Competition & Markets Authority

Payday loans

Customers' use of multiple payday lenders

9 April 2014

Summary

- Purpose of the analysis:
  - to examine the extent to which payday loan customers use multiple lenders; and
  - to explore the patterns of such use.

- Key results:
  1. *Repeat borrowing:* on average a payday loan customer took out 7.9 loans in 2012; around half of customers took out more than 5
  2. *Use of multiple lenders*: the majority (around 55%) of customers in our sample used more than one payday lender in 2012
  3. *Multi-sourcing*: much of this use of multiple lenders was simultaneous - around 54% of all customers in our sample multi-sourced at least once in 2012, ie took out multiple loans with different lenders at the same time
  4. *Consecutive use of different lenders*: we also observed examples of customers in the sample changing lenders when they did not have another loan outstanding – around a quarter of customers in the sample did this at least once in 2012. Many of the changes in lender that we observe follow a repayment problem, or reflect a return to a lender that was unlikely to be available to the borrower when they took out their previous loan. We are continuing to investigate the factors driving these patterns of borrowing behaviour.

Data and methodology

Data and methodology
Sampling

- Sampling methodology: we randomly selected 3,250 loans issued in 2012 from the transaction databases submitted by 11 major lenders, and added to our sample the customers to whom these loans were issued.

- The probability of a customer being included in the sample is therefore proportionate to the number of loans issued to that customer
  - As a consequence, the results of our analysis will be representative of the population of payday loans customers weighted by the number of loans those customers take out

- In general we consider it useful to look at the results based on the weighted sample as it reflects the greater relative importance of these customers to lenders.

- However, as the sample is likely to contain a larger number of heavier borrowers than the population, this will overstate the average number of loans per customer. Therefore, when we estimate the number of loans per customer (slide 8), we present results for an "un-weighted" sample (ie a sample that is reweighted so that it is representative of payday customers in 2012, irrespective of the number of loans they took out).

Data and methodology

Datasets

We integrated transaction data collected from the 11 major lenders with information provided by five Credit Reference Agencies (CRAs) - CallCredit, Experian, Equifax, Lending Metrics, Teletrack:

- First, customers in the sample were matched across lenders' transaction databases using a combination of 1) last name, 2) post code, and 3) date of birth. This allowed us to generate a single database of all loans issued to customers in the sample by the 11 major lenders.
- Second, the CRAs were asked to match the customers in their sample to their own databases and provide any records of payday loans issued to these individuals. Information on payday loans issued by those lenders for whom transaction data was not available was then taken from the records provided by the CRAs and added to our dataset. We dropped any duplicates - instances where a loan issued by the same lender on the same day to the same customer was recorded by multiple CRAs.

The combined dataset provides a comprehensive view of the borrowing behaviour of customers in the sample in the period January 2012 to August 2013. In the combined dataset

- 91% of payday loans were issued by the 11 major lenders.
- 9% of payday loans were issued by smaller lenders.

Data and methodology

Caveats

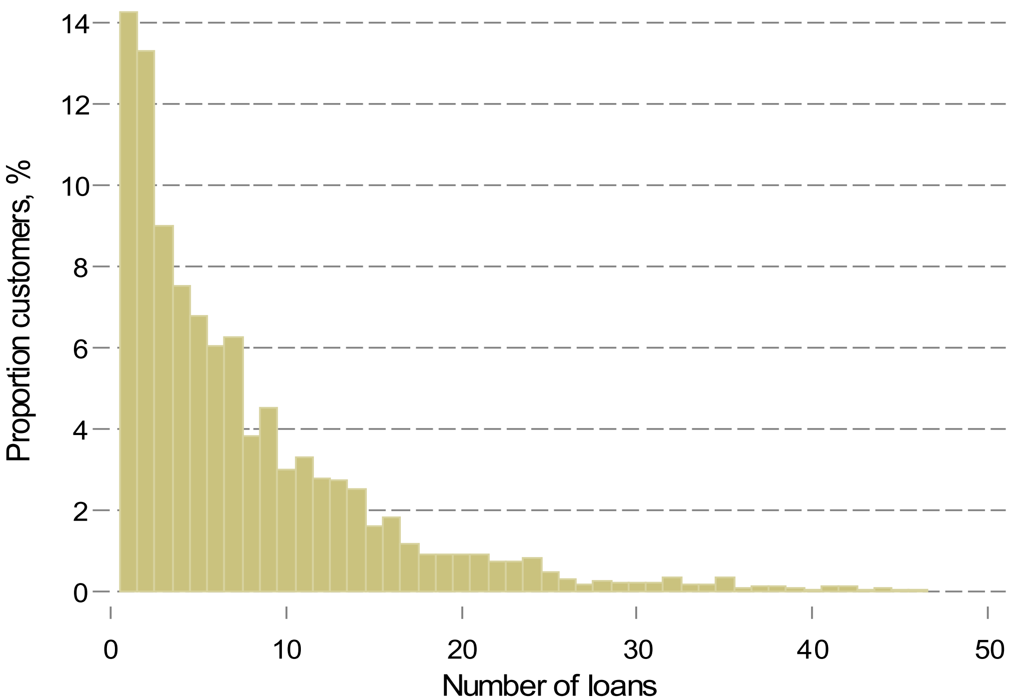
Some caveats:

- The information held by the CRAs may be incomplete, to the extent that lenders do not provide details of all loans that they have issued to one of the five CRAs from which we collected information. This may affect the completeness of our records of loans issued by smaller lenders.
- [✂]
- Comparing loans appearing in the transaction and the CRA data, we observe discrepancies in recorded loan volumes for some lenders. This is most likely to be driven by the way rollovers and top-ups are treated in the two datasets. In general, we consider the transaction data to be the more reliable source, and have relied on this as our primary source of information on payday loans taken out by customers in the sample.

Part I: Repeat borrowing and use of multiple lenders

Total number of loans per customer (all lenders)

Number of payday loans per customer, 2012



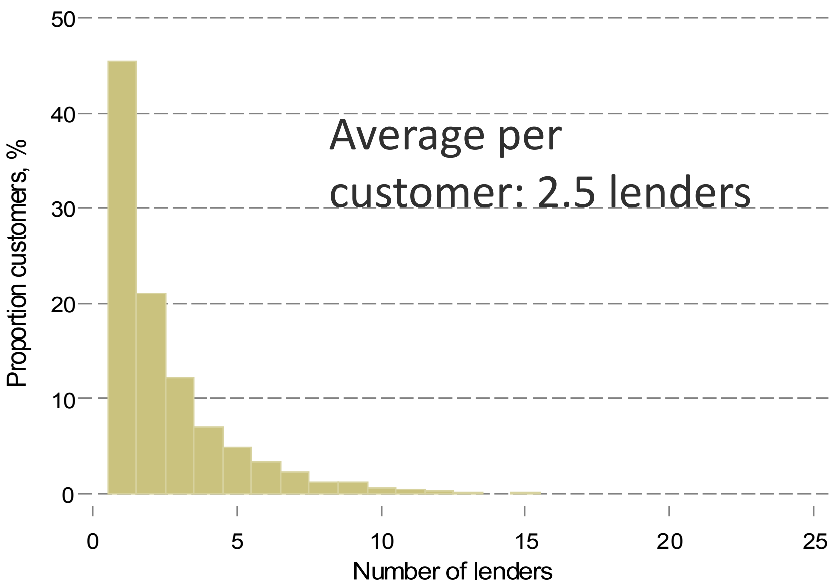
Number of loans, 2012	*Proportion of customers*
1	14%
2-3	22%
4-5	14%
6-10	24%
11-20	19%
21-30	5%
More than 30	2%

- 14% of customers took out 1 loan
- 36% took out 2-5 loans
- 24% took out 6-10 loans
- 26% took out more than 10

On average a payday customer took out 7.9 loans in 2012

Use of multiple lenders (1)

Number of payday lenders used in 2012



- Customers who used more than one lender are, on average, heavier borrowers (ie. they took out a larger number of loans).

Breakdown by number of lenders used, 2012

Number of lenders	*% of customers*	*% of loans*
1	45%	31%
2	21%	20%
3	12%	13%
4-5	12%	16%
6-10	9%	16%
More than 10	1%	4%

- 45% used only 1 lender
- 55% of customers used more than 1 lender. These customers account for 69% of all loans in 2012

Use of multiple lenders (2)

- Customers who used only high-street shops tend to use fewer lenders than customers who only borrowed on-line – see Appendix (slide 21)
- Customers who experienced fewer repayment problems tend to use fewer lenders – see Appendix (slide 23)
- The extent to which each individual lender's customers also use other lenders varies significantly, eg:
  - [✄]% of Wonga's customers used only Wonga.
  - [✄]% of QuickQuid's customers used only QuickQuid.
  - [✄]% of PaydayUK's customers used only PaydayUK.
  - [✄]% of PaydayExpress finance customers used only PaydayExpress.
  - [✄]% of Cheque Centres customers used only Cheque Centres.
  - [✄]% of The Money Shop's customers used only The Money Shop.

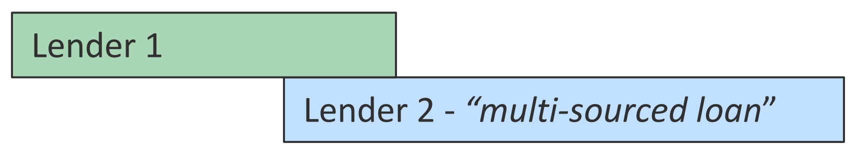
Part II: Patterns of borrowing from multiple lenders

Patterns of borrowing from multiple lenders

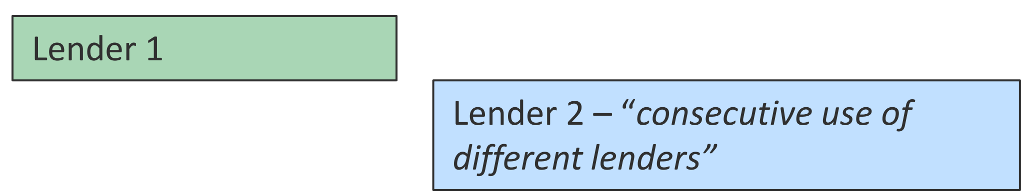
Framework

Borrowers may decide to change lenders if they are unable to return to the original lender for additional credit, or if they decide to use another lender for some other reason.

In many cases where we see customers using multiple lenders, this borrowing takes place simultaneously. In these instances, there will typically be constraints on customers ability to return to the previous lender for further credit. We define a loan as being "multi-sourced" if it was taken out while there was an outstanding loan with a different lender (including if it was taken out on the same day as a loan from another lender).



Where a borrower changes lender but does not have a loan with another lender outstanding (ie is not multi-sourcing), we term this "consecutive use of different lenders". In these instances, customers may or may not be constrained in their ability to return to the previous lender for additional credit.



Patterns of borrowing from multiple lenders

Methodological approach

In this analysis, we focused on loans issued between 1 April 2012 and 31 March 2013, as this allows us to “look back” and see whether any earlier loans were outstanding. In total, our dataset included 3,094 customers who took out 36,073 loans in this period.

To determine whether a loan was still outstanding at a given point in time, we looked at the actual repayment date of that loan recorded in our transaction data (ie the date on which the loan was repaid in full, after any rollovers or top-ups) with the following exceptions:

- For loans which were *never* repaid, we used the original repayment date (agreed at the time of taking out the loan), plus the total number of rollovers multiplied by 22 days (which is the average loan duration in transaction dataset).

- For smaller lender loans (9% of the sample), we assume a repayment date 22 days after the date on which the loan was issued. [✄]

Patterns of borrowing from multiple lenders

The extent of multi-sourcing

- 54% of customers in our sample multi-sourced at least once in the period (ie took out a loan from one lender while a loan with a different lender was outstanding).
  - 37% of customers multi-sourced more than half of all of their loans in the period
  - 17% multi-sourced by taking out loans from multiple lenders on the same day at least once
  - 24% multi-sourced by taking out a loan on the repayment day of a loan from a different lender at least once

- Of all loans issued in the period 48% were multi-sourced
  - …including 6% of all loans which were taken out from a different lender on the repayment day of a previous loan

Use of multiple lenders

Consecutive use of different lenders (1)

27% of customers in the sample used different lenders for consecutive loans on at least one occasion (ie took out a loan with a different lender to the one used previously, while not having any outstanding loans).

- Of all loans in the period, 4% represented examples of customers using different lenders for consecutive loans.

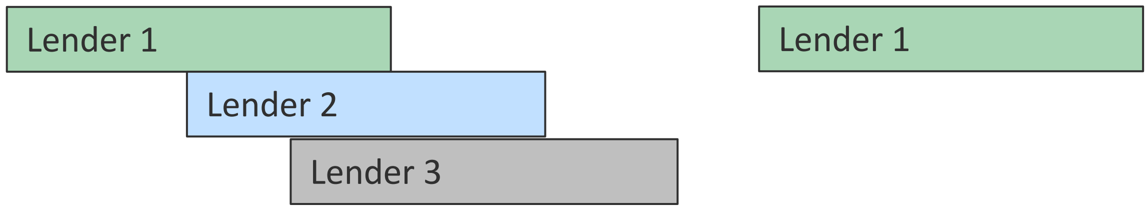
Customers choosing to change lenders may or may not be constrained in their ability to return to the previous lender for additional credit, and quantifying the extent to which consecutive use of different lenders is being driven by credit availability rather than some other reasons is challenging.

We are continuing to investigate the factors determining the borrowing patterns that we observe. However, in the next two slides, we discuss two observations which suggest that on many occasions where we observe customers changing lender, this is likely to reflect a response to credit availability.

Use of multiple lenders

Consecutive use of different lenders (2)

Often where we observe customers consecutively using different lenders, this represents a return to a previous supplier, eg:



In this example, the final loan represents an example of a borrower using different lenders for consecutive loans. However, when the customer took out the loan with Lender 2 and Lender 3, a loan with Lender 1 was still outstanding, suggesting the customer may not have been able to use Lender 1 for further credit at those times even if this was his/her preferred option.

There is some evidence to suggest that this behaviour may be relatively common. On 67% of the occasions where we observe customers using different lenders for consecutive loans, customers had used the new lender previously (but not for the most recent loan).

Use of multiple lenders

Consecutive use of different lenders (3)

There is some evidence to suggest that the repayment status of a previous loan may be driving some of the consecutive use of different lenders that we observe.

In particular, as discussed in our presentation '*Repeat customers – presentation based on the transaction data*', a loan that is never repaid has a significantly higher likelihood of being a customer's last with a lender. Of the loans preceding a customer's decision to use different lenders for consecutive loans, 44% were either repaid in full late or never repaid in full (or, in the case of loans from smaller lenders, were marked as having entered arrears).

If we exclude instances where a customer changes lender following a repayment problem with the previous supplier, we find that 16% of customers in the sample used different lenders for consecutive loans at least once in the period (compared to 27% of customers when we do not exclude these instances).

Appendix

Part I: Repeat borrowing and use of multiple lenders

Sample statistics

Number of loans and customers by lender

Lender	Loans, 2012	Customers, 2012	Loans per customer, 2012	Share of loans in sample, 2012
Ariste	[✂]	[✂]	[✂]	[✂]
CashEuroNet (QuickQuid)	[✂]	[✂]	[✂]	[✂]
CFO	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]
Dollar (PaydayExpress)	[✂]	[✂]	[✂]	[✂]
Dollar (PaydayUK)	[✂]	[✂]	[✂]	[✂]
Dollar (The Money Shop)	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]
SRC (Speedy Cash)	[✂]	[✂]	[✂]	[✂]
SRC (WageDayAdvance)	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]
The Loan Store	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]
Other lenders	3,205	1,366	**2.3**	9%

Use of multiple lenders

By channel: online vs high-street

- 3,228 customers in 2012:
  - 86% had an online loan
  - 76% used only online channel
  - 24% had a high street loan
  - 13% used only high street
  - 10% borrowed from both channels
- 37,333 loans in 2012:
  - 81% of loans were online
  - 19% were high street

	2012		
Number of lenders	Only online loans	Only high street loan	Both online and high-street loans
1	46%	79%	0%
2	21%	19%	20%
3	12%	2%	24%
4-5	11%	0%	29%
6-10	8%	0%	24%
More than 10	1%	0%	3%
Average	***2.4***	***1.2***	***4.6***
# of customers	***2,448***	***414***	***327***
# of loans	***27,004***	***4,325***	***5,368***
Loans per customer	***11.0***	***10.4***	***16.4***

- Customers who used only high-street shops tend to use fewer lenders than customers who only borrowed on-line

Note: For 39 customers in 2012 we could not identify the channel. These are excluded from the table above.

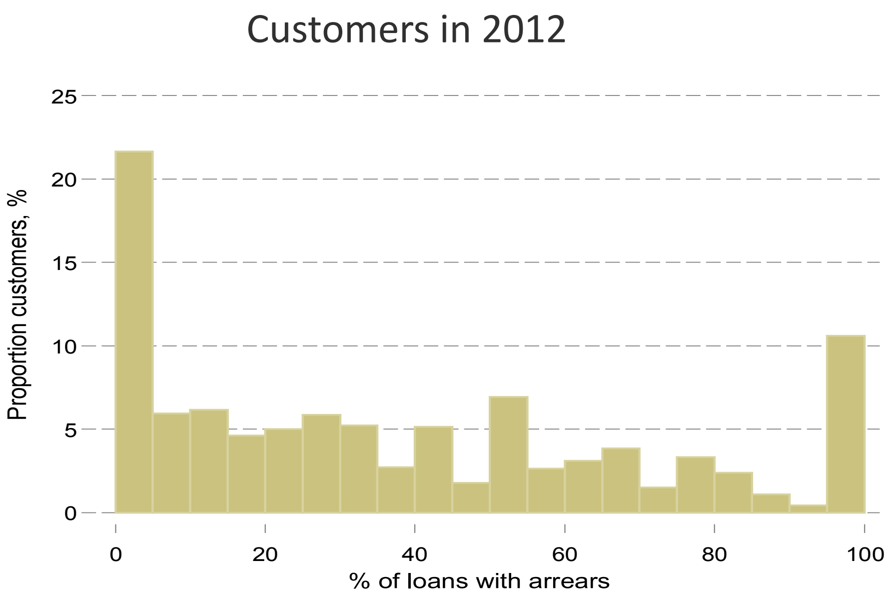
Use of multiple lenders

By lender

- Customers of the three largest online lenders:
  - [✂]
- Combined use of the three largest online lenders:
  - [✂]
- Customers of smaller lenders
  - 23% of customers in the sample borrowed from suppliers other than the 11 major lenders at least once, and less than 0.01% borrowed exclusively from these lenders.

Use of multiple lenders

By repayment status (frequency of arrears)



- 21% of customers had no arrears on any of their loans
- 11% had arrears on all their loans
- 32% of loans issued in 2012 were in some kind of arrears at least once during their lives (from missing one payment to a complete default)

- Customers who experienced fewer repayment problems tended to use fewer lenders

Number of lenders	Customers with 33% of loans in arrears or less	Customers with 33-66% of loans in arrears	Customers with more than 66% of loans in arrears
1	57%	27%	26%
2	23%	20%	23%
3	10%	17%	15%
4-5	7%	17%	20%
6-10	3%	17%	14%
More than 10	0%	3%	1%

Note: we excluded customers (4.9%) who took out only one loan

Part III: Customers’ use of multiple lenders

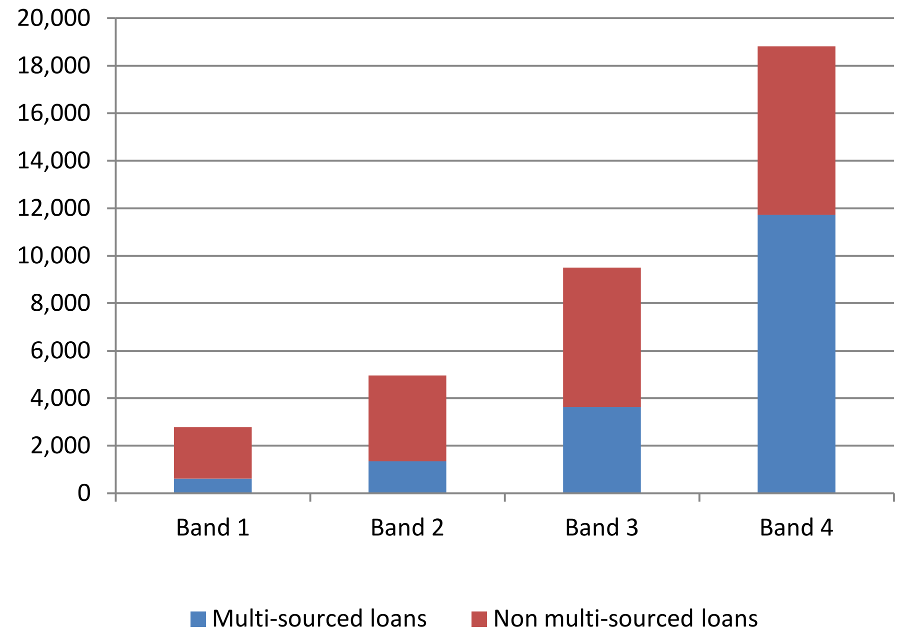
Use of multiple lenders

Number of loans and the extent of multi-sourcing

Groups of customers according to total number of loans taken out between 1 April 2012 and 31 March 2013:

Group	% customers	% loans	% of multi-sourced loans	Loans per customer	Average # lenders used
Band 1 (1-5 loans)	29%	8%	22%	3	1.5
Band 2 (6-9 loans)	22%	14%	27%	7	2.1
Band 3 (10-15 loans)	25%	26%	38%	12	2.5
Band 4 (>15 loans)	24%	52%	62%	25	4.1

Loans by group of customers (based on intensity of total borrowing)



- Heavier borrowers tend to use more lenders, and multi-source more often than customers who took out fewer loans

Use of multiple lenders

Number of loans and the extent of consecutive use of different lenders

Groups of customers according to total number of loans

Group	% of customers who used different lenders for consecutive loans at least once	% of customers who used different lenders for consecutive loans at least once (excluding loans issued following a repayment problem)
Band 1 (1-5 loans)	17%	4%
Band 2 (6-9 loans)	22%	10%
Band 3 (10-15 loans)	32%	21%
Band 4 (>15 loans)	38%	28%
Average	**27%**	**16%**

- Heavier borrowers tended to make consecutive use of different lenders more often.