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Matthew Weighill
Inquiry Manager
Competition Commission
Victoria House
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20 February 2014

Dear Matt,

TxtLoan Limited t/a MYJAR response to the Annotated Issues Statement

We have reviewed the Annotated Issues Statement and would make the following comments.

Paragraph 24

The Competition Commission's Annotated issues Statement highlights the overlap between the Payday Lending Market Investigation and the broader context of regulatory change. Paragraphs 7 and 13 to 17 highlight the significance of the extent of these changes.

It would be appropriate for the Competition Commission therefore to define the short-term credit market and products in the same way as has been used by the FCA, the incoming regulator, at Paragraph 6.13 in it's consultation paper CP 13/10, or whatever definition is ultimately adopted by the FCA.

Paragraph 37

We note your view that "there is little difference from either the borrower's or lender's perspective between rolling over a loan and taking out a further loan of the same amount shortly after the first loan is paid off". This is not a view that we share. The essential difference is that rollovers and extensions do not require the customers to repay the capital sum where operating a single loan policy where customers must repay the loan in order to become eligible for a further loan does. This is a significant difference. In the former case, the customer does not have the ready funds available to make their repayment and in the latter they do. In the period between repayment of one loan and drawdown of a subsequent loan, the lender is likely to update their credit assessment and to make their next lending decision on the customer's prevailing credit profile at the time of the next loan request.

Extensions and rollovers differ fundamentally from repayment and subsequent drawdowns.

Paragraph 38

For the information in this section to be properly viewed in context, it would be helpful for the Competition Commission to undertake research into the number of customers who dip into their overdrafts, authorised or otherwise, from time to time, and the number of customers who only make the minimum payment on their credit cards yet continue to use the card for ongoing expenditure.

Paragraph 58

The Annotated Issues Statement says in the second bullet point to this paragraph “However, we do observe some significant variation, with some lenders charging over £45 (primarily due to expensive optional faster payment fees)”. In some cases, these fees are not optional and the customer is not able to avoid such costs.

Paragraph 68

We do not agree with the conclusions that have been recorded in this paragraph. The high cost, lack of transparency and lack of availability especially of overdrafts and credit cards are some of the reasons that borrowers use short-term credit. These issues cannot be addressed by the short-term lenders and without simpler and cheaper products being made available to customers with average to poor credit scores by the major retail banks and credit card companies, the benefits of a fully competitive short-term retail credit market cannot be enjoyed by consumers.

It is imperative, if the enquiry is to be complete, for the overdraft and credit card providers to be included.

Paragraph 69

Although MYJAR has no High Street presence, we are aware of significant efforts by local politicians and campaigners to reduce the presence of short-term lenders on High Streets. The Competition Commission enquiry needs to consider the potentially detrimental effects of competition from this source.

Paragraphs 88 and 89

This is also linked to our comments in response to Paragraph 68.

The lack of transparency of other forms of finances that might be substitutes for short-term loans, in particular bank overdrafts makes it imperative that these should be included within the remit of this enquiry. The requirement for other lenders to quote an APR, even though it “is not particularly helpful in helping borrowers to compare short-term loans or work out the total cost of credit” that does not also include the nearest available substitute product is a matter that needs to be considered. It is only if consumers really understand each choice genuinely open to them and can evaluate them using similar criteria, that they will be able to make informed choices. It is therefore imperative that consumers are able to compare all sources of short-term finance so that they can make a fully informed choice. The inescapable conclusion is that, irrespective of whether APR is retained as a guide, some mechanism must be found to enable to consumers to compare all products that offer short-term solutions alongside each other on a like for like basis.

The refusal by the Competition Commission to include consideration of other substitutes and near-substitutes (including overdrafts, credit cards and store cards) means that key possible competitive elements are effectively being ignored. The short-term sector will never be able to address the competitive issues that affect this segment on their own. The other providers who operate in or close to this area also have a crucial role to play.

The market share figures that indicate that short-term lending represents around 2% of the total unsecured debt whereas credit cards alone account for more than a third of this lending (Note 37 to the Annotated Issues Statement). It is wholly unrealistic to exclude other sources of short-term credit.

The size of the unauthorised overdrafts is 4 times that of payday and revenues are a greater percentage still Consumers need to be able to avoid fees from an unauthorised overdraft with alternative products and the banks could certainly make this happen. The reform of the industry should only help to normalise the product category making it an even better alternative to the high street bank which today continues to take advantage of the customer.

Paragraph 91

The underlying statement that consumers cannot know whether they will be approved for a product unless and until they apply is a feature of all forms of finance. If this issue is to be taken into account, it should be extended to include all forms of short-term finance that may be substitutes or near substitutes for payday/short-term loans.

Paragraph 93 to 95

If the enquiry is to focus on switching, the Competition Commission should take account of lessons learned from the changes to the current account switching requirements that have been placed on High Street banks over recent years and of the effectiveness of otherwise that those measures have had.

If remedies are proposed for the short-term credit market, we would propose that similar measures need to be considered for credit card products, which generally offer considerably higher credit limits, lead to considerably greater overall debt and can have the effect of locking consumers in for the medium to long term.

The poor practices of a number of payday lenders have been highlighted in the media, the OFT's Compliance review and elsewhere. We see it as the role of the regulator to take swift and effective action when such issues arise. We would also expect the present Competition Commission enquiry to play some part in enabling the full effects of competition to work in driving out the weakest and worst participants. Again, this can only be fully effective if all short-term providers are included in the enquiry's remit. Not only will it have the effect of improving competition amongst the short-term sector itself but will also drive change in the retail credit card and overdraft market.

I should be grateful to have your feedback or to have the opportunity to review the next version of the working paper.

Yours sincerely,

Paul Smith
Group Compliance Director