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10 March 2014

Mr M Weighill
Inquiry Manager
Completion Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Mr Weighill

PAYDAY LENDING MARKET INVESTIGATION

One of our employees recently carried out an experiment designed to ascertain the prevalence of irresponsible lending, by payday lenders, to borrowers who cannot afford to make designated repayments.

The experiment was not difficult to conduct and did not require any subterfuge or specialist knowledge. Our researcher merely applied to some of the UK's best-known payday lenders, told the truth about her circumstances (where asked) and waited to see what would happen.

I enclose the summary of results from that experiment.

- Our researcher, Lisa, was able to take out eight payday loans over a period of four days
- Lisa would have to pay back almost eight times her disposable monthly income
- Three lenders advanced loans where the repayment would be half or more than half of her entire monthly income
- One lender, MyJar, ignored information given to them about existing loans
- Wonga and QuickQuid, two of the UK's largest lenders, did not ask any questions about Lisa's monthly outgoings
- No lender carried out a proper assessment of affordability

The results are deeply shocking and I believe that they may inform the Commission currently investigation. They show that payday lenders are failing to comply with existing regulation in relation to the conducting of affordability assessments prior to lending. These assessments, as a minimum, should include a detailed comparison of income and outgoings. Where possible these figures should be verified electronically or using documentary evidence and, at the very least, a reasonableness test should be applied to the figures given by a borrower, so that lenders cannot trap borrowers into a cycle of high cost borrowing.

I would love to share these results with you in more detail and would be happy to send copies of screenshots of all applications that were made.

If you have any queries please contact me on [✂].

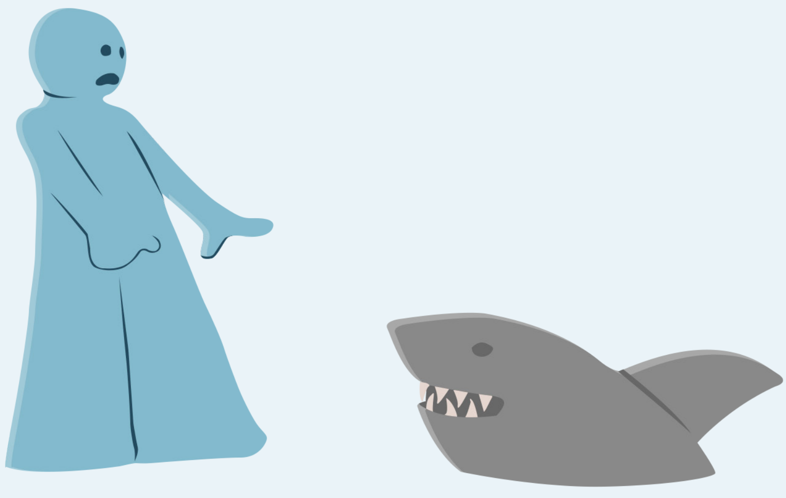
Yours sincerely

Nick Beal
General Counsel

“Payday loan companies expected me to pay back eight times my disposable income”

Research into payday loans industry

February 2014



amigo loans.co.uk

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Introduction

Between the 12th and 15th February 2014, Lisa Kelly, a researcher at Amigo Loans, applied to a number of the UK's largest payday lenders. Lisa is a fairly typical young professional. She has a take home pay of £1,250 a month and, after essential expenditure and other outgoings, has £355 a month of disposable income. Any repayment in a single month that was over £355 would leave Lisa unable to pay for living essentials the following month and would have forced her to go without food or heating, default on her rent or council tax, or more likely borrow more to survive.

Lisa volunteered to do this research and was aware of the risks involved. She has had difficulty in the past with payday loans and was shocked by the practices in the industry. She therefore feels passionately about highlighting the dangers to other people.

The OFT specifically outlines the requirement placed on lenders to take precautions to ensure lending is responsible:

> "All assessments of affordability should involve a consideration of the potential for the credit commitment to adversely impact on the borrower's financial situation, taking account of information that the creditor is aware of at the time the credit is granted."
>
> Whatever means and sources of information creditors employ as part of an assessment of affordability should be sufficient to make an assessment of the risk of the credit sought being unsustainable for the borrower in question... before granting credit, significantly increasing the amount of credit... creditors should take reasonable steps to assess a borrower's likely ability to be able to meet repayments under the credit agreement in a sustainable manner." ("http://www.oft.gov.uk/shared_oft/business_leaflets/general/oft1107.pdf) paragraphs 4.1 and 4.3.

The rules of the experiment were simple; apply to the UK's largest short term lenders for a one month 'payday' loan, answer honestly any questions they ask, and see what happens.

The results are shocking and worrying, with several payday lenders putting Lisa in serious financial difficulty.

What Happened?

• Eight lenders lent money to Lisa. In total she simultaneously ended up in debt for £2,853 all repayable from her next pay day. Eight times Lisa's monthly disposable income.

• The amount simultaneously advanced by all lenders amounted to almost seven times Lisa's monthly disposable income (£2,340 in total).

• Three lenders lent Lisa amounts which on their own would have been unaffordable.

• Wonga and QuickQuid each lent an amount which would have resulted in a repayment of of half (and over half in QuickQuid's case) of Lisa's total monthly income.

• The interest alone on the amounts advanced totaled £513, almost double Lisa's monthly disposable income, meaning that even if she had wanted to she would not have been able to 'roll over' all loans without taking extra loans the next month.

• However, one loan, from Speedycash, for £130, was automatically 'rolled' into weekly payments. If Lisa hadn't proactively insisted that the length of her repayment term be reduced from 18 months to one week, the total amount repayable would have been £674.33 - over five times the initial advance.

• Wonga and QuickQuid, two of the UK's largest lenders, asked zero questions about Lisa's monthly outgoings.

• Moneyshop, who Lisa had also borrowed from before, did not ask any questions on her outgoings or income, just confirmation that she had not moved address.

• None of the lenders asked enough questions to fully establish Lisa's disposable income.

• 7 of the 8 lenders did not specifically ask if Lisa had any other recent payday loans which might not show on her credit file. This is important because it implies that even if lenders did have access to real time reporting, it is not something that they will voluntarily consider.

• One Lender, MyJar, asked for the number of outstanding loans that she had, to which she replied honestly 5+. They also asked about the amount, to which she replied honestly £2,810. Despite this, they still lent her £100 (repayable at month end as £120.00).

Whilst this investigation was fairly easy to do, it has come at a great cost to Lisa, who will now suffer considerable damage to her credit score both from the number of credit searches which will appear on her record, and the appearance of a large number of payday loans, which have been widely publicised as a negative factor for many lenders. It is also possible that Lisa will not be able to access a mainstream mortgage for up to 6 years. Amigo Loans has provided her with a reference letter explaining the information on her credit file for any future conversations with creditors. But it is this damage which stops regulators and consumer groups from regularly undertaking similar mystery shopping exercises. To our knowledge, Amigo Loans is the first organisation to test payday lenders in this way.

Over the coming months Amigo Loans plans to continue looking for volunteers who feel strongly enough about reforming the payday industry to risk their own future creditworthiness by acting as mystery shoppers in similar exercises. We will continue to publicise lender failings and demand action from regulators until affordability is properly assessed by short term lenders.

Rules of Engagement

• Lisa made all of her applications in a four day period, between 12th February and 15th February 2014.

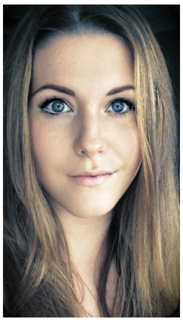
• Lisa applied directly to lenders using their own website, or by visiting stores.

• All questions asked were answered accurately, however information not requested was not volunteered (Lisa did not point out that she had multiple payday loans unless asked).

• Where different amounts were available, Lisa asked for the largest amount available.

• The date chosen for repayment, where possible, of all loans was her next payday, 21st February 2014.

About Lisa



Lisa Kelly is 23 years old and currently studying for a degree in criminology and psychology with The Open University. Her financial history is a bit of a mess due to being young and foolish with money. She took out numerous payday loans and store cards when she was 18 and a few payday loans last year to help "pad out" her wages.

Summary of Lisa's borrowing

Lender	Amount borrowed	Amount to pay back	Date to pay back	Other Notes
Wonga	£550	£611.05	21st February 2014	
QuickQuid	£800	£1,000.00	21st February 2014	
Cash Genie	£300	£390.00	21st February 2014	
My Jar	£100	£120.00	3rd March 2014	
247 Moneybox	£110	£158.73	28th February 2014	
Moneyshop	£250	£324.98	14th March 2014	
Minicredit	£100	£110.40	21st February 2014	
Speedycash	£130	£138.67	21st February 2014	(or weekly instalments of £8.73 over 18 months paying back £674.33)
	£2,340	**£2,853.50** (or **£3,388.50** if Lisa had accepted the automatic weekly repayment from Speedycash)		

Lisa's Financial Summary

Monthly pay	£1,250
Monthly outgoings	
Credit Card	-£50.00
Catalogue	-£50.00
Rent/bills	-£600.00
Phone	-£50.00
Food	-£60.00
Travel	-£45.00
Clothing	-£40.00
Monthly disposable income	**£355**