PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with Mr Lender and the Consumer Credit Trade Association (CCTA) held on Wednesday 26 February 2014

Background

1. Mr Lender is a trading name of PDL Finance Limited. It started trading in the UK around four years ago financed by private investment from the USA. It now employed a staff of around 180. Mr Lender lent around £[✂] a day and had a portfolio of around £[✂] million in active loans.

The market

2. Mr Lender told us that payday lending was a business driven by technology and innovation. Entry was a lot easier now than when it began trading. It obtained a bank account, a merchant trading facility and a consumer credit licence relatively quickly (within six to eight weeks for the latter). At the time, there were only three or four parties in the market, MEM Consumer Finance and a couple of lead generators. The main challenge to parties was developing a credit model. Mr Lender found that some aspects of the US/Canadian model worked in the UK while others did not. The marketplace had been very competitive up to six months ago but there was currently not much growth in the market.

3. Customer acquisition was a lot easier when Mr Lender entered the market. It did not know which position it occupied within the ping tree. It had tried different positions in the past but now just occupied [✂].

4. Mr Lender wanted to give customers the best level of service, price and experience so that they would remain loyal in the event that they required another loan because there was no cost associated with these customers. It relied on lead generators and repeat customers for [✂]% of its business and currently had [✂] customers, of which [✂] were from repeat business. Of these, it had received only 12 complaints which were being dealt with in-house while two or three others had been received by the Financial Ombudsman.

5. Mr Lender accepted only [✂]% of all the leads it received. It was easier to buy from a lead generator compared with pay per click which was more expensive and the default rates were higher. Mr Lender's default rate was about [✂]%.

Around [✂]% of customers would not repay their loan while [✂]% would agree a repayment or debt management plan.

6. Mr Lender used social media to promote its products, although this resulted in successful leads of less than [✂]%. It had also used search engine optimisation about a year ago on Google, which was a highly effective source of new business. Mr Lender had been in second position for around two months and had received thousands of good-quality applications. It did not offer promotions but did email and text existing customers. It did not currently advertise but would consider doing so in the future when the industry became more consumer friendly.

7. Mr Lender processed only around [✂]% of the applications made through its website due to the high default rate. It charged £30 for each £100 loan made through its website and £[✂] per £100 for loans arising from lead generators. Prices in the marketplace clustered between £25 and £45. Mr Lender considered that setting the rate too high (ie £45) might influence default rates. It offered customers early repayment discounts of 75% and 50% if they repaid their loans within 5 to 7 days and 7 to 11 days respectively. It offered lower discounts in the region of £20 to £30 for repeat customers.

8. Mr Lender conducted a risk analysis and credit check on potential customers before offering a loan, including looking at the customer's occupation and their previous loan applications. If a customer did not have loans with other payday lenders, the risk of default lessened. Mr Lender conducted a credit check on all new loans. It charged £10 to transfer funds to a customer on the same day the loan application was made to cover its costs. This charge was optional and was only charged if the customer wanted the money straight away. Mr Lender estimated that around [✂]% of its customers used this option.

9. Mr Lender allowed customers to roll over a loan only up to three times before referring them to its collections department. Around [✂]% of customers elected to roll over their loans. If a loan was rolled over three times, Mr Lender would then agree a repayment plan with the customer which required them to pay back the capital before the account was closed. Mr Lender did not know what effect reducing rollovers to two would have on its business as this would take around six months to assess.

Regulation

10. Mr Lender believed that the changes proposed by the Financial Conduct Authority to continuous payment authority (CPA), to protect consumers from abuses by payday lenders, would result in consumer detriment. By allowing companies to try CPA only twice a month, customers risked default status

which would affect their credit history and their future borrowing. Consumers were paid at different times during the day so it might be necessary to try CPA several times in the morning and the afternoon. Mr Lender did not see any difference in trying CPA three or four times as opposed to just twice.
Mr Lender currently used CPA [✂] times a day ([✂]) but payment could be accepted at any time before midnight. Under the new regulations, if a customer tried to make payment after 4pm, Mr Lender would not be allowed to accept payment unless the customer did so by bank transfer. In the event of a default, a customer incurred a fee which reflected the cost of the actions taken by Mr Lender's collections department in trying to recover the loan.