fairly straightforward but then needed to re-budget in the months that followed and so reflected back on the process as being more difficult than they may have realised at the time.

[19] This comprised customers in the contemporaneous sample.

Range of reasons for finding it more difficult than expected to repay loan – unexpected expenses/increase in outgoings and not leaving enough to live on most common

Quant



Source: Qpdsi7. Why do you say you found repaying the loan more difficult than expected? (OPEN RESPONSE)
Base: All who found it more difficult than expected to get money needed to repay loan (169)

100

All customers who said they found it more difficult than expected to get the money needed to repay their loan were asked why they found it more difficult. The most common reasons were having unexpected expenses or an increase in outgoings (16%), not leaving enough to live on (15%), not calculating how much would need to be repaid correctly (10%) and a decrease in income (10%).

Less than half found out how much it would cost if they needed to extend at the point of taking out loan

Quant

- 42% said they found out (when taking out the loan) how much it would cost if they needed to extend – lower than earlier 67% who claimed to look at 'the charges that would be applied if you would not pay back on time'; 57% did not find this out
- Those taking out high street loans were far more likely to find this out: 59% versus 37% of online customers
- No difference by number of loans/ lenders used
- Of those who did not find out the charge for extending the loan, 27% said this was because they already knew this information
- 41% of all customers did not find out this information <u>or</u> know it beforehand.
- 45% of those who failed to repay their loan in full by the repayment date said they did not find out how much it would cost to extent the loan (or know this information beforehand)

Source: Qpdsi8. At the time you took your loan out, did you find out how much extra it would cost if you needed to extend the loan?/ Qpdsh1 Before taking out the loan, did you look at any of the following costs or charges?/ Qpdsi8a Were you already aware of the cost of extending or rolling over this loan?
Base: All respondents (1,560); All online customers (1,061); All high street customers (499); All who did not find out cost of extending the loan (865)

101

Overall less than half (42%) said they found out how much it would cost if they needed to extend or renew their loan. This is lower than the 67% who earlier claimed they had looked at this information when taking out a loan (see chapter 12). It is not clear why these two results differ but it is possible that some customers were including previous experience of looking at this information – rather than specifically in relation to the sampled loan – in their earlier answer.

Customers taking out high street loans were far more likely to find out about costs for extending or renewing their loan compared with those taking out online loans (59% compared with 37%). There was however no difference here based on number of lenders used or number of loans taken out.

Some of those who did not find out about costs for extending or renewing the loan said that this was due to already knowing this information (27%). However, overall 41% said they did <u>not</u> find this information out for their sampled loan <u>or</u> know about charges for extending a loan from previous experience.

Almost half (45%) of those who failed to repay their loan in full by the repayment date did not find out about changes for extending the loan, or know about this through previous experience.

How well do customers understand what needs to be repaid?

Qual

The amount that will be repaid is the most important factor customers notice

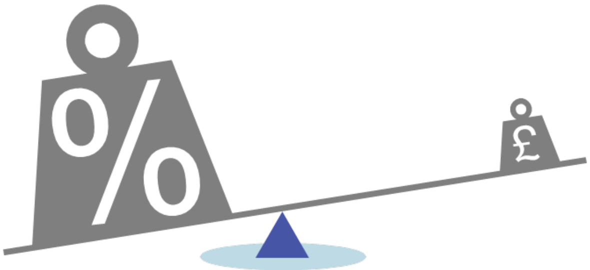
However, customers often think of the repayment amount in terms of the amount of interest and forget about the capital, so repaying the full amount can have an unexpected impact on finances, and require additional loans

> *I think I realised then that, oh my god they're going to take it in full. It didn't hit me until I walked out the shop with the money and then I was thinking - oh my god I've got to pay the rent. … You don't realise the effect that it will have on you, but then you're in it*
>
> Female, 2-3 loans, retail only

Instalment loans

Customers not aware of the compound interest, because:

- Not reviewing costs and charges at time of taking out the loan
- The additional interest is expressed as a percentage rather than as an amount
- Discounts on the second month mask the rise so customers do not realise until the third month



102

The qualitative findings suggest that customers are generally aware of the amount they have to repay, although they are not necessarily familiar with any penalty regime. There were, however, customers in the qualitative research that had not realised that they would have to repay the capital as well as the interest / fee at the end of the loan period, expecting only to repay the interest / fee.

A small number of consumers that took part in the qualitative interviews had taken out instalment loans. These consumers were unaware of the compound interest associated with these loans, and expected the interest to be the same each month. Barriers to understanding the charges and interest included: (i) not reviewing costs in detail at the time of taking out the loan; (ii) struggling to understanding the interest when expressed as a percentage, and the fact that only the first month’s income was expressed as a sum at the time of taking out the loan; (iii) discounts on the second month’s repayment masked the incremental interest rate. This small number of customers who had instalment loans said they would not have taken out the loan they did if they had understood the interest.

Reasons for not repaying loans

Qual

Knew wouldn't have the money, **never intended to repay**

Not factoring into **budget**; not thinking about the total amount of the loan, just the interest

Counting on income but not getting it in time – relying on someone else or **tentative income** source, or wages not coming through on time, a bonus
Unexpected expenditure

Timing of payment – taken out of account very early in the morning before actually get paid – or doesn't align with payday as is for a fixed term

You realise that if you pay it all off in one go, it's going to really hit you hard.
2-3 loans, roll-over, online

Didn't even think about how I was going to pay it back. Nothing was in my head in the time except that I had no washing machine, no fridge or freezer - it wasn't rational thinking. It wasn't how am I going to manage, how am I going to pay it back, it was shit, I need a fridge and washing machine. If it had been rational thought I wouldn't have taken it out in the first place
4+, roll-over, online and high street

103

There were a number of reasons put forward by customers in the qualitative research for not repaying their loans on time: unexpected expenditure; insufficient income, either because they had not factored the loan into their budget or their income was unexpectedly less than they anticipated and in some cases; taking out the loan with no intent to pay. In addition, some online customers indicated that the lender would debit their account very early in the morning and before their salary had been paid into their account. This meant that they would unexpectedly default on the loan and incur penalty payments. Those that had experienced this generally took out their next loan for an extra day, to ensure that their salary was in their account before the loan was repaid.

Illustration of each type of customer based on repayment behaviour

Qual

Repaid on time

Customer with regular salary and confident in ability to repay - use of loans with long gaps between each, for special occasions or just a one-off

Customer with lower income and sudden unexpected need for loan, views it as 'last resort'. Will budget, plan for repayment on time though may need additional loans subsequently, or a loan with a different lender to repay.

Habitual borrower – customer who uses loans regularly but factors repayment into budget and pays on time.

Tight budgets and unexpected expenses or changes in circumstances are risk factors for moving these customers into default or roll-over group

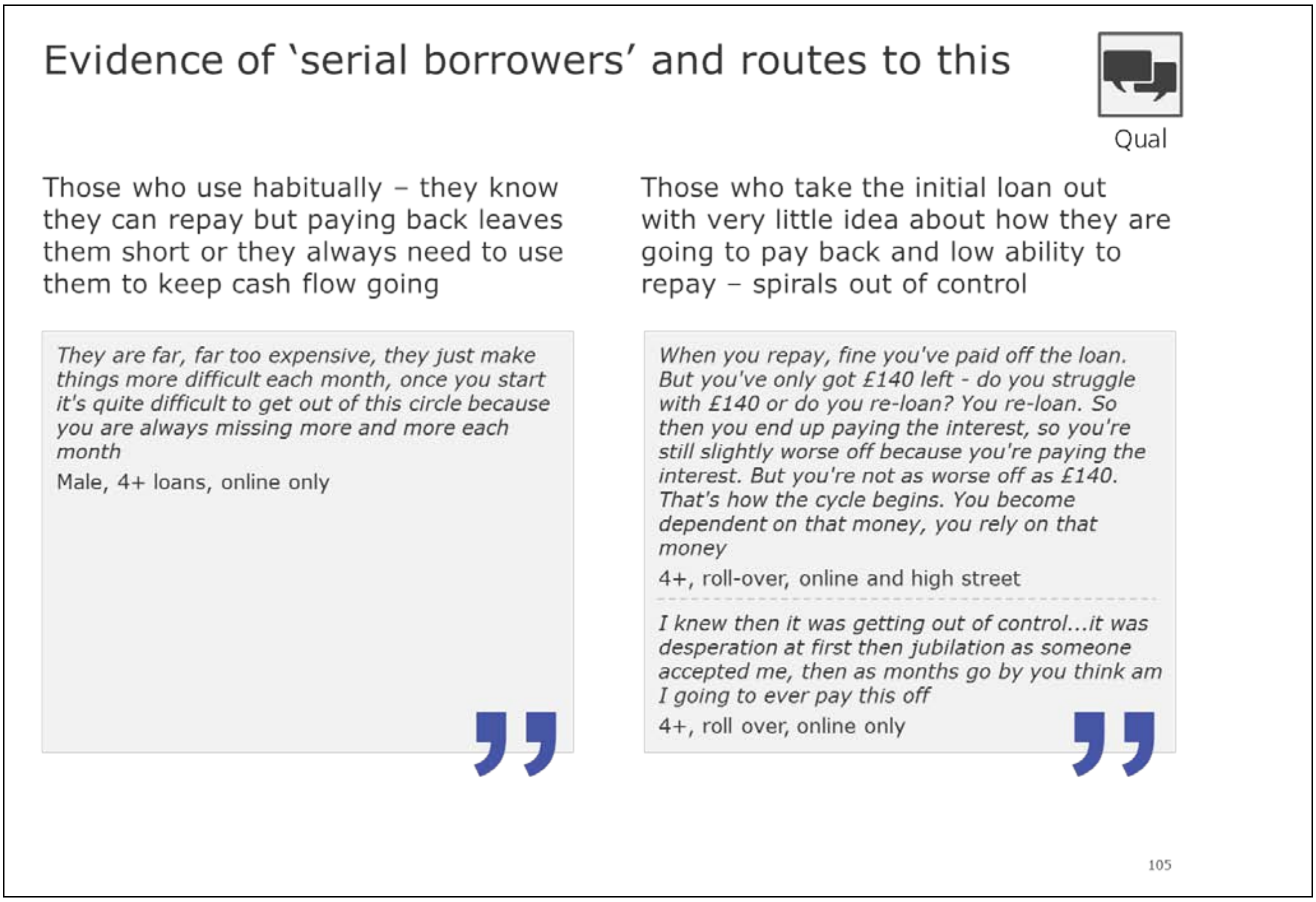
Defaulted or roll-over

Customer knows at time of taking loan that they cannot repay. Will roll over or after doing this multiple times, potentially with multiple lenders at the same time, will default on the loan, to try to get out of spiral.

Customer with low and/or or fluctuating income, e.g. self-employed, hopes they will be able to pay back but money they expected to have does not come through.

104

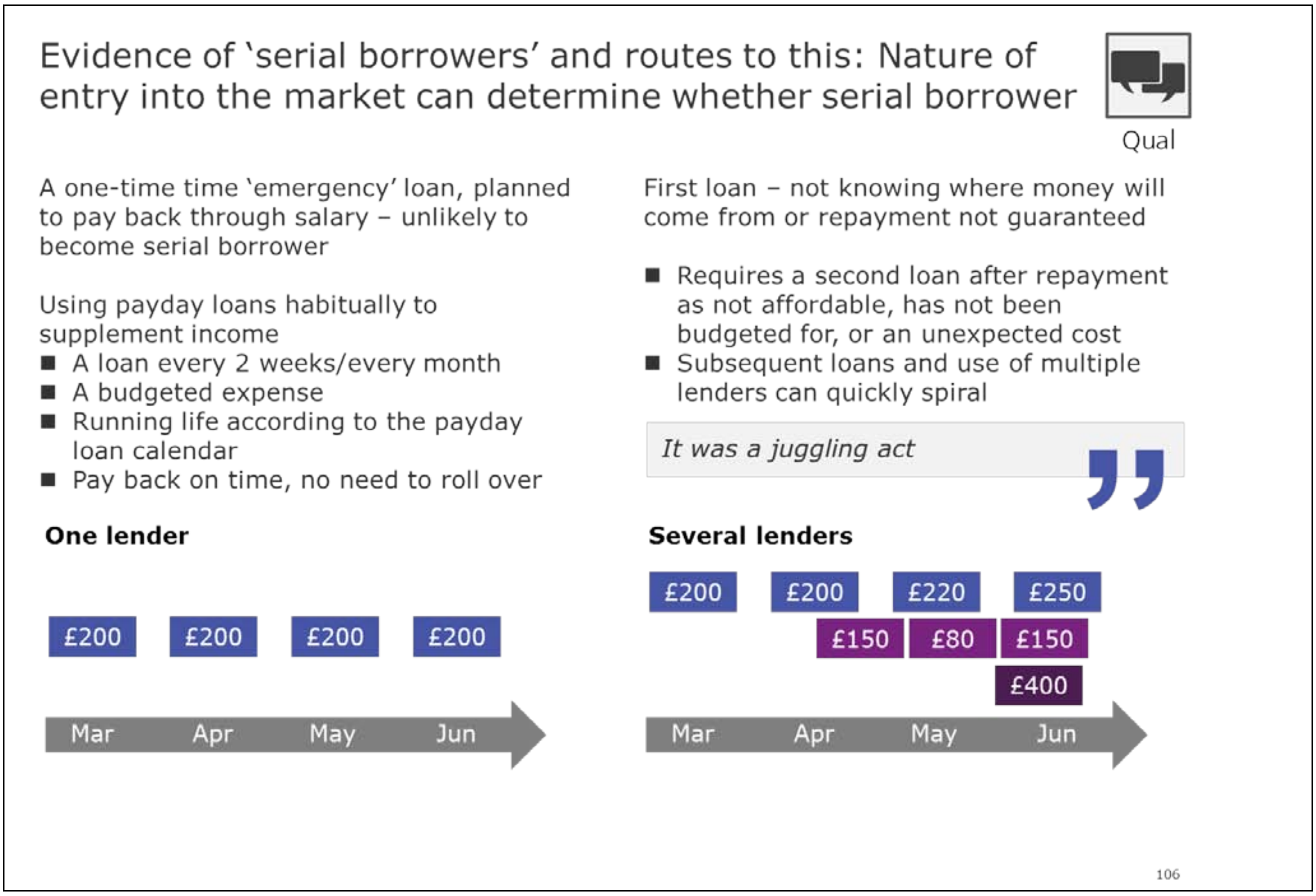
This chart gives examples of customers that regularly repay their loans on time. It also demonstrates how customers with tight budgets that are regular repayers can default or roll-over their loan because of sudden changes in circumstances. Customers who are at risk of moving from being one who regularly repays on time to rolling over tended to be those on low incomes or with very limited disposable income, and where an unexpected expense or sudden drop in income is experienced. These examples are derived from the qualitative interviews.



Serial borrowers encountered in the qualitative research tended to be of two types:

1) Habitual users who take out a loan for a couple of weeks or less but know that they can repay at the end of the loan period. However, the cost of the loan leaves them short of money and so they need to take out a loan the next month to ease their cash flow. Typically, these customers took out the same amount of loan for the roughly the same period each month. In most cases these customers were specifically budgeting for the loan each month;

2) Customers who took out a loan without knowing quite how they would repay the loan. In these cases, the only way they could repay the loan was by taking out another. Over time, they become dependent on taking out a loan to repay the previous loan and in order to ensure they had sufficient money for their day to day living.



We show here examples of how customers with limited disposable income can become serial borrowers. These examples are derived from the qualitative interviews.

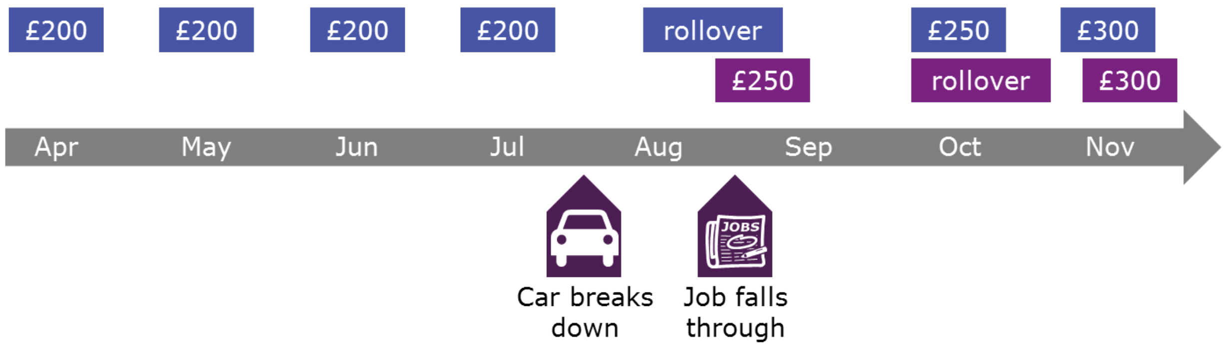
In the first example (left hand pane) the loan is for a short period of time, it is budgeted for each month, it eases cash flow and is always repaid on time.

In the second example (right hand pane), the customer starts out as a serial borrower with regular on-time repayments. However, an unexpected expense arises (or their income falls) and in order to repay a loan they take out another loan to cover the shortfall. Unable to repay the first loan they take out another loan with a second lender (the first lender would not lend again until the loan was repaid). Loan repayments were getting out of hand and so they took out a loan with a third lender. Subsequent loans, with multiple lenders quickly spiralled out of control until this person sought an IVA.

Route from habitual borrower to heavy user

Qual

- Income source falls through
- Unexpected expenditure/s
- Paying off one loan with another
- Once aware of roll over easy to roll over again



107

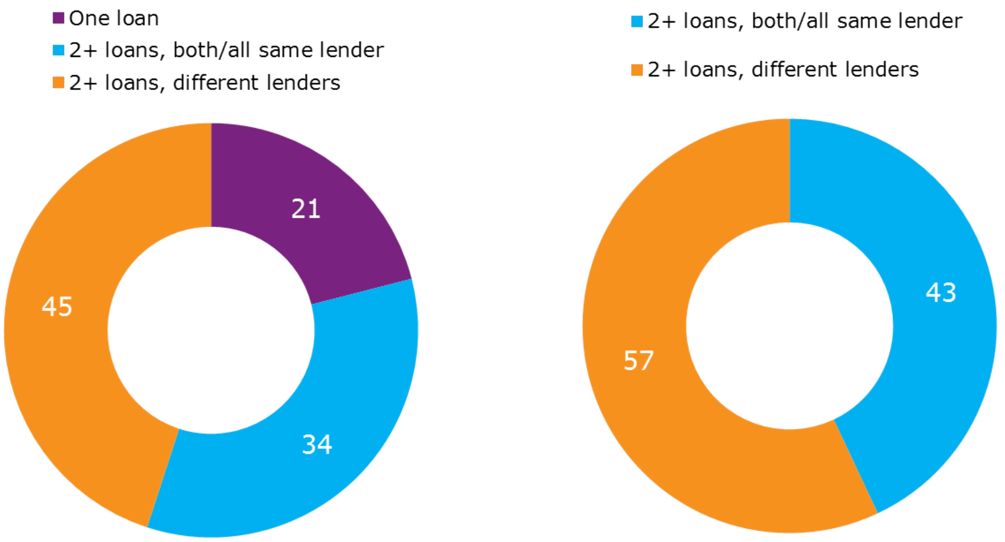
The chart above includes a further example demonstrating how a serial borrower with limited disposable income can become a heavy user of loans using roll-overs and multiple lenders to manage unexpected expenses and reduced income.

14. Use of multiple lenders

This chapter looks at use of multiple payday lenders and the extent of switching between lenders that occurs. Here the focus is on overall activity in the payday lending sector and not just on a specific loan.

Four in ten of all customers have taken out loans from more than one lender; more than half of multiple borrowers have used more than one lender

Quant



Source: Qpdg1. In total, how many payday loans have you taken out? Please include both current loans and loans you have taken out in the past from all lenders / Qpdg3. have both/all of your loans been from the same lender or have you taken out loans from more than one payday lender / How many different payday lenders have you taken out loans from?
Base: Chart 1: All respondents with valid number of loans/lenders, exc. DK, REF and incomplete information (1,469); Chart 2: All who had taken out 2+ loans (1,085)

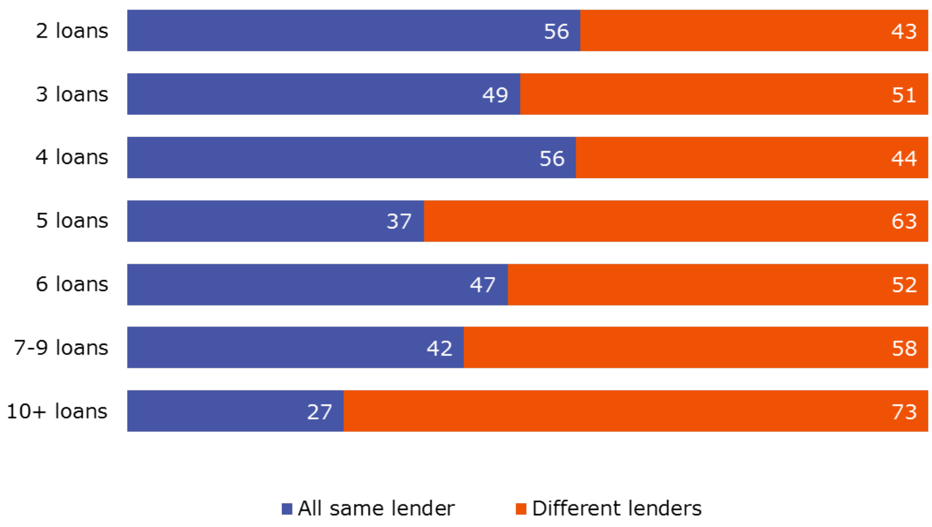
108

Based on all customers – including those who had only ever taken out one loan – more than four in ten (45%) had taken out loans from more than one lender. A little over three in ten (34%) had taken out multiple loans but always from the same lender, and two in ten (20%) had only taken out one loan.

Looking just at customers who had taken out more than one loan (the right hand ring in the above chart) a little over half (57%) had taken out loans from more than one lender.

Almost half of those who had taken out two loans had used different lenders; similar to proportion using multiple lenders among those who had taken out many more loans

Quant



Source: Qpdg1. In total, how many payday loans have you taken out? Please include both current loans and loans you have taken out in the past from all lenders / Qpdg3. have both/all of your loans been from the same lender or have you taken out loans from more than one payday lender / How many different payday lenders have you taken out loans from?
Base: All with 2 (178) / 3 (213) / 4 (129) / 5 (115) / 6 (91) / 7-9 (82) / 10 or more (277) loans

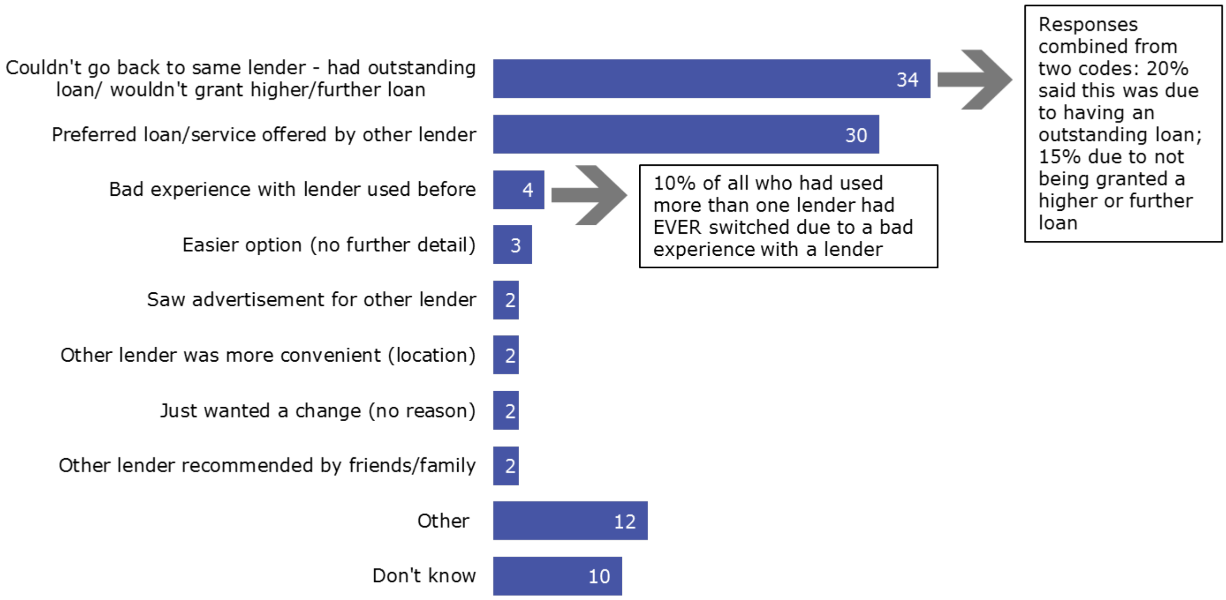
109

The above chart shows how use of multiple lenders varies by number of loans taken.

Among customers who had only taken out two loans, nearly six in ten (56%) had used the same lender for both loans. It might be expected that the proportion of customers using more than one lender would increase with the number of loans taken. While this is evident to some extent – particularly when looking at those with ten or more loans – it is notable that even among those who had taken out between seven and nine loans, nearly half (42%) had only ever borrowed from one lender.

Main reasons for moving were preference for loan/service offered and not being able to go back to same lender

Quant



Source: Qpdg8. You say that you have taken out loans from more than one lender. Thinking about the last time you changed lenders, why did you decide to go to another payday loan company rather than borrow more from the lender you had used before? / Qpdg10. Have you ever changed lenders because you had a bad experience with an existing lender, or because you preferred the loan or service offered by another lender?
Base: Chart and first text box: All who had taken out loans from more than one lender (525); Other text box: All who had taken out loans from more than one lender (525)

110

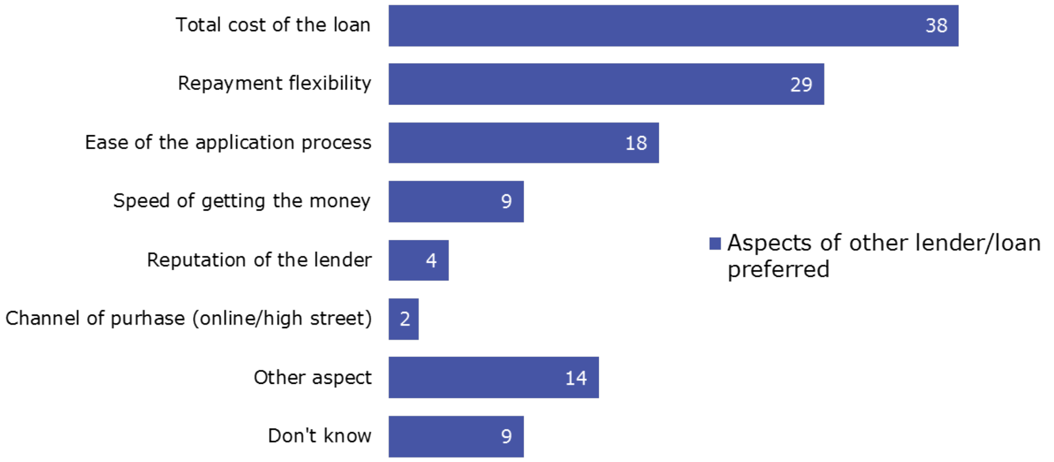
Customers who had used more than one lender were asked their reasons for their most recent switch of lender. The main reasons for moving were a preference for a loan or service offered by the new lender (30%) or not being granted a new loan by a previous lender (34% overall) – in the latter case either due to already having an outstanding loan with that lender (20%) or not being granted a further loan (15%).

Four per cent of customers cited bad experience with a previous lender as a reason for their most recent switch. All who had used more than one lender and did not cite this were asked if they had ever switched lenders due to a bad experience. Overall, one in ten customers (10%) who had used more than one lender had switched at some stage due to a bad experience with a lender.

More than four in ten of those who had used more one lender said they had ever switched due to preferring a loan or service offered elsewhere

Quant

44% of customers with more than one lender had switched at some point due to preferring an alternative loan or service – most common aspects preferred were total cost of loan and repayment flexibility



Source: Qpdg8. You say that you have taken out loans from more than one lender. Thinking about the last time you changed lenders, why did you decide to go to another payday loan company rather than borrow more from the lender you had used before? / Qpdg9. What aspects of the loan or service offered by this other lender did you prefer?
Base: Text box: All who had taken out loans from more than one lender (525); Chart: All who changed lenders because they preferred the loan or service offered by another lender (120)

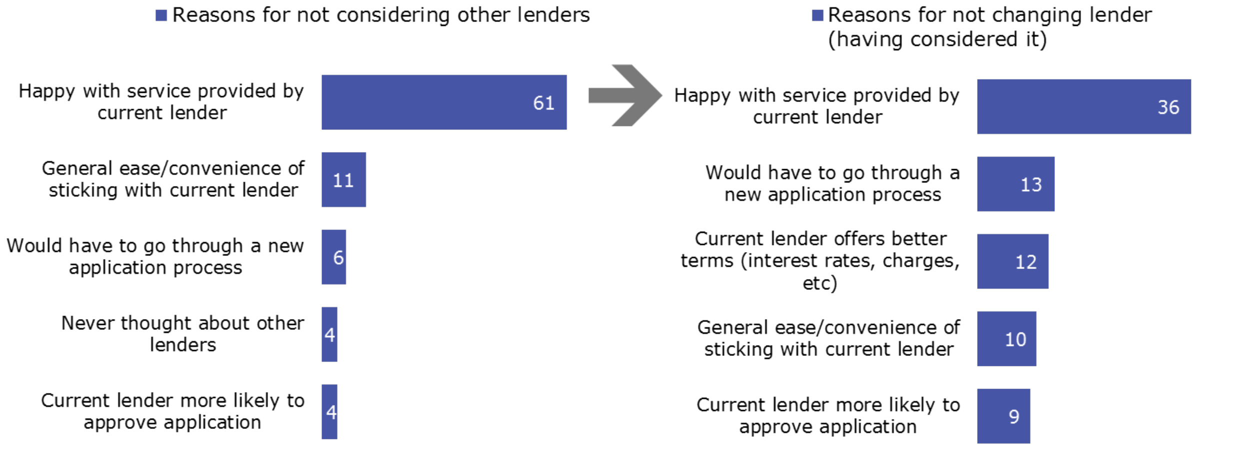
111

Customers who had used more than one lender but did not most recently switch due to preferring an alternative loan or service were asked whether they had ever switched for this reason. Almost half (44%) of those with more than one loan said they had switched at some point due to preferring an alternative loan or service. The main aspects preferred for the new lender were the total cost of the loan (38%), repayment flexibility (29%) and the ease of the application process (18%).

Most ‘multiple borrowers’ who have always stayed with same lender have not considered switching; mainly due to being happy with service provided by current lender

Quant

85% of customers who had taken out 2+ loans and always from the same lender said they had not considered going to a different lender; 15% had considered this



Source: Qpdg5. You say that you have taken out all your loans from the same payday lender. Have you considered going to a different lender for a payday loan? / Qpdg6. Why have you not considered going to another lender / Qpdg7. You say you have considered going to a different lender. Why have you not actually taken out a loan from another lender?
Base: Text box: All who have taken out payday loans from one lender only (556); Chart 1: All who have not considered going to a different lender for a payday loan (474); Chart 2: All who have considered going to a different lender for a payday loan (80)

112

The above chart focuses on customers who had taken out multiple loans but who always remained with the same lender. Most of these customers (85%) said they had not considered switching lenders. The most common reason for not considering other lenders was being happy with the service provided by their current lender (61%, left hand chart). This was also the main reason cited for remaining with the same lender among those who had considered switching but not actually done this (36% right hand chart).

Reasons for moving to a new lender

Qual

- A customer discovers a better rate or more flexible repayment terms with a new lender, largely driven by recommendations from friends or family
- A customer has reached the maximum of what can be borrowed from one lender
- Loan from new lenders used to pay back other loans and avoid late payment fees
- Negative press about payday lenders (or a particular lender)
- Bad experiences with a lender may prompt switching, but not always – as barriers and/or inertia are too powerful

113

Complementing the quantitative survey findings, customers in the qualitative research moved from one lender to another for four key reasons: they were able to get a cheaper deal (and usually upon recommendation by a friend or family); the customer had an unpaid loan with one lender and needed another; using one loan to repay another; or negative press about a lender.

A bad experience with a lender – such as unseen charges or persistent telephone calls asking when an unpaid loan is going to be repaid – did not always mean that customer switched lender. In part this was due to inertia and in part difficulty in finding a better (cheaper) alternative.

What does 'happy with the current service' mean?

Qual

The perception that the sector is potentially unsafe or that there are 'dodgy' lenders in the market, means that a good experience is worth paying for: minimising the risk of using payday loans

Treated like a valued customer:

- Increased amounts offered each time
- Not charged for paying late
- Friendly tone and 'thank you' texts for paying on time

Customers build relationships with staff in the high street shops

More inclination to repay on time if they have a personal relationship with staff, which can be a draw for some customers who want to get their use of payday loans under control

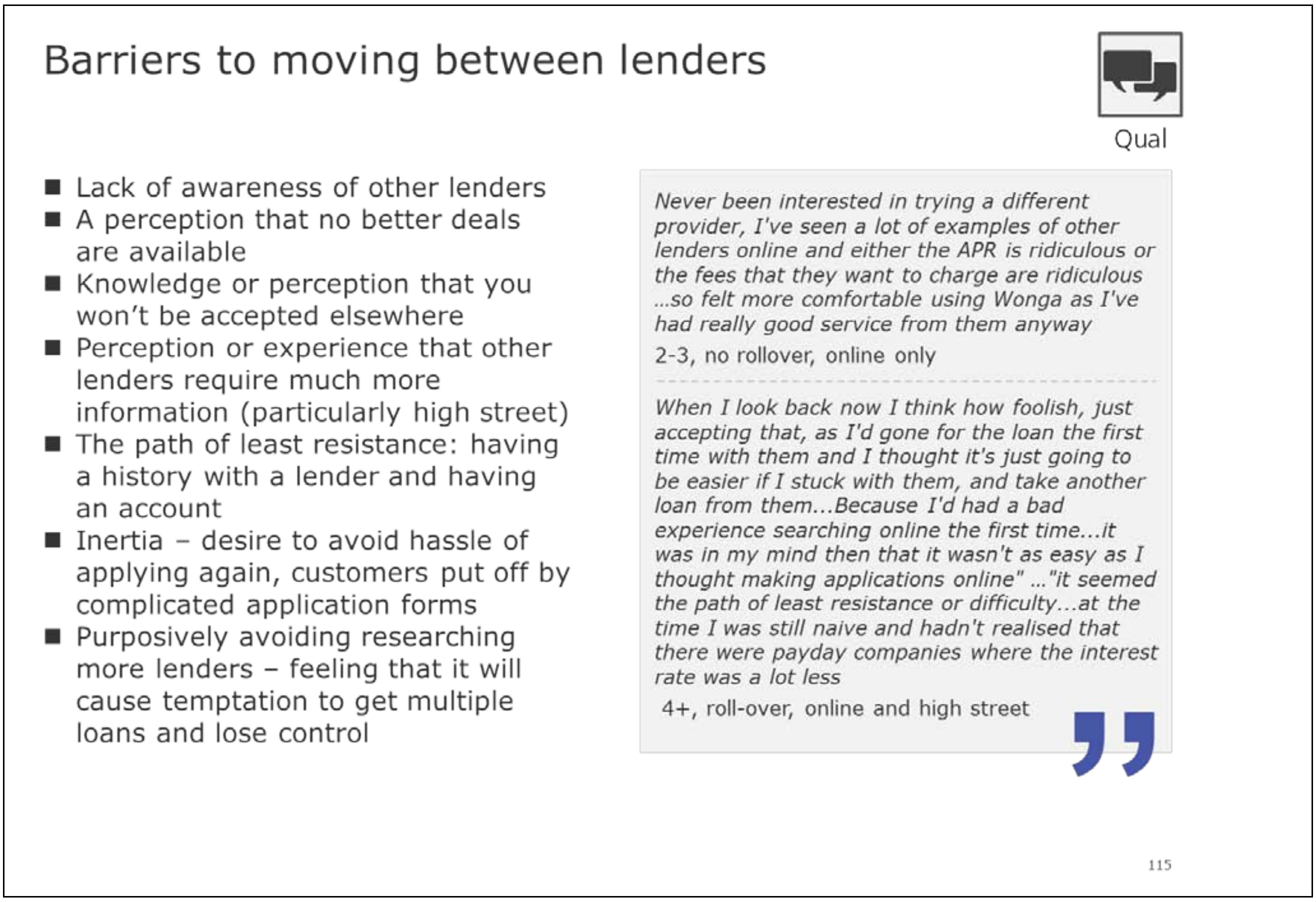
> *They know you at the shop, they know your name. I prefer that. The online companies are just faceless, it doesn't matter if you don't pay them back. But at the shop I don't want to let them down because they know me*
>
> 4+ loans, roll-over, online and high street
>
> *I don't really have any problems with them, that rapport is always going to be there*
>
> 4+, no roll-over, high street only

114

The qualitative research suggests that customers believe the credit industry comprises lenders of different quality and practices. Consequently, when the quantitative survey indicated that 61% of customers who had not considered other lenders said this was due to being happy with a lender's service, what do they mean?

For online customers a good experience means: an easy and quick application and approval process; where they have an account that they can log into and do not have to provide their basic information again; where they are offered increased loan amounts; they are not charged for paying late by a few days; 'thank you' texts after repayment that make them feel like a valued customer.

For high street customers a good experience means: the customer can build up a relationship with the outlet staff; where staff make the customer feel valued by being friendly, helpful, engaging and establishing a report; and by being a 'friend offering a helping hand'.



Customers in the qualitative research indicated six key reasons for not switching lenders:

- they are generally pleased with the service they have received from the lender;
- a perception that online lenders, or high street lenders, offer essentially the same deals;
- a reluctance to provide more information about themselves or proof of income;
- a fear that another lender may not accept their application and this may affect future loan applications;
- a fear that by being accepted by another lender they may be tempted to take out more loans than they could afford; and
- inertia brought on by having an account with a lender that makes it easy to apply for further loans.

15. Follow-up survey findings

This chapter includes results from the follow-up quantitative survey. This survey was conducted among customers who formed part of the contemporaneous sample during the main stage of the survey. All customers who had not already repaid their loan at the time of the main stage interview, had an in-scope repayment date[20] and agreed to be recontacted for further research were included in the sample for the follow-up survey, providing a total issued sample of 279 customers. From these a total of 108 interviews were conducted (representing a response rate of approximately 40%). All customers were interviewed very soon after their loan repayment date, with an average time period between repayment date and interview of three days. All follow-up survey interviews were conducted between 22nd November 2013 and 5th January 2014.

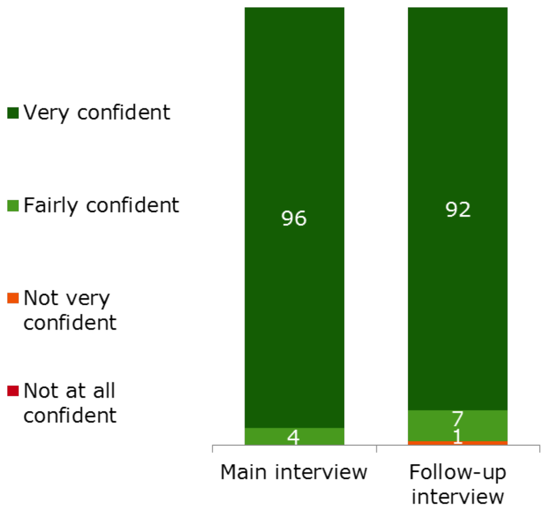
The follow-up questionnaire was around five minutes in length and included some questions that were also asked in the main stage interview, around loan repayments (see chapter 13 for the main stage results in this area). Where relevant we have drawn comparisons between results at the main stage and follow-up interview. The follow-up survey questionnaire included and additional questions on future behaviour and asking customers to reflect back on their experience of taking out a payday loan.

Due to the relatively small base size for the follow-up survey (108 customers) the findings presented in this chapter should be treated with appropriate caution.

[20] This excludes any customers with a repayment date very soon after their main stage interview or after the follow-up survey had closed on 5th January 2014.

Customers asked for level of confidence in being able to repay when taking out loan at both stages – more than nine in ten very confident at each stage

Quant



Only nine customers changed their response between the two stages – mostly becoming less positive and most did not repay on time (6 out of 9):

- 1 from very confident to not very confident (and did not repay on time)
- 7 from very confident to fairly confident (4 repaid on time, 3 did not repay on time
- 1 from fairly confident to very confident (and did not repay on time)

Almost a quarter (23%) of follow-up customers failed to repay their loan in full by the repayment date – so confidence was sometimes misplaced.

Source: Chart: Qpdsi3. Thinking back to when you first took the loan out, how confident were you that you would be able to repay the loan in full on the date originally agreed with [name of sampled lender]? Were you...
Base: Chart: All follow-up survey respondents (108)

116

In both the main stage and follow-up interview customers were asked how confident they were about being able to repay their loan at the point it was taken out. The bars in the chart above are just based on the 108 customers who took part in the follow-up interview, comparing the results at both stages.

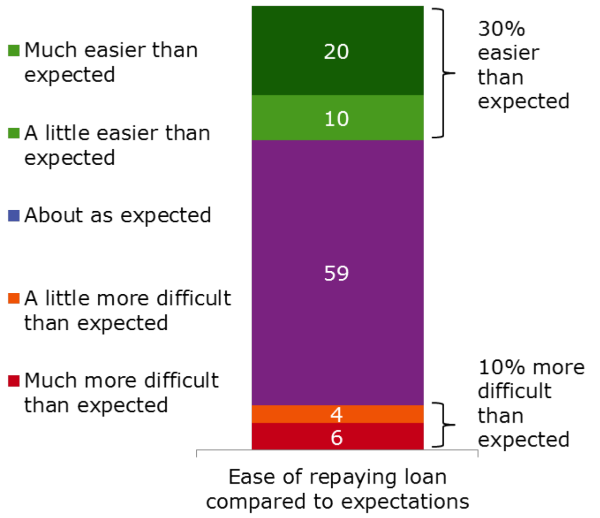
Overall these customers were very positive at both stages – with more than nine in ten very confident of repaying their loan in both the main (96%) and follow-up (92%) interview.

Comparing responses at an individual level between the two stages, nine of the 108 respondents changed their level of confidence between the two interviews – mostly becoming less positive and most commonly changing their response from very confident to fairly confident. Most of those who changed their answer (6 out of 9) did not repay their loan on time, when asked in the follow-up interview.

Despite the high levels of confidence it is notable that almost a quarter of follow-up survey customers failed to repay their loan on time. This also emerged at the main stage – with a minority of customers being confident of repayment at the point of taking out the loan but subsequently failing to repay on time.

Six in ten follow-up customers said they found it about as expected to get the money needed to repay the loan; most others said they found it easier rather than more difficult

Quant



Similar to results from main stage – where 56% said about as expected, 26% easier and 18% more difficult (based just on those who repaid in full)

Source: Qpdsi6. Did you find getting the money you needed to repay the loan...
Base: Chart: All follow-up survey respondents (108) / First text box: All main stage respondents who had repaid their loans (1,092)

117

Six in ten follow-up customers (59%) said they found it about as easy as expected to get the money needed to repay their loan. Most of the rest (30%) said it was easier than expected, with one in ten (10%) saying it was more difficult than expected. These results were similar to the main stage.

Most of those who failed to repay their loan by its due date put this down to an unexpected increase in expenses / unexpected decrease in income

Quant

- 21 follow-up survey respondents (23%) said they failed to repay the loan in full by its due date. Reasons for this were:
  - Unexpected increase in expenses or outgoings since taking out the loan (8 respondents)
  - Unexpected decrease in income since taking out the loan (5 respondents)
  - Deferred repayment until after Christmas (2 respondents)
  - Did not expect to be able to repay in full (2 respondents)
- We know from main stage that unexpected changes in financial circumstances are common reasons for loans – 67% linked their need for a loan to this (though most said they expected this change to be temporary).

Source: Qpdsi9a. Why did you not repay the loan in full by the repayment date? / Qpdsa6. Did you need this loan because of... / Qpdsa7. And did you believe that this change in your financial circumstances would be temporary or permanent?
Base: First main bullet point: All follow-up survey respondents who failed to repay the loan in full by its due date (21) – results presented unweighted / Second main bullet point: All main stage respondents (1,560)

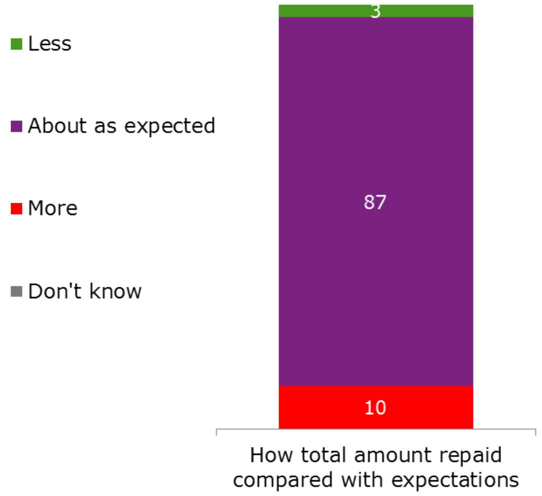
118

Nearly a quarter of follow-up survey customers (23%, 21 respondents in total) said they failed to repay the loan by its due date.

The most common reasons for this were an unexpected increase in expenses or outgoings or an unexpected decrease in income since taking out the loan – and it is apparent from the main stage findings that these issues are closely linked to the need for a loan.

Nine in ten follow-up survey customers who had repaid their loans said the amount they repaid was about as expected

Quant



Fairly similar to results from main stage: 6% less than expected, 79% about as expected and 13% more than expected

Source: Qpdsi10. Taking everything into account, was the total amount that you had to repay more than, less than or about what you originally expected when you took out this loan?
Base: Chart: All follow-up survey respondents who repaid their loan in full by its repayment date(87); Text box: All main stage respondents who repaid their loan in full by its repayment date (880)

119

Nearly nine in ten follow-up survey customers (87%) said the amount they repaid was about as expected, with one in ten saying it was more than expected and 3% less than expected. These results were broadly in line with the main stage.

In half of cases the amount expected to be repaid matched the amount that was repaid – in other cases the difference was usually small

Quant

- Follow-up survey respondents asked how much they repaid – so we can compare this with their expected repayment amount in the original interview (responses below unweighted and based on those providing a response at both stages - n = 76).
- In 51% of cases the amount exactly matched; in 49% of cases it did not match.
- Mean amount expected to be repaid (in original interview) = £239, Median = £197.
- Mean amount repaid (in follow-up interview) = £246, Median = £192.
- Of those where amount was different (n = 37):
  - In 15 cases the amount repaid was higher than the amount expected to be repaid.
  - In 22 cases the amount repaid was lower than the amount expected to be repaid.
- Most differences between the two amounts were fairly small.
- Worth noting that customers were prompted to the amount from the sample/original interview.

Source: Qpdsh4. Can I just check, at the time you took out the loan [IF LOAN AMOUNT IN SAMPLE > 0: for [loan amount from sample]], how much did you think you would have to pay back in total? I mean the total amount, including the loan itself. / Qpdsi10a. [IF AMOUNT ENTERED AT Qpdsh4 IN ORIGINAL INTERVIEW: When we spoke to you previously you said you expected to pay back [AMOUNT FROM Qpdsh4 IN ORIGINAL INTERVIEW] in total. Can I just check, how much did you actually pay back?]. [IF Qpdsh4 IN ORIGINAL INTERVIEW = DK/REF]: Can I just check, how much did you actually pay back?]
Base: As described above.

120

In the main stage interview customers were asked how much they thought they would need to repay to their lender for their sampled loan, and in the follow-up survey we asked how much they had actually repaid. Overall 76 customers had repaid their loan and provided an amount at both stages.

In half of the 76 cases the two amounts matched exactly and in half they differed. Both the mean and median amounts at both stages were very similar.

Of the 37 cases where the two amounts differed, for 15 customers the amount repaid was higher than they expected and for 22 customers it was lower than they expected.

Most differences between the two amounts were fairly small.

A third of customers had been contacted by a lender since taking out their loan, regarding taking out a new loan – in most cases by the lender they took the loan out from

Quant

- Overall a third (34%) had been contacted by at least one lender since taking out their loan regarding take out a new loan; two thirds (66%) had not been contacted by any lenders for this purpose.
- A quarter of follow-up survey customers (26%) had been contacted by the lender they took out the sampled loan from regarding taking out a new loan; one in eight (12%) had been contacted by a different lender during this period.
- Base numbers too low for any sub-group analysis.

Source: Qpdf12. Since you took out this loan from [name of sampled lender], have you been contacted (e.g. by text or email) regarding taking out a new loan?
Base: All follow-up survey respondents (108)

121

Overall a third of follow-up survey customers (34%) had been contacted by a lender since taking out their loan, regarding taking out a new loan. A quarter (26%) had been contacted by the lender they took out their loan from and one in eight (12%) by another lender (with a small number contacted by both).

Around one in six customers had taken out a new loan since their sampled loan – most commonly from the same lender

Quant

- Overall 16% said they had taken out a new loan – 13% from the same lender and 4% from a different lender; 84% had not taken out a new loan.
- Customers were also asked whether they thought they would need a new loan before their next payday. More than eight in ten (84%) said they would not need a new loan. 4% said they definitely would, and 9% that they probably would.
- Overall, one in four (24%) said they had already taken out a new loan OR would definitely need one OR would probably need one before their next payday.
- This tallies with finding from main survey that 20% of customers needed a new loan in order to get by until their next payday (after repaying the sampled loan).

Source: Qpdsi13. Since you took out your loan with [name of sampled lender] on [date of loan] have you taken out another payday loan? / Qpdsi14. And [excluding this new loan you have already taken out] do you think you will need to take out another payday loan before your next payday?
Base: All follow-up survey respondents (108)

122

Overall, 16% said they had already taken out a new loan since the loan they were asked about in the survey – again most commonly from the same lender (13%) with a small number taking out a new loan with a different lender (4%).

Customers were also asked whether they thought they would need a new loan before their next payday. Most – 84% - said they did not think they would need a new loan. 4% said they would definitely need a new loan, and 9% said they would probably need a new loan.

Taking these groups together, overall one in four (24%) had either already taken out a new loan or would definitely or probably need one.

This result tallies with a finding from the main stage quantitative survey that 20% of customers needed a new loan in order to get by until their next payday (see chapter 13), and also some of the qualitative findings around the presence of a set of serial payday loan customers, taking out loans at regular intervals in order to get by.

Most customers said they would have not have done anything differently

Quant

- All follow-up survey customers were asked what, if anything, they wish they had done differently with respect to their experience of taking out a loan (as an open question).
- Three quarters (76%) said they would have done nothing differently. Of the rest the most common responses were:
  - Would have used an alternative (8%)
  - Not taken out/not needed to take out a payday loan (7%)
  - Done some background research (4%)
  - Managed finances more effectively (3%)

Source: Qpdf3a. Thinking back to your experience of taking out this loan with [name of sampled lender] on [date of loan], what if anything do you wish you had done differently?
Base: All follow-up survey respondents (108)

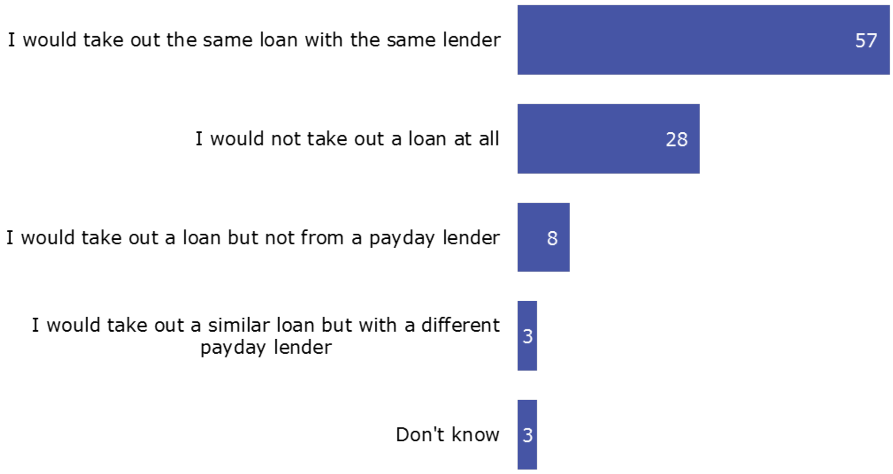
123

All follow-up survey customers were asked an open question to assess what, if anything, they wished they had done differently in relation to taking out their payday loan.

Three quarters (76%) said they would have done nothing differently. A minority (8%) thought they would have taken out the loan with another lender (either another type of lender or another payday lender) whilst others said they would not have taken out a loan at all.

When asked directly, most said they would have taken out the same loan with the same lender; three in ten would not have taken out a loan at all; few said they would have taken out a loan from another payday lender or another source

Quant

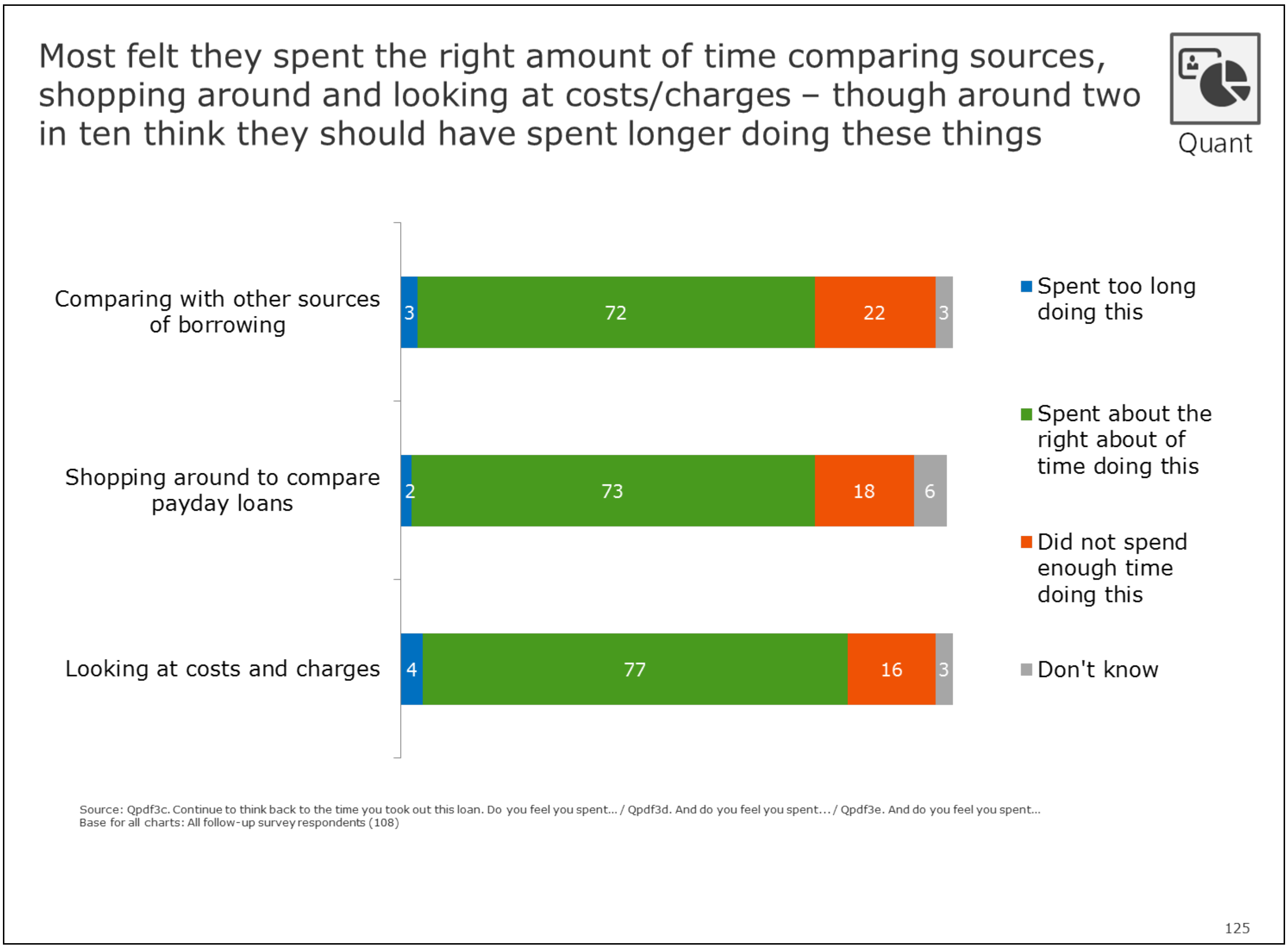


Source: Qpdf3b. And if you were able to go back, which of these do you think you would do?
Base: All follow-up survey respondents (108)

124

Follow-up survey customers were also asked directly whether (if they could go back) they would have taken out the same loan with the same lender, a similar loan but with a different payday lender, a loan but not from a payday lender or not have taken out a loan at all.

Six in ten (57%) said they would have taken out the same loan with the same lender. Three in ten (28%) said they would not have taken out a loan at all. Few said they would have taken out a loan from a non-payday lender (8%) or that they would have taken out a similar loan but from a different payday lender (3%).



Follow-up survey customers were also asked whether they felt they had spent too long, the right amount of time or not long enough doing three things[21]:

- Comparing payday loans with other sources of borrowing;
- Shopping around to compare payday lenders; and
- Looking at costs and charges.

The results were broadly similar for all three aspects, with between seven in ten and eight in ten feeling they spent about the right amount of time doing these things. There were however a minority of customers who wished they had spent longer doing these things at the time of taking out their payday loan: 22% for comparing with other sources of borrowing, 18% for shopping around to compare payday loans, 16% for looking at other costs and charges.

[21] All 108 follow-up survey customers were asked these questions, regardless of their answers in the main stage interview. This therefore includes customers who did not compare with other sources, shop around for payday loans or look at costs and charges.

Appendix A: Main stage quantitative questionnaire

PAYDAY LENDING – MAIN STAGE QUESTIONNAIRE

INTRODUCTION

Good morning/afternoon/evening. My name is … and I am calling from TNS BMRB, an independent research organisation.

Am I speaking to [NAME FROM SAMPLE]? IF YES: CONTINUE WITH INTRODUCTION.
IF NO, ASK TO SPEAK TO [NAME FROM SAMPLE]. IF THIS PERSON IS NOT KNOWN, RECORD AN UNPRODUCTIVE OUTCOME.

<u>DO NOT CONTINUE WITH INTRODUCTION UNTIL SPEAKING TO CORRECT PERSON.</u>

We are carrying out research for the Competition Commission in relation to the Payday Lending Market. Your details have been passed to them by [NAME OF LENDER] as one of their customers.

Would you be able to spare around 20 minutes to answer some questions?

LIST OF OUTCOMES:

1. Continue
2. Not available – make appointment
3. Business number
4. New telephone number
5. Respondent hard refusal
6. Deferral
7. Moved (use ONLY if moved – NOT for other reasons)
8. Died (use ONLY if died – NOT for other reasons)
9. Unknown at number
10. Respondent incapable of interview
11. Duplicate number
12. Request for email copy of letter

IF CODES 5 or 6 (Refusal or Deferral):
Qrefwhy. INTERVIEWER: PLEASE CODE REASON FOR REFUSAL / DEFERRAL.

OPEN RESPONSE.

IF CODE 12 (copy of letter requested):
Qemail. PLEASE ENTER RESPONDENTS EMAIL ADDRESS SO THEY CAN BE SENT A COPY OF THE LETTER.

ENTER EMAIL ADDRESS.

SECTION 1: SCREENING

ASK ALL

Qsc1. According to our records you took out a loan [IF LOAN AMOUNT IN SAMPLE > 0: for [loan amount in sample]] from [name of sampled lender] on [date of sampled loan]. Is this correct?

INTERVIEWER: IF RESPONDENT SAYS THAT THIS WAS A TOP-UP LOAN PLEASE CODE AS 'YES' AND SAY THAT WE REFER TO THIS AS A PAYDAY LOAN FOR THE PURPOSE OF THIS INTERVIEW.

IF RESPONDENT SAYS THAT LOAN DETAILS ARE SLIGHTLY WRONG OR IS NOT SURE OF DETAILS BUT SAYS THIS IS ROUGHLY CORRECT SELECT CODE 2.

1. Yes – details correct
2. Details roughly correct
3. No
4. Don't know

IF Qsc1 = 1 or 2: CONTINUE TO SECTION 2

IF Qsc1 = 3 ASK Qsc2, SCREEN OUT

ASK IF Qsc1 = 3 or 4

Qsc2. Have you taken out a payday loan from a lender at any time since 1st September 2012? This could either be from a high street lender or an online lender.

1. Yes
2. No
3. Don't know

IF Qsc2 = 1 or 2 or 3:

Thank you but we do not need to ask you any further questions on this occasion.

THANK AND CLOSE.

SECTION 2 - QUESTIONS ON SAMPLED LOAN

ASK ALL
Intro1. I am now going to ask you some questions about the loan you took out from [name of sampled lender] on [date of sampled loan]. I will sometimes refer to this as a 'payday loan' during the interview. Please <u>only</u> think about <u>this loan</u> and not any others you may have taken out unless I specifically ask you to consider other loans.

SECTION 2a - BACKGROUND TO THE LOAN

ASK ALL
Qpdsa1. Can I just check, was this your first payday loan, or had you taken out other payday loans <u>before this</u>, either with the same lender or with another lender? Please think about any payday loans you may have taken out including instalment loans offered by payday lenders, which could be taken out for a period of up to a year.

IF NOT SURE: Had you taken out any other payday loans before [date of sampled loan]?

IF TAKEN OUT OTHER PAYDAY LOANS: And were these other loans all with [name of sampled lender] or have you taken out other payday loans with a different lender?

1. First payday loan taken out [SINGLE CODE]
2. Had taken out other payday loans before this – with same lender [MULTICODE]
3. Had taken out other payday loans before this – with other lenders [MULTICODE]
4. Don't know
5. Refused

ASK IF Qpdsa1 = 1 or DK or REF
Qpdsa2. And is the loan you took out with [name of sampled lender] on [date of sampled loan] the only payday loan you have taken out – or have you taken out any other payday loans <u>since this</u>?

INTERVIEWER: INCLUDE ANY LOANS TAKEN OUT AT THE SAME TIME.

1. Only payday loan taken out [SINGLE CODE]
2. Taken out other payday loans since this - with same lender [MULTICODE]
3. Taken out other payday loans since this – with other lenders [MULTICODE]
4. Don't know
5. Refused

ASK ALL
Qpdsa3. What did you use the money you borrowed for?

IF RESPONDENT SAYS THEY HAVE NOT YET USED THE MONEY YET ASK: What do you plan to use the money for?

IF NECESSARY: Please also include anything you <u>partly</u> used the money you borrowed for.

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Rent or mortgage payments
2. Living expenses – e.g. food, groceries,, household or utility bills
3. General shopping – e.g. clothes/household items
4. Repair/replace broken household items
5. Car / vehicle
6. Medical/dental/vet bill
7. Present / gift
8. A holiday

9. Going out or socialising
10. To pay off another payday loan
11. To pay off other debts (not a payday loan)
12. Other (specify)
13. Don't know
14. Refused

ASK ALL
Qpdsa4. And, can I just check, would you say that this was something...

READ OUT AND SELECT ONE.

IF NOT SURE: Please pick the statement that you feel best describes your situation at the time you took out the loan.

[REVERSE ORDER OF CODES 1-3 IN HALF OF INTERVIEWS].

1. That you definitely couldn't have gone without
2. That you could possibly have gone without
3. Or that you could easily have gone without?
4. SPONTANENOUS ONLY: None of these/too difficult to say
5. Refused

ASK ALL
Qpdsa5. At the time you took out the loan, how did you intend to repay it?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. From wages or other earnings
2. From savings
3. From borrowing money from friends or family
4. From taking out another loan
5. From selling something
6. From some other source (specify)
7. Don't know
8. Refused

ASK ALL
Qpdsa6. Did you need this loan because of...

READ OUT AND CODE ALL THAT APPLY (FOR CODES 1-2).

[REVERSE ORDER OF CODES 1-2 IN HALF OF INTERVIEWS].

1. An unexpected <u>increase</u> in expenses or outgoings [MULTICODE]
2. An unexpected <u>decrease</u> in income [MULTICODE]
3. Or neither of these [SINGLE CODE]?
4. Don't know
5. Refused

ASK IF Qpdsa6 = 1 or 2
Qpdsa7. And did you believe that this change in your financial circumstances would be temporary or permanent?

SINGLE CODE.

1. Temporary
2. Permanent

3. SPONTANEOUS ONLY: Did not know at the time
4. Refused

ASK IF Qpdsa1 = 2 or 3

Qpdsa8. Did you need to repay a previous payday loan in the month before taking out this loan with [name of sampled lender]?

1. Yes
2. No
3. Don't know
4. Refused

SECTION 2b - OTHER WAYS OF GETTING THE MONEY

ASK ALL

Qpdsb1. If you had not been able to get a payday loan on this occasion, what do you think you would have done instead?

DO NOT PROMPT AND CODE ONE ONLY.

1. Gone without
2. Sold something
3. Used savings I already had
4. Saved up until I had the money
5. <u>Borrowed</u> from friends/family
6. Asked a friend or relative to <u>give</u> you the money or buy things on your behalf
7. Borrowed in some other way/overdraft/credit card/pawnbroker
8. Defaulted on another loan/bill/payment
9. Something else (specify)
10. SPONTANEOUS ONLY: Don't know/too hard to say
11. Refused

ASK IF Qpdsb1 = 7

Qpdsb2. And how do you think you would have been most likely to borrow the money?

DO NOT PROMPT. CODE ONE ONLY.

1. Credit card
2. An overdraft
3. Home credit (a company that collects payments from your home)
4. Pawnbroker loan
5. Credit union loan
6. Bank or building society loan
7. Unlicensed lender (loan shark)
8. DWP crisis loan or the Social Fund
9. Retail credit (e.g. goods bought on mail order or on finance)
10. SPONTANEOUS ONLY (DO NOT READ OUT): Depends on the amount needed/varies too much to say
11. None of these
12. Don't know
13. Refused

ASK ALL

Qpdsb3. Now please think about any other options that you had instead of taking out a payday loan. I'm interested in whether you feel you <u>could</u> have borrowed the money in a different way. We want to know whether you <u>could</u> have used each option, regardless of whether you actually would have considered this.

READ OUT AND CODE FOR EACH.

INTERVIEWER: IF RESPONDENT SAYS THAT THEY CAN'T SAY / DON'T KNOW / ARE NOT SURE USE THE DK CODE.

[RANDOMISE ORDER OF ITEMS].
[LOOP OF STATEMENTS WITH RESPONSE CODED FOR EACH].

- Could you have used a credit card?

- Could you have used an overdraft?
- Could you have used home credit (a company that collects payments from your home)?
- Could you have used a pawnbroker loan?
- Could you have used a credit union loan?
- Could you have used a bank or building society loan?
- Could you have used an unlicensed lender (loan shark)?
- Could you have used a DWP crisis loan or the Social Fund?
- Could you have used retail credit (e.g. goods bought on mail order or on finance)?
- Could you have borrowed money from friends and family?

1. Yes - definitely could have used this option
2. No – definitely could not have used this option
3. Don't know

ASK IF ITERATION 2 (overdraft) AT Qpdsb3 = 1 (Yes – definitely)
Qpdsb3a. You said you could have used an overdraft to borrow the money. Would this have required you to go over your overdraft limit (i.e. it was an unauthorised overdraft)?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpbsb3 = CODE 1 FOR ANY OF ITERATIONS CODE 1-9 (I.E. EXCLUDES THOSE WHO ONLY SELECT CODE 1 IN RELATION TO 'BORROWING MONEY FROM FRIENDS AND FAMILY)
Thinking about the alternatives you said you could have used to borrow the money. This includes…

[LIST FILTERED TO ONLY INCLUDE ITEMS WHERE Qpbsb3 = 1]

A credit card
An overdraft
Home credit
A pawnbroker loan
A credit union loan
A bank or building society loan
An unlicensed lender (loan shark)
A DWP crisis loan or the Social Fund
Retail credit

ASK IF Qpbsb3 = CODE 1 FOR ANY OF ITERATIONS CODE 1-9 (I.E. EXCLUDES THOSE WHO ONLY SELECT CODE 1 IN RELATION TO 'BORROWING MONEY FROM FRIENDS AND FAMILY)
Qpdsb6. Why did you decide to take out a payday loan rather than using the alternative(s) you said you could have used?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Couldn't/wouldn't get approval
2. Amount was too small to borrow
3. Couldn't get money as quickly
4. More expensive
5. Less convenient
6. Had bad experience with other forms of credit/borrowing before
7. Had positive experience with payday loans before
8. Didn't want to enter into a long term commitment
9. Other (specify)
10. Don't know
11. Refused

ASK IF Qpbsb3 = CODE 1 FOR ANY OF ITERATIONS CODE 1-9 (I.E. EXCLUDES THOSE WHO ONLY SELECT CODE 1 IN RELATION TO 'BORROWING MONEY FROM FRIENDS AND FAMILY)

Qpdsb7. Did you get as far as finding out information to compare the pros and cons of the alternative(s) against the pros and cons of a payday loan?

IF YES AND MORE THAN ONE ALTERNATIVE LISTED: Which ones?

[LIST TO DISPLAY ONLY ITEMS CODED TO CODE 1 AT Qpdsb3].
[RANDOMISE ORDER OF CODES 1-9].

1. A credit card
2. An overdraft
3. Home credit (a company that collects payments from your home)
4. A pawnbroker loan
5. A credit union loan
6. A bank or building society loan
7. A loan from an unlicensed lender (loan shark)
8. A DWP crisis loan or the Social Fund
9. Retail credit (e.g. goods bought on mail order or on finance)
10. None of these
11. Don't know
12. Refused

ASK ALL

Qpdsb10. Now consider a scale of 1-5, where 1 means that taking out a payday loan was your <u>first choice</u> for providing the money you needed and 5 means that a payday loan was the <u>last resort</u> for providing the money. Where would you place yourself on the scale when you took out this loan?

First choice				Last resort
1	2	3	4	5

Don't know
Refused

SECTION 2c - THE IMPORTANCE OF DIFFERENT FEATURES OF THE PAYDAY LOAN

ASK ALL
I am now going to ask you some more questions on the loan you took out from [name of sampled lender] on [date of sampled loan].

ASK ALL
Qpdsc1. When you were taking out your payday loan, how important was:

[RANDOMISE ORDER OF ITEMS]

- Ease of the application process
- Speed of getting the money
- The amount you could take out
- The total cost of the loan
- Repayment flexibility
- The reputation of the lender
- Being able to apply for the loan [IF SAMPTYP = 1: online / IF SAMPTYP = 2: in a store]

Was it...

1. Extremely important
2. Very important
3. Fairly important
4. Or not important
5. Don't know
6. Refused

ASK IF 2 OR MORE FACTORS EXTREMELY IMPORTANT AT Qpdsc1 OR IF NO FACTORS EXTREMELY IMPORTANT BUT 2 OR MORE FACTORS VERY IMPORTANT
Qpdsc2. You said that a number of factors were equally important. Which of these would you say was the most important factor?

READ OUT AND SELECT ONE ONLY.

[LIST FILTERED TO ONLY INCLUDE FACTORS SELECTED AT ESSENTIAL AT Qpdsc1 OR IF NONE SELECTED AS ESSENTIAL ONLY FACTORS SELECTED AS VERY IMPORTANT].

[RANDOMISE ORDER OF CODES 1-7].

1. Ease of the application process
2. Speed of getting the money
3. The amount you could take out
4. The total cost of the loan
5. Repayment flexibility
6. The reputation of the lender
7. Being able to apply for the loan [IF SAMPTYP = 1: online / IF SAMPTYP = 2: in a store]
8. Don't know/can't decide
9. Refused

SECTION 2d - AWARENESS OF PAYDAY LOAN PROVIDERS AND DIRECT OFFERS

ASK ALL

Qpdsd1. Which, if any, of the following companies have you heard of?

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF CODES 1-8].

1. Wonga
2. QuickQuid
3. Payday UK
4. Payday Express
5. The Money Shop
6. Cheque Centres
7. Speedy Cash
8. Cash Store
9. None of these
10. Don't know
11. Refused

ASK ALL

Qpdsd2. And thinking about the loan you took out with [name of sampled lender] on [date of sampled loan], did you approach them to apply for a loan or did they approach you directly to offer you a loan?

1. I approached them
2. They approached me
3. SPONTANEOUS ONLY (DO NOT READ OUT): Neither – came via broker/lead generator
4. Don't know/can't remember
5. Refused

SECTION 2e - SHOPPING AROUND

ASK ALL

Qpdse1. Can I just check, did you apply for your loan directly to [NAME OF SAMPLED LENDER] or did you apply through a broker or other third party?

1. Applied directly to lender
2. Applied though broker/other third party
3. Don’t know
4. Refused

ASK ALL

Qpdse2. Did you shop around between payday lenders – for example, compare some of the pros and cons of different payday lenders – before you applied for your loan from [NAME OF SAMPLED LENDER]?

IF COMPARED ON COMPARISON WEBSITES CODE AS ‘YES’.

1. Yes - compared pros and cons of different lenders
2. No - just looked at this one lender
3. Don't know
4. Refused

ASK ALL

Qpdse10. And can I just check, before taking out this loan, did you start an application for a payday loan with any other payday lender?

IF YES: Were you refused a loan by the other lender or did you decide against taking out a loan with them?

1. Yes – refused by other lender
2. Yes – decided against other lender
3. No
4. Don't know
5. Refused

ASK IF (Qpdse2 = 2 or DK or REF) and (Qpdsa1 = 2 OR 3 OR DK OR REF OR Qpdsa2 = 2 OR 3 OR DK OR REF)

Qpdse3. Now think about <u>all</u> the times you have taken out a payday loan. Have you <u>ever</u> shopped around to compare some of the pros and cons of different payday lenders?

IF COMPARED ON COMPARISON WEBSITES CODE AS ‘YES’.

1. Yes - compared pros and cons of different lenders
2. No - just looked at this one lender
3. Don't know
4. Refused

IF Qpdse3 = 1

For the next few questions please think about the <u>last time</u> you compared lenders when taking out a payday loan.

ASK IF Qpdse2 = 1 or Qpdse3 = 1

Qpdse9. Did you compare...

1. Only online lenders
2. Only high street lenders
3. Or a mix of online and high street lenders?

4. Don't know
5. Refused

ASK IF Qpdse2 = 1 or Qpdse3 = 1
Qpdse5. You say that you compared different payday lenders before taking out this loan. Did you find out...

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF CODES 1-8].

1. Whether you would be eligible for the other loan
2. How long it would take to apply for the other loan
3. How quickly the other loan would be granted
4. The amount you could take out
5. How long you could take out the other loan for
6. How much it would cost to borrow the amount needed
7. The cost if you didn't pay back on time
8. Repayment options (e.g. in instalments)
9. Anything else (specify)
10. Don't know
11. Refused

ASK IF Qpdse2 = 1 or Qpdse3 = 1
Qpdse6. And how did you go about getting information that allowed you to compare the pros and cons of different lenders? Did you...

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF CODES 1-6].

1. Visit the websites of payday loan companies
2. Visit high street shops of payday loan companies
3. Visit a comparison website
4. Speak to payday lenders over the phone
5. See advertising
6. Talk to friends or family
7. Anything else (specify)
8. Don't know
9. Refused

ASK IF Qpdse6 = 1
Qpdse7. How many different payday loan companies' websites did you visit? [IF Qpdse6 = 3: Please exclude comparison websites].

1. One
2. Two
3. Three
4. Four or more
5. Don't know
6. Refused

ASK IF Qpdse6 = 2
Qpdse8. How many different shops of payday loan companies did you visit? If you visited more than one branch for the same company please only include this as one shop.

1. One
2. Two

3. Three
4. Four or more
5. Don't know
6. Refused

SECTION 2f - BARRIERS TO SHOPPING AROUND

IF Qpdse3 = 1

Still thinking about the last time you compared lenders when taking out a payday loan.

ASK IF Qpdse2 = 1 and Qpdse3 = 1

Qpdsf1. You said that you compared the pros and cons of taking out a payday loan across a number of lenders. Was there anything that stopped you comparing across a larger number of lenders or spending more time comparing?

DO NOT PROMPT. CODE ALL THAT APPLY

1. Not enough time
2. Couldn't be bothered
3. Didn't need to / have done this before
4. They are all much the same
5. Didn't want to fill in more forms/provide more information
6. Couldn't find the information needed to compare
7. They were the only lenders nearby
8. Other (specify)
9. Don't know
10. Refused

ASK IF Qpdse1 = 3 or Qpdse2 = 2

Qpdsf2. Why did you not compare the pros and cons of different lenders when taking out your loan from [name of sampled lender] on [date of sampled loan]?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Approved by first lender approached
2. Happy with first one I looked at
3. They are all much the same
4. Already aware of other products/lenders
5. Have used [name of sampled lender] before
6. Difficult to access information on/from other lenders
7. Needed to get loan quickly/no time
8. Lender was recommended to me
9. Don’t know how to compare
10. Approached directly by the lender
11. Only this company provides features which are not available elsewhere
12. Other (specify)
13. Don't know
14. Refused

ASK IF Qpdsf2 = 5

Qpdsf3. You said that you did not compare the pros and cons of different lenders because you had used [name of sampled lender] before. Why did you use the same lender again without comparing it with others?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Happy with the service provided before
2. Allowed you to borrow more as repeat customer
3. More chance of being approved for loan as repeat customer
4. Did not want to owe money to another lender
5. They contacted you to offer you a loan

6. This company provides features which are not available elsewhere
7. Other (specify)
8. None of these
9. Don't know
10. Refused

SECTION 2g - ACCESS TO AND UNDERSTANDING WHEN COMPARING LENDERS

IF Qpdse3 = 1

For the next few questions please think about the last time you compared lenders when taking out a payday loan.

ASK IF Qpdse2 = 1 or Qpdse3 = 1

Qpdsg1. Overall, how easy or difficult would you say it was to find out the information you needed in order to be able to compare lenders?

1. Very easy
2. Fairly easy
3. Fairly difficult
4. Very difficult
5. Don't know
6. Refused

ASK IF Qpdse2 = 1 or Qpdse3 = 1

Qpdsg3. How clear was the information you looked at when comparing lenders?

1. Very clear
2. Fairly clear
3. Not very clear
4. Not at all clear
5. SPONTANEOUS ONLY: Could not find any information
6. Don't know
7. Refused

SECTION 2h - ACCESS TO INFORMATION WHEN TAKING OUT SAMPLED LOAN

ASK ALL
For the next few questions please think about the loan you took out from [name of sampled lender] on [date of sampled loan].

ASK ALL
Qpdsh1. Before taking out the loan, did you look at any of the following costs or charges?

READ OUT AND CODE ALL THAT APPLY.

1. The total amount repayable
2. The APR
3. Any administration or set-up fees
4. The charges that would be applied if you could not pay back on time
5. Any other costs or charges (specify)
6. None of these
7. Don't know
8. Refused

ASK IF Qpdsh1 = 6 (NONE OF THESE)
Qpdsh3. You said you did not look at any of these costs or charges before taking out your loan? Why was this?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Had taken out the loan before so understood cost
2. Would not understand costs/charges
3. Needed money quickly – no time to look
4. Did not know where to find information
5. Did not want too much information – just wanted to take out the loan
6. Planned to pay back on time so did not apply to me
7. Other (specify)
8. Don't know
9. Refused

ASK ALL
Qpdsh2. At the point of taking out the loan, how well did you understand how much you would have to repay?

READ OUT.

1. Very well
2. Fairly well
3. Not very well
4. Not at all well
5. Don't know
6. Refused

ASK ALL
Qpdsh4. Can I just check, at the time you took out the loan [IF LOAN AMOUNT IN SAMPLE > 0: for [loan amount from sample]], how much did you think you would have to pay back in total? I mean the total amount, including the loan itself.

ENTER AMOUNT
Don't know
Refused

ASK IF ANSWER AT Qpdsh4 IS LESS THAN LOAN AMOUNT FROM SAMPLE
INTERVIEWER: THE AMOUNT YOU ENTERED IS LOWER THAN THE ORIGINAL LOAN AMOUNT. CHECK WITH RESPONDENT IF THEY HAVE INCLUDED THE ORIGINAL LOAN AMOUNT IN THEIR ANSWER AND GO BACK AND AMEND ANSWER.

SECTION 2i - REPAYING THE LOAN

ASK ALL
Qpdsi1. Can I just check, has the original repayment date for your loan with [name of sampled lender] now passed?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdsi1 = 2 AND SAMPLE BATCH = 2/3/4/5
Qpdsi1a. What date is your loan due for repayment?

IF UNSURE, ACCEPT BEST ESTIMATE.

WRITE IN DATE
Don’t know
Refused

ASK IF Qpdsi1 = 1
Qpdsi2. Did you repay the loan in full by the repayment date?

1. Yes – repaid in full by repayment date
2. No – did not repay in full by repayment date
3. Don't know
4. Refused

ASK ALL
Qpdsi3. Thinking back to when you first took the loan out, how confident were you that you would be able to repay the loan in full on the date originally agreed with [name of sampled lender]? Were you…

READ OUT

1. Very confident
2. Fairly confident
3. Not very confident
4. Or not at all confident?
5. Don't know
6. Refused

ASK ALL
Qpdsi5. Continue to think back to when you first took this loan out. Did you think that repaying the loan on time would leave you enough money to get by until your next payday without having to take out a new loan?

1. Yes – would have enough to get by until next payday
2. No – would need to take out new loan to get by
3. Not applicable – loan not linked to payday
4. Don't know
5. Refused

ASK IF Qpdsi1 = 1
Qpdsi6. Did you find getting the money you needed to repay the loan...

READ OUT

[REVERSE ORDER OF CODES 1-4 IN HALF OF INTERVIEWS].

1. Much easier than expected
2. A little easier than expected
3. A little more difficult than expected
4. Much more difficult than expected
5. Or about as you expected?
6. Don't know
7. Refused

ASK IF Qpdsi6 = 3 or 4
Qpdsi7. Why do you say you found repaying the loan more difficult than expected?

OPEN RESPONSE

ASK ALL
Qpdsi8. At the time you took your loan out, did you find out how much extra it would cost if you needed to extend the loan (sometimes called a rollover)?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdsi8 = 2
Qpdsi8a. Were you already aware of the cost of extending or rolling over this loan?

1. Yes
2. No
3. Don’t know
4. Refused

ASK IF Qpdsi2 = 2
Qpdsi9. Did you...

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF RESPONSES 1-4].

1. Extend or renew this loan, sometimes known as a rollover
2. Arrange a repayment plan with the lender
3. Default on the loan
4. Take out another payday loan with a different provider to pay off this loan
5. Or do something else?
6. Don't know
7. Refused

ASK IF Qpdsi1 = 1
Qpdsi10. Taking everything into account, was the total amount that you had to repay more than, less than or about what you originally expected when you took out this loan?

1. More
2. Less
3. About what I expected
4. SPONTANEOUS ONLY: I didn't know what it would cost

5. Don't know
6. Refused

ASK IF Qpdsi1 = 1

Qpdsi11. And, can I just check, did you have enough to get by until your next payday without a new loan or did you need to take out a new loan?

1. Had enough to get by without need for new loan
2. Needed to take out a new loan
3. Loan not linked to payday
4. Don't know
5. Refused

SECTION 3 – ACTIVITY IN THE PAYDAY LOAN MARKET

ASK IF Qpdsa1 = 2 / 3 / DK / REF or Qpdsa2 = 2 / 3 / DK / REF
Qpdg1. In total, how many payday loans have you taken out? Please include both current loans and loans you have taken out in the past from <u>all</u> lenders.

IF NECESSARY: Please give me your best estimate if you are not sure.

NUMERIC RESPONSE
Don't know
Refused

ASK IF Qpdg1 > 1
Qpdg2. Can you tell me what year you took out your <u>first</u> payday loan?

IF NECESSARY: Please give me your best estimate if you are not sure.

ENTER YEAR [2000 to 2013]
Don't know
Refused

IF Qpdg1 > 1 AND YEAR ENTERED AT Qpdg2:
Now thinking about <u>all</u> of the payday loans you have taken out since [YEAR ENTERED AT Qpdg2].

IF Qpdg1 > 1 and Qpdg2 = DK / REF:
Now thinking about <u>all</u> of the payday loans you have taken out.

ASK IF Qpdg1 > 1
Qpdg3. Have [IF Qpdg1 = 2: both / IF Qpdg1 > 2: all of] your loans been from the same lender or have you taken out loans from more than one payday lender?

1. Both/all from same lender
2. Have taken out loans from more than one lender
3. Don't know
4. Refused

ASK IF Qpdg1 > 2 and Qpdg3 = 2
Qpdg4. How many different payday lenders have you taken out loans from?

IF NECESSARY: Please give me your best estimate if you are not sure.

NUMERIC RESPONSE
Don't know
Refused

ASK IF Qpdg3 = 1
Qpdg5. You say that you have taken out all your loans from the same payday lender. Have you <u>considered</u> going to a <u>different</u> lender for a payday loan?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdg5 = 2
Qpdg6. Why have you not considered going to another lender?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Not aware of other lenders
2. Never thought about other lenders
3. Don't want to owe money to more than one lender
4. Happy with service provided by current lender
5. Not enough time to compare
6. Too difficult to compare
7. Would have to go through new application process
8. All lenders will be the same
9. Current lender more likely to approve application
10. Current lender offers better terms (interest rate, charges, etc)
11. Been offered benefits if I stay with my lender – e.g. reduced changes/higher loan amount
12. Other (specify)
13. Don't know
14. Refused

ASK IF Qpdg5 = 1
Qpdg7. You say that you have considered going to a different lender. Why have you not actually taken out a loan from another lender?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Don't want to owe money to more than one lender
2. Happy with service provided by current lender
3. Not enough time to compare
4. Too difficult to compare
5. Would have to go through new application process
6. All lenders will be the same
7. Current lender more likely to approve application
8. Current lender offers better terms (interest rate, charges, etc)
9. Been offered benefits if I stay with my lender – e.g. reduced changes/higher loan amount
10. Other (specify)
11. Don't know
12. Refused

ASK IF Qpdg3 = 2
Qpdg8. You say that you have taken out loans from more than one lender. Thinking about the last time you changed lenders, why did you decide to go to another payday loan company rather than borrow more from the lender you had used before that?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Couldn't go back to the same lender – already had an outstanding loan
2. Couldn't go back to the same lender – wouldn't grant a higher/further loan
3. Bad experience with lender used before
4. Preferred the loan or service offered by the other (new) lender
5. Other (specify)
6. Don't know
7. Refused

ASK IF Qpdg8 = 4
Qpdg9. What aspects of the loan or service offered by this other lender did you prefer?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Ease of the application process
2. Speed of getting the money

3. The total cost of the loan
4. Repayment flexibility
5. The reputation of the lender
6. That you could apply for the loan online / in a store
7. Other (specify)
8. Don't know
9. Refused

ASK IF Qpdg3 = 2 and Qpdg8 <> 3 or 4

Qpdg10. Have you ever changed lenders because you had a bad experience with an existing lender, or because you preferred the loan or service offered by another lender?

1. Yes – bad experience with an existing lender [MULTICODE]
2. Yes – preferred loan or service offered by another lender [MULTICODE]
3. No [SINGLE CODE]
4. Don't know
5. Refused

ASK IF (Qpdg1 > 1 or DK or REF) AND (Qpdg3 = 2)

Qpdg11. Thinking about all payday loans you have ever taken out. Have you…

READ OUT. CODE ONE ONLY.

1. Only taken out loans from high street lenders (through a shop)
2. Only taken out loans from online lenders (via the internet, by phone, text or app)
3. Or taken out loans from both high street and online lenders?
4. Don't know
5. Refused

ASK IF Qpdg11 = 3

Qpdg12. Where would you say you mainly get payday loans from?

1. High street lenders
2. Online lenders
3. Not possible to say – use both equally
4. Don't know
5. Refused

ASK IF (Qpdg11 = 2)

Qpdg13. Have you ever considered taking out a loan from a shop through a high street lender?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdg13 = 2

Qpdg14. Why have you not considered taking out a loan from a high street lender?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Prefer the convenience of online
2. Prefer the anonymity of online
3. Quicker/easier to take out loan online
4. Online lenders have better reputation
5. Easier to compare online
6. Was not aware that high street lenders existed
7. No shops near me / can't get to shops

8. Shops don’t offer same service/products as online
9. Other (specify)
10. Don't know
11. Refused

ASK IF (Qpdg11 = 1)
Qpdg15. Have you ever considered taking out a loan through the internet, by phone, text, or app from an online lender?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdg15 = 2
Qpdg16. Why have you not considered taking out a loan from an online lender?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Convenience of location (e.g. near home/work)
2. Prefer to speak to someone face-to-face
3. Able to get advice/information from shop staff
4. Not aware of online lenders
5. No computer/internet access
6. Don’t like dealing with financial issues online
7. Don’t like providing personal information online
8. Too easy/quick to take out a loan online
9. Online lenders don’t offer the same service/products as high street
10. Other
11. Don’t know
12. Refused

ASK IF Qpdg1 > 1
Qpdg17. Have you ever taken out a loan with a payday loan company in order to pay off a debt to another payday loan company?

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qpdg17 = 2
Qpdg18. Would you ever consider doing this?

IF NECESSARY: Would you ever consider taking out a loan with a payday loan company in order to pay off a debt to another payday loan company?

1. Yes
2. No
3. Don't know
4. Refused

ASK ALL
Qpdg19. Have you ever been refused a loan from a payday lender?

1. Yes

2. No
3. Don't know
4. Refused

SECTION 4 – FINANCIAL CIRCUMSTANCES / ATTITUDES

ASK ALL
I'd now like to ask some general questions about your financial circumstances

ASK ALL
Qfca1. Which, if any, of the following types of credit have you had in the last 12 months? Have you had…

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF CODES 1-8].

1. A credit card
2. Home credit (a company that collects payments from your home)
3. A pawnbroker loan
4. A credit union loan
5. A bank or building society loan
6. A loan from an unlicensed lender (loan shark)
7. A DWP crisis loan or the Social Fund
8. Retail credit (e.g. goods bought on mail order or on finance)
9. None of these [SINGLE CODE]
10. Don't know
11. Refused

ASK UNLESS CODES 1-8 ARE ALL SELECTED AT Qfca1
Qfca2. And have you been turned down for any types of credit in the last 12 months? IF YES: Which ones?

CODE ALL THAT APPLY.

1. A credit card
2. Home credit (a company that collects payments from your home)
3. A pawnbroker loan
4. A credit union loan
5. A bank or building society loan
6. A loan from an unlicensed lender (loan shark)
7. A DWP crisis loan or the Social Fund
8. Retail credit (e.g. goods bought on mail order or on finance)
9. None of these [SINGLE CODE]
10. Don't know
11. Refused

ASK ALL
Qfc1. Do you have a bank account that is provided by a bank, building society or credit union, either in your own name or joint names. Please <u>do not</u> include a Post Office Card Account or POCA.

1. Yes
2. No
3. Don't know
4. Refused

ASK IF Qfc1 = 1
Qfc2. Have you been overdrawn on (any of) your bank account(s) in the <u>last 12 months</u>?

IF NO: Do you have an overdraft facility? IF YES, SELECT CODE 2, IF NO, SELECT CODE 3.

1. Yes

2. No – but have overdraft facility
3. Don’t have an overdraft facility
4. Don't know
5. Refused

ASK IF Qfc2 = 1
Qfc3. Have you gone over your agreed overdraft limit on any of your accounts in the last 12 months?

1. Yes
2. No
3. Don't know
4. Refused

ASK ALL
Qfc6. Have you, (or your partner), experienced any of the following things in the last five years?

READ OUT EACH AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF CODES 1-4]

1. Bad credit rating with a credit reference agency
2. County court judgment
3. Visits from debt collectors or bailiffs
4. Made arrangements with creditors to pay off arrears (including arrangements set-up by a debt advice agency or debt management company or an IVA)
5. None of these [SINGLE CODE]
6. Don't know
7. Refused

ASK ALL
Qfc7. Could you please tell me whether you agree or disagree that the following descriptions describe you personally?

[RANDOMISE ORDER OF STATEMENTS]

- I try to avoid banks as much as possible
- I think banks offer a poor service
- I have a good understanding of financial conditions and terms
- I am good at resisting temptation
- I am concerned about giving personal information on the internet

FOR EACH STATEMENT ASK (IF NECESSARY): Do you agree or disagree that this describes you personally?

IF AGREE/DISAGREE: Is that strongly or slightly?

1. Strongly agree
2. Slightly agree
3. Slightly disagree
4. Strongly disagree
5. Don't know

ASK ALL
The next section of the questionnaire is more like a quiz. The questions are not designed to catch you out so if you think you have the right answers, you probably do. If you don't know the answer, please just say so.

ASK ALL

Qfc8. You have taken out a loan for £500, and the interest rate you are charged is 10 per cent per month. There are no other fees. At this interest rate, how much money would you owe <u>in total</u> after one month?

INTERVIEWER: IF RESPONDENT GIVES ANSWER LESS THAN £500, ASK 'Is that in total, including the original loan amount (£500) and interest charged (10%)?' IF ANSWER IS STILL LESS THAN £500, CODE GIVEN AMOUNT.

NUMERIC RESPONSE [0-9999]
Don't know
Refused

ASK IF NUMERIC RESPONSE GIVEN AT Qfc8 (I.E. NOT DK OR REF]

Qfc9. And if you didn't pay anything off, at this interest rate (10 per cent) how much would you owe after two months – again assuming there were no additional fees?

Would it be...

READ OUT.

1. Less than £600
2. Exactly £600
3. Or more than £600?
4. Don't know
5. Refused

SECTION 5 - DEMOGRAPHICS

ASK ALL
Qdgen. ENTER GENDER. DO NOT ASK.

1. Male
2. Female

ASK ALL
Qdage. Please can you tell me how old you were at your last birthday?

NUMERIC RESPONSE [18-99]
Don't know
Refused

ASK ALL
Qdten. Can I just check, do you own or rent your accommodation?

TAKE RESPONSE AND PROMPT TO CODES IF NECESSARY.

1. Own your home outright
2. Own your home with a mortgage
3. Rent your home from a private landlord
4. Rent your home from a local authority or housing association
5. Part buying-part renting your home through a shared ownership scheme
6. Live with parents
7. Or have some other living arrangement?
8. Don't know
9. Refused

ASK ALL
Qdwork. And what is your current working status?

TAKE RESPONSE AND PROMPT TO CODES IF NECESSARY.

IF CURRENTLY OFF WORK BECAUSE OF ILL HEALTH OR MATERNITY LEAVE, PROBE TO FIND OUT IF USUALLY EMPLOYED FULL OR PART TIME.

1. Employed or self-employed full-time (30+ hours per week)
2. Employed or self-employed part-time (less than 30 hours per week)
3. Unemployed and looking for work (including on a government work or training scheme)
4. Looking after the home/caring for family
5. Unable to work because of ill-health or disability
6. Permanently retired from work
7. Or are you in full-time education?
8. Other (specify)
9. Don't know
10. Refused

ASK ALL
Qeduc. And what is your highest qualification?

TAKE RESPONSE AND PROMPT TO CODES IF NECESSARY.

1. University degree (e.g. PhD, MSc, BA, BSC) (including foundation degrees and PGC)
2. Diploma in higher education (e.g. HNC, HND, Nursing or teaching qualification (excluding PGCE))
3. A level or equivalent (e.g. AS level, NVQ level 3, GNVQ advanced)

4. GCSE or equivalent (e.g. CSE, NVQ level 1 or 2, GNVQ intermediate/foundation)
5. None of the above
6. Don't know
7. Refused

ASK ALL
Qdeth. Can I ask which of these best describes you??

READ OUT

1. White British
2. White Irish
3. Other White background
4. Mixed
5. Asian or Asian British
6. Black or Black British
7. Chinese
8. Other
9. Refused

ASK ALL
Qadult. How many adults currently live in your household, including yourself? Please include anyone aged 16 or over who lives with you.

ENTER NUMBER
Refused

ASK ALL
Qchild. And how many children aged under 16 live with you?

ENTER NUMBER
Refused
ASK ALL
Qdinc. Please could you tell me your household's total income, after tax and any other deductions? This includes earnings from wages, benefits and pensions.

You can answer in annual, weekly or monthly terms – whichever is easiest for you.

IF RESPONDENT DOES NOT KNOW EXACT AMOUNT, ACCEPT BEST ESTIMATE.

IF NECESSARY: Income information will only be used for analysis purposes.

Annual	**Monthly**	**Weekly**
Under £6,000	Under £500	Under £115
£6,000 - £11,999	£500 - £999	£116 - £230
£12,000 - £17,999	£1,000 - £1,499	£231 - £345
£18,000 - £23,999	£1,500 - £1,999	£346 - £459
£24,000 - £35,999	£2,000 - £2,999	£460 - £689
£36,000 or more	£3,000 or more	£690 or more
Don't know		
Refused		

ASK ALL
Qdinc2. And, can I just check, would you say that you receive your income on a steady basis, or does the amount vary significantly from week-to-week or month-to-month?

1. Steady income
2. Varies
3. Don't know
4. Refused

ASK IF SAMPLE BATCH = 1

Qrecon. Thank you very much for taking the time to speak to us today. We may be conducting further research relating to the Competition Commission's Payday Lending Inquiry. Would you be willing to be re-contacted by any of the following about this research if it were necessary?

READ OUT AND CODE ALL THAT APPLY.

1. The Competition Commission
2. TNS BMRB, on behalf of the Competition Commission
3. Another Market Research Agency, on behalf of the Competition Commission
4. None of these

ASK IF SAMPLE BATCH = 2 / 3 / 4 / 5

Qrecon2. Thank you very much for taking the time to speak to us today. Would it be okay to call you again around the time your loan is due for repayment just to ask you a few more questions about your experiences? This would only take around 5 minutes, so would be a much shorter interview.

1. Yes
2. No

ASK ALL

Qcheck. Finally, we have asked you a number of questions about a loan you took out with [name of sampled lender] on [date of sampled loan] in this interview. How well would you say you remember the experience of taking out this loan?

READ OUT

1. Very well
2. Fairly well
3. Not very well
4. Not at all well

Appendix B: Follow-up stage quantitative questionnaire

PAYDAY LENDING – FOLLOW-UP QUESTIONNAIRE

INTRODUCTION

Good morning/afternoon/evening. My name is … and I am calling from TNS BMRB, an independent research organisation.

Am I speaking to [NAME FROM SAMPLE]? IF YES: CONTINUE WITH INTRODUCTION.
IF NO, ASK TO SPEAK TO [NAME FROM SAMPLE]. IF THIS PERSON IS NOT KNOWN, RECORD AN UNPRODUCTIVE OUTCOME.

DO NOT CONTINUE WITH INTRODUCTION UNTIL SPEAKING TO CORRECT PERSON.

We spoke to you recently about your experience of taking out a payday loan from [name of lender]. This is part of research we are carrying out for the Competition Commission in relation to the Payday Lending Market.

At the time you agreed to be re-contacted with a view to taking part in a short follow-up interview? Would you be able to spare around five minutes to go through this now?

LIST OF OUTCOMES:

13. Continue
14. Not available – make appointment
15. Business number
16. New telephone number
17. Respondent hard refusal
18. Deferral
19. Moved (use ONLY if moved – NOT for other reasons)
20. Died (use ONLY if died – NOT for other reasons)
21. Unknown at number
22. Respondent incapable of interview
23. Duplicate number

IF CODES 5 or 6 (Refusal or Deferral):
Qrefwhy. INTERVIEWER: PLEASE CODE REASON FOR REFUSAL / DEFERRAL.

OPEN RESPONSE.

SECTION 1: REPAYING THE LOAN

For the next few questions please think about the loan you took out with [name of sampled lender] on [date of loan].

ASK ALL
Qpdsi1. Can I just check, has the <u>original repayment date</u> for your loan with [name of sampled lender] now passed?

1. Yes
2. No

ASK IF Qpdsi1 = 2
Qpdsi1a. What date is your loan due for repayment?

IF UNSURE, ACCEPT BEST ESTIMATE.

WRITE IN DATE
Don't know
Refused

ASK IF Qpdsi1 = 2
Qpdsi1b. When we spoke to you previously you said that your loan was due for repayment on [DATE ENTERED AT Qpdsi1a IN ORIGINAL INTERVEW]. Is there any reason why the date has changed?

OPEN RESPONSE.

IF Qpdsi1 = 2

Qrecon3. Thank you. We will call you back shortly after this repayment date to ask a few more questions.

CODE 'YES' UNLESS RESPONDENT REQUESTS NO FURTHER CONTACT.

1. Yes
2. No

IF Qpdsi1 = 2: END OF INTERVIEW – BUT NEED TO FLAG CASES TO CALL BACK AFTER NEW REPAYMENT DATE.

ASK IF Qpdsi1 = 1
Qpdsi2. Did you repay the loan in full by the repayment date?

1. Yes – repaid in full by repayment date
2. No – did not repay in full by repayment date
3. Don't know
4. Refused

ASK IF Qpdsi1 = 1

Qpdsi3. Thinking back to when you <u>first took the loan out</u>, how confident were you that you would be able to repay the loan in full on the date originally agreed with [name of sampled lender]? Were you…

READ OUT

1. Very confident
2. Fairly confident

3. Not very confident
4. Or not at all confident?
5. Don't know
6. Refused

ASK IF Qpdsi1 = 1
Qpdsi6. Did you find <u>getting the money</u> you needed to repay the loan...

READ OUT

[REVERSE ORDER OF CODES 1-4 IN HALF OF INTERVIEWS].

1. Much easier than expected
2. A little easier than expected
3. A little more difficult than expected
4. Much more difficult than expected
5. Or about as you expected?
6. Don't know
7. Refused

ASK IF Qpdsi6 = 3 or 4
Qpdsi7. Why do you say you found repaying the loan more difficult than expected?

OPEN RESPONSE

ASK IF Qpdsi2 = 2
Qpdsi9a. Why did you <u>not</u> repay the loan in full by the repayment date?

DO NOT PROMPT. CODE ALL THAT APPLY.

1. Did not expect to be able to repay it in full
2. Repayment amount was higher than expected
3. Unexpected increase in expenses or outgoings since taking out loan
4. Unexpected decrease in income since taking out loan
5. Forgot about it
6. They tried to take the money earlier than expected
7. Other (specify)
8. Don’t know
9. Refused

ASK IF Qpdsi2 = 2
Qpdsi9. Did you...

READ OUT AND CODE ALL THAT APPLY.

[RANDOMISE ORDER OF RESPONSES 1-4].

1. Extend or renew this loan, sometimes known as a rollover
2. Arrange a repayment plan with the lender
3. Default on the loan
4. Take out another payday loan with a different provider to pay off this loan
5. Or do something else?
6. Don't know
7. Refused

ASK IF Qpdsi1 = 1 and Qpdsi2 = 1
Qpdsi10. Taking everything into account, was the total amount that you had to repay more than, less than or about what you originally expected when you took out this loan?

1. More
2. Less
3. About what I expected
4. SPONTANEOUS ONLY: I didn't know what it would cost
5. Don't know
6. Refused

ASK IF Qpdsi1 = 1 and Qpdsi2 = 1
Qpdsi10a. [IF AMOUNT ENTERED AT Qpdsh4 IN ORIGINAL INTERVIEW: When we spoke to you previously you said you expected to pay back [AMOUNT FROM Qpdsh4 IN ORIGINAL INTERVIEW] in total. Can I just check, how much did you actually pay back?]

[IF Qpdsh4 IN ORIGINAL INTERVIEW = DK/REF]: Can I just check, how much did you actually pay back?]

ENTER AMOUNT
Don't know
Refused

ASK IF Qpdsi1 = 1
Qpdf12. Since you took out this loan with [name of sampled lender], have you been contacted (e.g. by text or email) regarding taking out a new loan?

IF YES: Was this by the same lender or a different lender?

1. Yes – by the same lender [MULTICODE]
2. Yes – by another lender [MULTICODE]
3. No [SINGLE CODE]
4. Don't know
5. Refused

ASK IF Qpdsi1 = 1
Qpdsi13. Since you took out your loan with [name of sampled lender] on [date of loan] have you taken out another payday loan?

IF YES: Was that with the same or a different lender?

1. Yes – with the same lender
2. Yes – with a different lender
3. No
4. Don't know
5. Refused

ASK IF Qpdsi1 = 1
Qpdsi14. And [IF Qpdsi12 = 1 or 2: excluding this new loan you have already taken out] do you think you will need to take out another payday loan before your next payday?

IF YES: Is that definitely or probably?

1. Definitely will

2. Probably will
3. No
4. Not applicable – don't have payday/loans not linked to payday
5. Don't know
6. Refused

SECTION 2: DECISION MAKING/REFLECTIONS ON PROCESS

ASK IF Qpdsi1 = 1
Qpdf3a. Thinking back to your experience of taking out this loan with [name of sampled lender] on [date of loan], what if anything do you wish you had done differently?

OPEN RESPONSE

ASK IF Qpdsi1 = 1
Qpdf3b. And if you were able to go back, which of these do you think you would do?

READ OUT AND SELECT ONE ONLY.
[REVERSE ORDER OF CODES 1-4 IN HALF OF INTERVIEWS].

1. I would take out the same loan with the same lender
2. I would take out a similar loan but with a different payday lender
3. I would take out a loan but not from a payday lender
4. I would not take out a loan at all
5. Don't know
6. Refused

ASK IF Qpdsi1 = 1
Qpdf3c. Continue to think back to the time you took out this loan. Do you feel you spent… READ OUT AND SINGLE CODE.

[ROTATE ORDER OF CODES 1-2].

1. Too long comparing it against other sources of borrowing
2. Not enough time comparing it against other sources of borrowing
3. Or about the right amount of time comparing?
4. Don't know
5. Refused

ASK IF Qpdsi1 = 1
Qpdf3d. And do you feel you spent… READ OUT AND SINGLE CODE.

[ROTATE ORDER OF CODES 1-2].

1. Too long shopping around to compare payday loans
2. Not enough time shopping around to compare payday loans
3. Or about the right amount of time shopping around?
4. Don't know
5. Refused

ASK IF Qpdsi1 = 1
Qpdf3e. And do you feel you spent… READ OUT AND SINGLE CODE.

[ROTATE ORDER OF CODES 1-2].

1. Too much time looking at costs and charges
2. Not enough time looking at costs and charges
3. Or about the right amount of time?

SECTION 3: AGE AND RECONTACT

ASK IF Qdage = 0
Qdage. Please can you tell me how old you were at your last birthday?

NUMERIC RESPONSE [18-99]
Don’t know
Refused

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4. None of these