

Payday loans

Use of other credit products by payday loan customers

9 April 2014

Structure

This presentation is divided into two sections:

- First, we analyse payday loan customers' use of other credit products
- Second, we examine to what extent customers with active credit cards had credit available when taking out a payday loan.

The analysis supplements our assessment of substitutability between payday loans and other types of credit, as set out in the working paper 'Competition from other types of credit'.

Summary of findings

- We estimate that in 2012 around 52 per cent of payday customers used credit cards and 54 per cent used overdrafts. 71 per cent were estimated to have used either a credit card or overdraft. Relatively few payday customers used any other sources of credit.
- Our analysis of transaction data on the major 11 lenders estimates that the average payday loan has a value of £260. When a payday loan was taken out, we estimate in 85 per cent of cases customers had less than £200 of credit available on their credit cards. In 81 per cent of cases they had less than £100 of credit available.

Data

- In order to carry out this analysis, we selected a sample of payday loan customers from the transaction databases of 11 major payday lenders. The sample was constructed by selecting at random over 3,000 payday loans made by these firms in 2012, and then adding to the sample the customer to whom each loan was issued.
- A number of credit reference agencies (CRAs) were then asked to provide information on the payday loans and any other credit products used by each customer in the sample in the period 1 January 2012 to 31 August 2013.
- The analysis in this presentation is based on the credit record information provided for these individuals by [✂]. It covers over 90 per cent of the customers in our original sample.
- Note that to the extent that a customer's credit history is not fully documented in the CRA's database, our results may underestimate customers' usage of other credit products.

Section 1: Use of other credit products

Other credit types

For each customer in the sample, we considered whether in 2012 they:

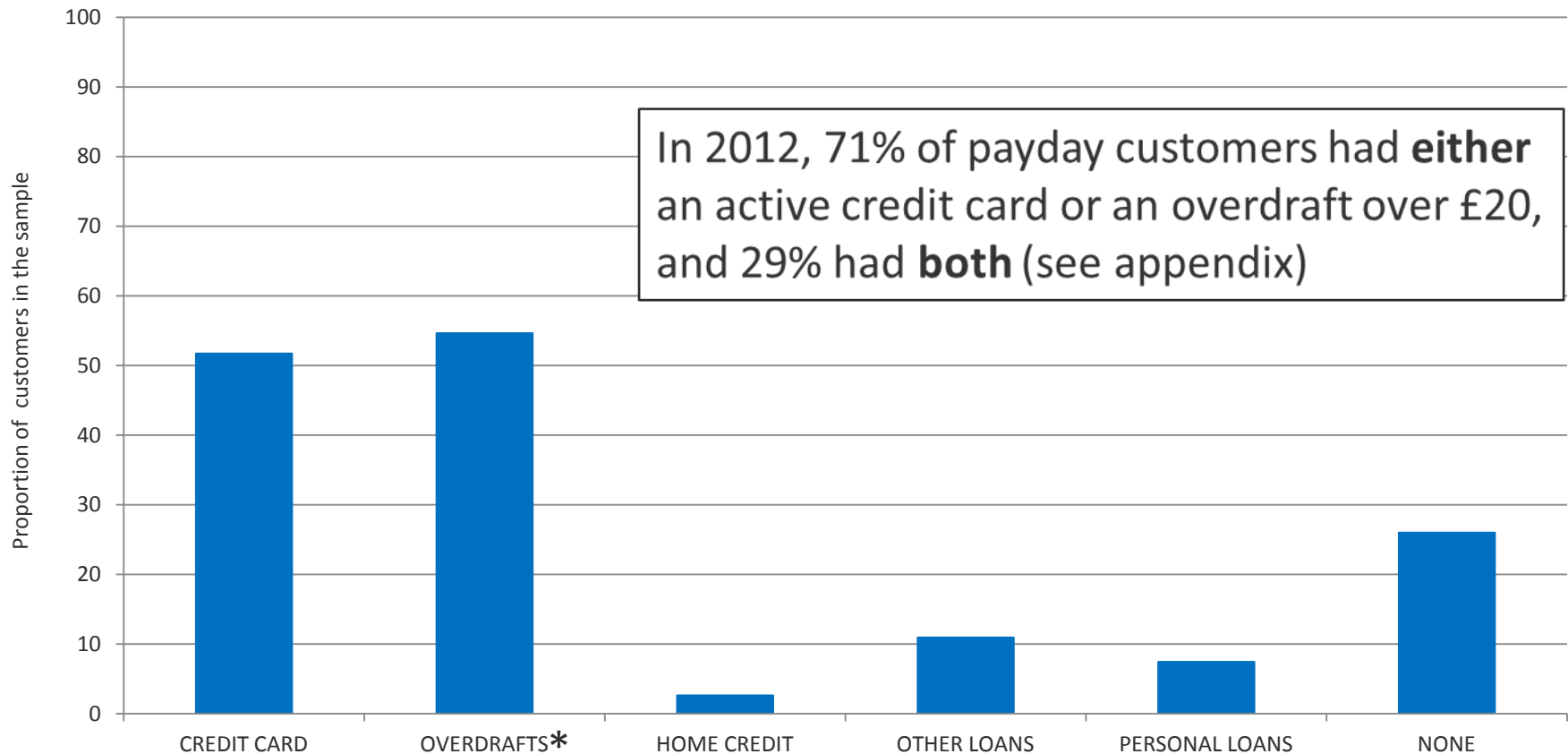
- had overdraft balances* greater than £20;
- had an active credit card;
- took out a home credit loan;
- took out a personal loan;
- took out another type of loan (such as a logbook loan).

We also considered whether any differences existed between payday customers who had only borrowed from high street lenders, and those that had only borrowed online.

Our results are set out in the following slides.

*this includes both authorised and unauthorised overdrafts

Use of other credit products (1)



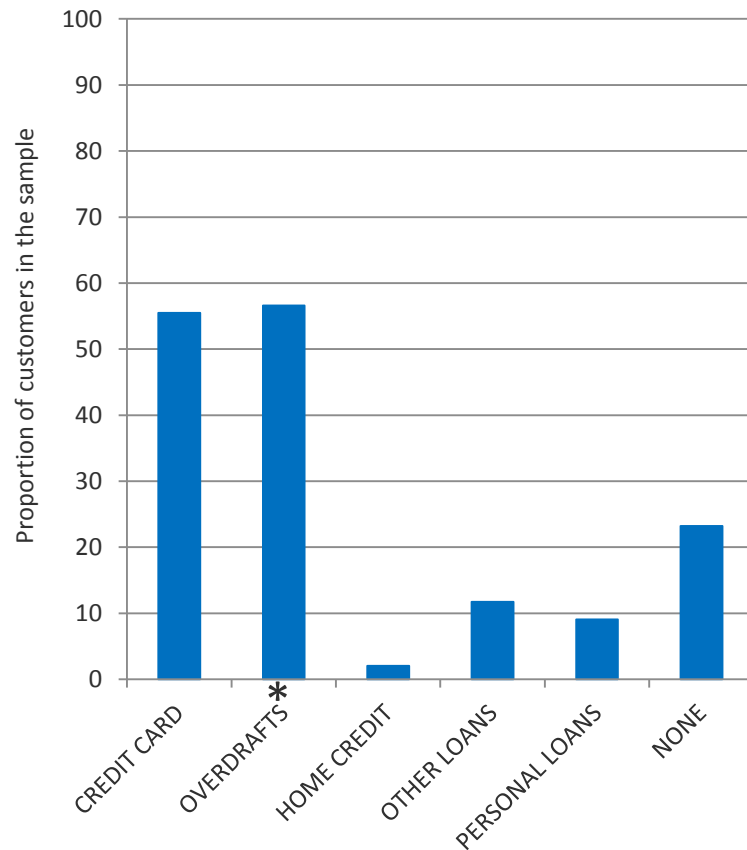
Notes:

These results are based on the data for 3,228 payday customers.

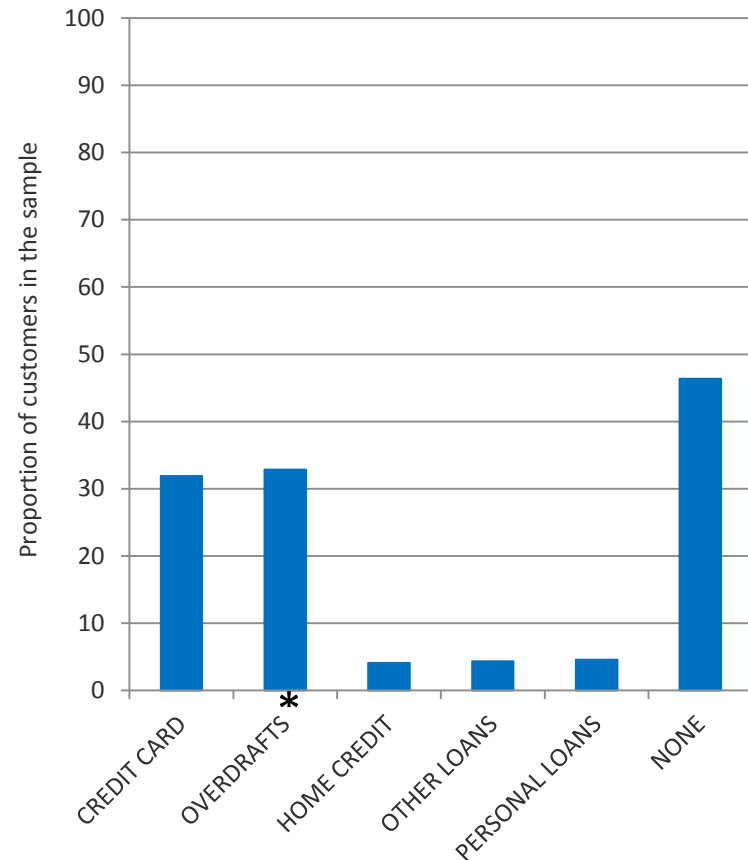
**Overdrafts refer to overdraft balances greater than £20.*

Use of other credit products (2)

Online



High Street



Notes

These results are based on a sample of 414 high street customers (ie individuals who only took out payday loans on the high street) and 2,448 online customers (ie individuals who only took out payday loans from online lenders).

**Overdrafts refer to overdraft balances greater than £20.*

Section 2: Availability of credit card balances

Methodology

Around half of payday loan customers had an active credit card in 2012. However, to what extent did these payday customers actually have credit available on their cards?

In order to assess this question, we took each payday loan in the sample, and for those customers with active credit cards, sought to estimate the total amount of available credit on these cards at the point that the loan was taken (by comparing outstanding balances to reported credit limits).

It is generally not possible to observe a customer's credit card balances at the exact point at which a payday loan is issued, as these balances are updated on a monthly basis (and sometimes less frequently). Instead, we assessed credit availability by taking every payday loan in the sample, and then considering the most up-to-date balance information that was available for each credit card that was active when that loan was issued.

In 73 per cent of cases, the date on which an active credit card's balance was recorded in our data was no more than 30 days before the payday loan was issued. In 96 per cent of cases, the date of the update was within two months of the loan being issued.

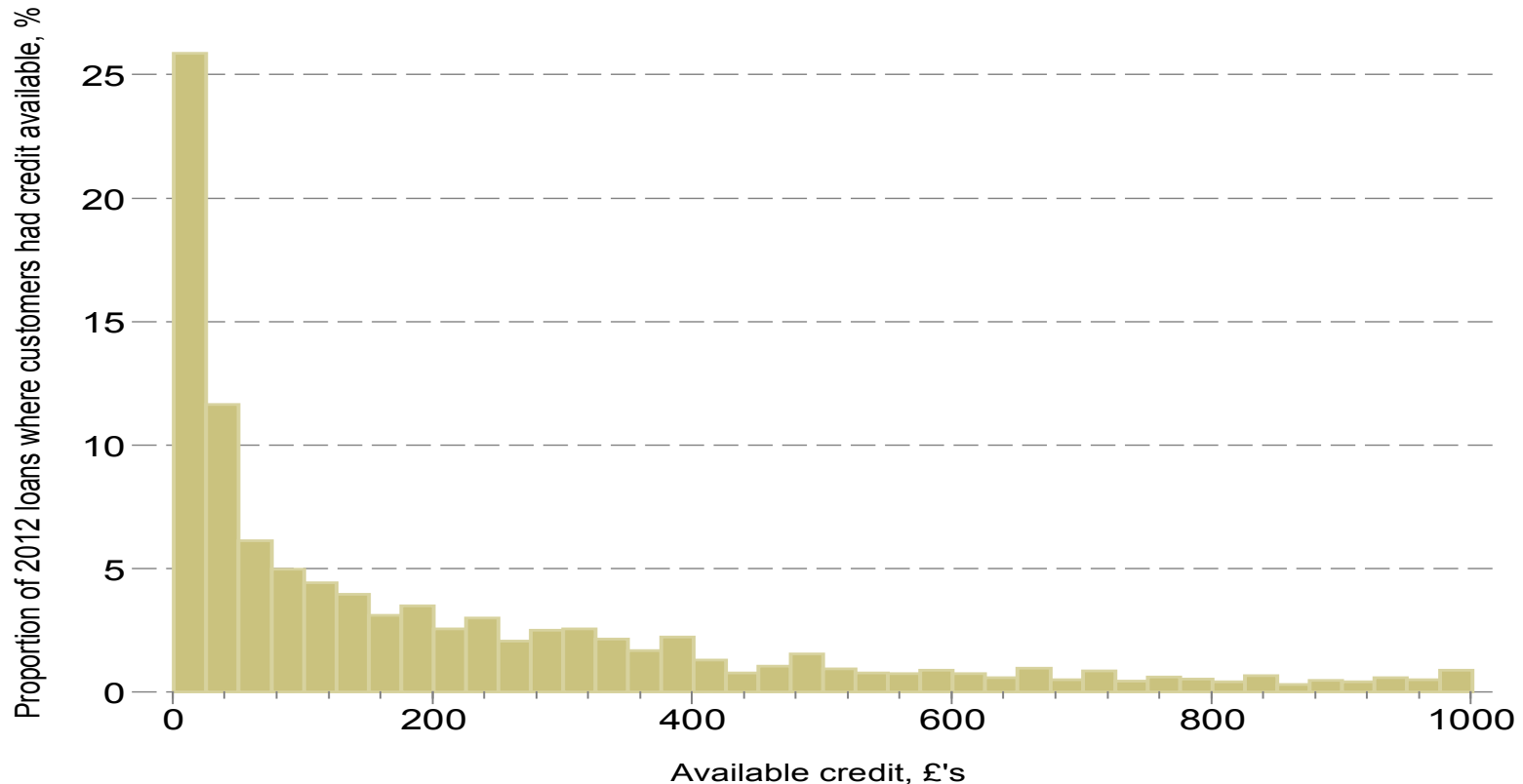
Available credit (1)

Payday loans issued to customers with...	Percentage of all loans in the sample
At least one credit card active	45%
At least one credit card active with some credit available.	31%
At least one credit card active, with more than £100 of credit available in total.	19%
At least one credit card active, with more than £200 of credit available in total.	15%

We did not observe a clear relationship between availability of credit on credit cards and the number of payday loans taken out by a customer.

Available credit (2)

The following chart shows – for each payday loan issued to customers in the sample with at least one active credit card and some available credit – the total amount of credit that was available.



Note

Loans where customers had more than £1000 worth of available credit are not shown on the chart – these account for less than 6% of all loans

Appendix

Combined use of other credit products

Use of other credit products	Percentage of customers in sample
None	26%
Credit Cards & overdrafts	29%
Credit Card only	14%
Overdrafts only	17%
Either credit cards or overdrafts	71%