

## **CASHEURONETUK, LLC:**

### **RESPONSE TO THE CUSTOMERS AND THEIR LOANS - PRESENTATION BASED ON ANALYSIS OF THE TRANSACTION DATA ISSUED BY THE COMPETITION COMMISSION ON 14 FEBRUARY 2014**

In its presentation the Competition Commission (CC) provides a description of its findings from its customer and transaction collection exercise (**Presentation**). In this response, CashEuroNet LLC (**CashEuroNet**) sets out its observations on the Presentation.

#### **1 MARKET MATURITY**

- 1.1 As is noted at paragraph 97 in the CC's Annotated Issues Statement, in the period 2008-12 the payday loan market has grown rapidly. Data on the number of loans per customers (slide 15 of the Presentation), suggests that the market might be levelling out in 2013. According to the CC's Presentation, the overall trend in the number of loans seems to be stabilising at approximately 750,000 on average per month over the course of the year while the difference between 2012 and 2013 gradually shrinking. [CONFIDENTIAL].

#### **FIGURE 1**

[CONFIDENTIAL]

#### **2 RISKS OF INVESTING IN PAYDAY LENDING**

- 2.1 We welcome the CC's intention to consider the high risks involved in investing in a payloan company, in assessing the profitability of the major lenders in the industry.<sup>1</sup> A key indicator of the inherent risk of payday lending is the wide dispersion of default rates across lenders. This variation reflects both differences in the customer base and differences in lenders ability to determine credit-worthiness/affordability of loans.
- 2.2 Importantly, variations in default rates are significant for both new and existing customers (slide 36 of the Presentation), indicating that lending to repeat customers still involves considerable uncertainty.

#### **3 LATE REPAYMENT OF LOANS**

- 3.1 It is important to recognise that whilst a significant proportion of customers repay their loans late (slide 31 of the Presentation), this is not necessarily a sign of delinquency. In slide 37 of the Presentation, it is shown that almost half of the customers, who repay late, do so within a week. These delays may happen due to several reasons:
- 3.1.1 Not all consumers are paid exactly on the expected payday date, perhaps due to delays by their employer or the banking system;
- 3.1.2 Many payday consumers are self-employed and have volatile, uncertain income streams;
- 3.1.3 Some customers may take some time to deposit their cheques;
- 3.1.4 Banks are given a window to clear the cheques; and
- 3.1.5 A number of banks had fund transfer issues over the summer resulting in

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<sup>1</sup> Competition Commission, "Payday Lending Market Investigation: Annotated Issues Statement", paragraph 51.

delayed access to payroll for a large number of consumers.

- 3.2 Whilst the CC consumer survey question QPDSI7 explores the reasons why 18% of respondents reported finding it more difficult to repay the loan than expected, the options recorded were not granular enough to identify short term funding issues (as described above) from more longer term issues.

#### **4 CONCLUSION**

- 4.1 We hope the observations set out above are helpful to the CC in its inquiry.