MYJAR™

ADDRESS		
PO Box 361, Ashford, TW15 9DZ		
TELEPHONE	e-mail	WWW info@MYJAR.com

Matthew Weighill
Inquiry Manager
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

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Dear Matt,

MYJAR response to the competition between payday lenders and other credit providers working paper.

We have reviewed the competition working paper and would make the following comments.

Paragraph 4

In addition to overdraft and credit cards, store cards are also products that are relatively readily available for the purchase of goods at the time of shopping. They are often actively promoted in-store as an alternative to other forms of payment and can be accompanied by incentives such as discounts, loyalty bonuses and further credit. They are frequently provided within minutes on the production of ID and a valid bank card.

Paragraph 6

The evidence that non payday lenders "do not consider themselves to compete with payday lenders—or take the actions of payday lenders into account in setting their own offering" would indicate that any possible lack of competition exists across the market for short-term retail finance. This would suggest that the terms of the enquiry should take into account the actions of all types of provider of payday or substitute products.

Paragraph 8

One key feature of most short-term loans is simplicity. The report by Bristol University of BIS (The impact on business of a cap on the cost of credit*)* indicates that most short-term loan users were "aware of the important terms and the key features of the product". It is directly as a result of this and their confidence that they understand how the deal works, that some borrowers use and continue to use short-term loans.

In contrast , the report by Which?, published in October 2013 highlighted the confusion that many overdraft users had over the cost of their borrowing and how the charges would operate.

The ease of understanding how the product works is a significant competitive element and should be included.

Paragraph 9

The basis of comparison between short-term loans and other products is flawed.

In Paragraph 8 (d), price is considered as an important product element. However the basis on which overdrafts and credit cards are compared to short-term loans is limited to non-price comparisons.

This is a very significant omission. Although the headline, APR rate for most short-term loans is high, the great majority of providers cap all charges between day 60 and day 90. No other lenders do this. The Which? report of October 2013 highlights that unauthorised overdrafts can be significantly more costly than short-term loans. Even longer-term hardcore borrowing by way of overdraft and credit card is likely to cost more in absolute terms than for short-term loans.

It is noted that the Competition Commission proposes to produce a comparison of the price of borrowing using a payday loan with the price of borrowing using other credit products. This comparison must include overdrafts and credit cards and, to be realistic, should identify the cost of borrowing not just for the agreed period of a short-term loan but up to say 12 months. If the Competition Commission decides against publishing such a comparison, it needs to indicate clearly why and how it has come to that conclusion.

Paragraph 10

For completeness, the following sentences or similar should be inserted at the end of the third sentence:

> "Where cardholders do not repay on time or sufficient to meet the minimum payment, they are subject to additional charges each month. In addition to these charges, interest compounded monthly is also payable. Unlike most of the short-term lending companies, no credit card companies has a policy of automatically freezing charges or interest at any point after the payment due date."

Paragraph 11 (c)

The description of the revolving nature of a credit card limit, with the cardholder able to use and redraw the funds at any time should be considered analogous to a rollover. Paragraph 37 of the Annotated issues Statement says:

> Repeat use of payday loans, either through rolling over a loan or taking out a further loan, is prevalent. Our initial view is 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. The principal loan amount provided by the lender is the same in both scenarios and both the new loan and rollover facility attract similar charges and interest. We observe a higher proportion of regular repeat use of payday loans compared with use of rollovers.

Paragraph 14

In addition to the elements above, the finding of the Which? report of October 2013 should be reflected to highlight how difficult users find it to understand how overdraft charges work or to calculate how much they are likely to be.

One of the key factors linked to product availability and competition in this sector is price and it needs to be fully explored; this includes how easy it is for the user to determine what price they will be required to pay for using the product.

Paragraph 16 – Table 1

- If Credit Union customers are able to repay and re-draw credit facilities in a short space of time, to be consistent with the conclusion in Paragraph 37 of the Annotated Issues Statement, the answer to “Rollovers” must be “yes”.

- Peer to peer lending starts at £1,000. As some short-term lenders will also lend this sum to first time borrowers, the answer to “Amount” must be “Yes”.

- If peer to peer customers are able to borrow using one loan to finance repayment of the last, or to borrow in quick succession to the repayment of the previous loan, to be consistent with the conclusion in Paragraph 37 of the Annotated Issues Statement, the answer to “Rollovers” must be “yes”.

- A common use of personal loans offered by banks is to consolidate existing debt into a new, typically longer-term loan. If personal loans can be repaid in this way, to be consistent with the conclusion in Paragraph 37 of the Annotated Issues Statement, the answer to “Rollovers” must be “yes”.

Paragraph 17 (a)

The inclusion of a verbatim statement from Leeds City Credit Union that it regards it as a virtue that processing a credit application takes time is misleading.

The fact that credit unions are unable or unwilling to invest funds in providing speedy processing does not make it a virtue. The clear implication intended by this reference is that immediate processing of credit applications is somehow incomplete or inadequate. This is simply not the case. Lenders of all types, including short-term credit providers use sophisticated computer models that take account of real-time data, information supplied by the customer and other factors in delivering high-quality and consistent decisions.

Unless there is some evidence behind the Leeds City Credit Union statement, we would propose that it should be removed.

Paragraphs 24 and 25

The fact that only 6% of respondents unable to get a short-term loan would have borrowed from a different type of credit provider does not indicate that the short-term credit market does not operate effectively, rather is suggests that the supply of substitute and near-substitute products is dysfunctional. This again underscores the need for the remit of the Competition Commission’s enquire to be widened to include, as a minimum, overdrafts, credit cards and store cards.

Paragraphs 24 to 27 and 41

This section focuses on next best alternatives. However it ignores the reasons why borrowers choose to use short-term credit providers.

The Annotated Issues Statement correctly identifies that lack of availability of other forms of credit can be an important factor that borrowers take short-term loans. However the Bristol University report also says:

Executive Summary **Convenience and the ability to access credit quickly.**

Convenience was the most commonly reported reason why customers had used short-term credit on this occasion rather than borrow in some other way. This was true for six in ten online payday loan customers, a half of retail payday and pawnbroking customers and four in ten home credit customers. For online payday loan customers, satisfaction with the service also reflected the convenience of borrowing this way (35 per cent) and the speed of the loan decision (36 per cent).

Customer service and lender reputation.

Customer service was the main reason that customers in the Consumer Survey were satisfied with the lender they had used, cited by over a half of pawnbroking and payday loan customers and seven in ten home credit customers. The reputation of the lender was also an important factor for home credit customers, and online payday loan customers in the Depth Interviews valued the anonymity of borrowing online.

4.3.3 Similarly, payday loan customers may feel that short-term payday loans give them more control over their spending than an overdraft or credit card and in some circumstances can work out less costly.

For completeness, the Annotated Issues Statement should include comment on why customers actively choose to use short-term credit providers. In each of the comments from the Bristol University report is evidence of borrowers making a conscious decision to use short-term credit based upon reputation, experience, cost and control. Each of these are important competitive factors.

Paragraphs 29 and 39

It is undoubtedly true for High Street banks that some short-term borrowers are “higher credit risk than their typical customers”. The issue of competition that needs to be addressed is whether it is only that the creditworthiness of large groups of customers has reduced or that banks, as a group, have raised their lending criteria, effectively excluding erstwhile overdraft and credit card borrowers. The move en masse by the High Street lenders and credit card companies represents a significant curtailing of competitive force that directly affects many consumers who now use short-term credit. This is an important factor that the Competition Commission should include within the remit of this enquiry.

It is not surprising that LBG’s finding is that this group of their customers tends to have a “worse repayment behaviour overall than customers who did not use payday loans” as the actions by LBG and other banks and credit card providers have left some of these customers with no alternatives but to use short-term high cost credit rather than medium- and longer-term products that could be cheaper and more manageable for them.

Paragraph 30

Informal discussions that we have had with CRAs suggest that the use that the mainstream lenders will make of records of their customers who use short-term credit is to exclude them still further, using the existence of a payday loan as evidence of credit stress. This is likely to have a further detrimental effect on competition for consumers in this segment.

It would be helpful if this paragraph were extended to explain further the way that the other credit providers use the information from CRAs about payday loan users and the implication on competition.

Paragraph 46

The Annotated Issues Statement mis-represents the submission that we made. In that we said:

> Although the actions of other short-term lenders affect the number of applications and loan drawdowns from time to time, we do not undertake detailed analysis of competitor activity. On occasion we monitor our competitors' activity as they bid on our brand terms in google; we take no action as a result of this just monitor it for interest. We are aware of market activity but other than adjusting the criteria for leads and the price that we pay to introducers, we do not take other additional actions to win customers from individual competitors.
>
> The Payday Lending Compliance Review report published by the Office of Fair Trading on 6 March 2013 identified that around 50% of revenue for short-term lenders comes from rollovers. As MYJAR has never offered rollovers and only allows customers to have a single loan at any one time, allowing rollovers gives other providers a significant market advantage.
>
> Our most profitable customers are those who have used our service and have found it convenient and fair – we therefore seek to retain existing customers through service excellence, a simple straightforward product, responsible lending and ease of accessibility.

The fact that we do not seek to win existing customers from other lenders does not mean that we do not consider the market to be competitive. We made it clear in our market submission (Question 10) that a major cost in acquiring new customers is from the amounts that we pay to lead generators.

However our focus is on good customer retention. This is a competitive issue as we seek to do this on reputation, fairness, quality of service and accessibility.

As far as the broader market is concerned, we do see ourselves as being in direct competition with providers of overdrafts and credit cards. We seek to compete with them on the basis of speed of service, accessibility, transparency and fairness.

It is extremely difficult for borrowers to compare actual costs of payday loans with overdrafts and to come to a balanced conclusion for several reasons:

- APR, which short-term lenders are obliges to show but from which overdraft providers are exempt is not a fair reflection of comparative costs. In many cases, unauthorised overdrafts are significantly more expensive than typical payday loans of a similar amount and duration.

- The costs of the loans provided by MYJAR are completely transparent. We are obliged to show our costs clearly and we willingly do so, in large print, on all of our advertising and customer communications. By contrast, the costs of borrowing by overdraft are frequently hidden in small print, opaque, difficult to find and more difficult for customers to apply to real situations.

- Throughout all coverage of short-term lending, the term "high cost" is applied. This does not always mean high money cost to the consumer, rather it tends to refer to a high APR. This sometimes misleading impression naturally affects the views of borrowers.

The failure by the Competition Commission to accept that credit cards and overdrafts should also be included in the enquiry will ensure that these issues go unaddressed.

Paragraph 48

The list of High Street banking providers and credit card companies who, between them, must account for around 80%+ market share but who say that they do not compete with short-term lenders would indicate that, unless their policies and products are included within the remit of this enquiry, the conclusions to the enquiry will be significantly limited.

Annex 2

Paragraph 18

This paragraph has not accurately reflected our submission. It should read:

> MYJAR told us it did not actively compete with other credit providers. It did not undertake formal analysis or reporting of the products, strategy or performance of other credit providers, and did not take steps to win customers from other provider types. It told us its feedback indicated that some customers were unable to engage with credit card and overdraft providers because they could not obtain credit and/or did not fully understand the charging structures.

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