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2 July 2014

Dear Matthew,

**Response of TxtLoan t/a MYJAR to the Notice of possible remedies under Rule 11 of the CMA Rules of Procedure as part of the market investigation into payday lending**

MYJAR welcomes the opportunity to be able to respond to the possible remedies proposed under the market investigation.

Before commenting in detail about the possible remedies, we would like to comment on broader comments made in the Commission's notice.

Provisional finding 7 – price competition is weak

The Commission suggests that the competitive constraint imposed on short-term loans by other forms of credit is weak. In several of our responses to the Commission's request for information and during the hearing we attended, we stressed the importance of including in the inquiry's considerations the effect of competition offered by other near alternatives, especially overdrafts and credit cards. All of the research suggests that these products are viewed by users as near equivalents. The refusal of the Commission to consider these sources of short-term finance significantly undermines the value of the remedies proposed in the report. The remedies proposed together, or any combination of them, are not sufficient, in the absence of reference to overdraft and credit card products.

Provisional finding 8(a) – Urgency leads customers not to shop around

The reason that some customers do not shop around is, in many cases, because they are happy with the product that they are getting, they understand it and they trust the provider. Although speed of access is important to users, they take into account a range of different factors in choosing where to lend.

The Commission's own reports suggest that there is a significant amount of switching by payday loan users. The Overdraft Report published by the FCA on 10 April 2014 reports that only 4% of bank customers switch their accounts whereas switching in the HCSTC sector is around 27%. It is evident that a large proportion of HCSTC users are either happy with the provider that they are using, or are switching.

### Provisional finding 8(c) – Demand is insensitive to costs

The provisional findings main report and other documents published as part of the investigation repeatedly identify the fact that the way that APR is calculated and expressed, is a key factor in customers not being able to understand the true cost of a short-term loan. The introduction of a more meaningful measure is necessary and we would support this. However, as research by Which? has revealed, overdrafts can be a more costly option than payday loans although there is no requirement for overdraft providers to display an APR.

We would support a redefinition of APR that reflected the characteristics of payday loans, one of which is typically that interest and charges are typically frozen after 2 to 3 months – a feature that is absent from all overdraft and credit card products. It is not right for the HCSTC providers to be held accountable for customer confusion at the same time as insisting that they prominently display misleading interest rate information.

#### Remedy 1: Price comparison website

MYJAR is transparent in all our dealings with our customers and those who are interested in the services that we offer. We display details about our product including cost information clearly and at the time the customer needs the information. We do not use small print in any of our literature and we try to keep the information as simple as possible.

Evidence of that commitment to transparency and openness is the recent publication on our website of a short-term loan cost [Comparison table](#). We have used the published information on a number of short-term lenders' websites and presented comparative costs based upon their own published representative APRs. We have included products from across the sector, and featured loans at a range of prices, both cheaper and more expensive than our own.

We actively encourage our customers to shop around to ensure that they get the right deal for themselves. However we have very significant reservations about whether there is the need for a website of the type proposed in this remedy and, were such a site created, that it would achieve the required aim of helping customers identify loans that meet their specific needs to any great degree.

There is information currently easily available from many well know sources, including [moneysavingexpert.com](#), [moneysupermarket.com](#), [money.co.uk](#) and [lenderscompared.org.uk](#). Some of these sites have a very high profile and are heavily advertised. The information that they generally provide is clear and accurate.

Establishing yet another site that would be unknown and untrusted would add little to consumer understanding or knowledge and could potentially cause confusion rather than clarity.

However there may be value in mandating that all lenders and brokers displayed information in a consistent way in their advertising and on their websites. A challenge to this would be the increasing product diversification making comparison less meaningful across a range of products that span short-term, single payment loans to longer-term, multiple instalment facilities.

(a) What are the main challenges in establishing an effective price comparison website in this market and how might these be overcome?

As the sector continues to diversify to take account of customer demand and regulatory change, products are being offered with a range of different features, the main innovation being the development of instalment loans. In some cases customers would be able to benefit from both products but the cost structures could be quite different. Using a measure such as £ per day/week cost could lead customers to consider products that were less suitable for them. (An example might be a customer who wants to borrow £100. A single payment loan might cost the equivalent of £1 per day whereas an instalment loan over say 3 months, might overall be more expensive, but more manageable by allowing longer to repay).

To address this, we would recommend that lenders should be required to show the cost of their loans in adverts and on their websites in a way that allows easy comparison with other similar products. A clear description such as “single-payment loan” or “Instalment loan” could be included.

A significant challenge to the value of any such comparison site would be the way that costs are displayed. It is widely recognised that APR is a very poor measure of the cost of short-term loans and either the APR structure needs to be changed or the information should not be given prominence.

Account has to be taken of the forthcoming price cap to be introduced by the FCA in January 2015. Experience in other jurisdictions suggests that, once a cap is established, prices tend to migrate toward the cap. It may therefore be that the degree of variety in pricing between products will reduce.

(b) What features should a customer be able to specify when searching for a loan using the website?

On the popular sites noted above, customers are able to search using criteria such as:

- Loan term
- Amount
- Period of repayments
- Single payment or instalment loan

(c) What is the best way of providing a comparative cost of a loan and how should the price of payday loans be disclosed for any given scenario – for example, should the total cost of credit and/or the total amount to be repaid be included?

The prices should be compared on a £ cost per £100 per day. This should be the standard cost, and other costs should be shown separately. Where costs cannot be avoided, they should be clearly shown and contingent costs be identified together with a description of how they would be incurred.

A simple table such as this would be effective:

Lender name	Amounts available	Cost per £100 per day	Costs you will have to pay		Costs you may have to pay		
			Faster payment charge	Search fee	Late payment charge	Unpaid cheque fee	Letter fee
ABC	£100 to £1,000	£1.25	£7.50	£1.00	£25.00	£25.00	£15.00

It would be necessary for an explanation to be provided of when/how costs would be incurred. For example late payment charges could be incurred more than once. A company showing £12 for a late payment fee that could be incurred multiple times on an instalment loan versus a £25 one off late payment fee on a single term product could be misleading.

In our view, it would be inequitable if the requirement to show this information does not extend to overdrafts and credit cards.

- (d) In which order should products be ranked (e.g. based on total cost of credit, or other metrics), and should customers be able to specify this ordering?

In most of the comparison sites presently available, the user is able to determine ranking according to each of the criteria.

- (e) How should repayment scenarios in which a borrower does not repay the loan on the originally agreed date be treated on the website – for example, should borrowers be informed of the possible cost of rolling over the loan, the costs associated with repaying the loan late and/or other scenarios in which additional fees or charges might apply?

Fees should be shown above as avoidable and unavoidable. Against each such box, the site should provide dropdown detail – e.g. by clicking on the box or placing the mouse over the box. It should be made clear how and when any fees are incurred and paid.

- (f) Which lenders and products should be included on the website?

- i. Should all authorised lenders be required to participate?

No. As now, inclusion should be voluntary but even if a lender does not show their products on comparison sites, they should be required to display the same information, in the same general format, on their own website so that borrowers would be forced to see the information before completing a loan application.

- ii. Should any non-payday lenders or products (for example, credit unions or instalment loans of longer than 12 months) be allowed to participate?

We do not believe that a payday lenders comparison site is the right way to proceed. Existing comparison sites include information on a range of products, including social lending and credit unions. They allow users to search according to what they are looking for. This appears to work well.

However there is reluctance on some of the sites to provide information on HCSTC

products. For example on the moneysavingexpert.com site, to find cost comparisons between payday products is made more difficult by having to scroll down through several pages of deterrent messages and examples of other products before getting to a table headed “Least worst payday lenders”. The table above it, “Best buy payday lenders” lists only two providers, both of which are Credit Unions.

Which? has identified on more than one occasion that some overdrafts can be more expensive than HCSTC loans. The cost comparison websites bear a responsibility to convey information in a way that is easily accessible, balanced and impartial. Unless such sites are mandated to provide information in this way, they will continue to be driven by commercial incentives.

Cost is not the only factor that consumers should be searching for. We believe very strongly in customer service, forbearance and transparency. Consumers can also research lenders by reading customer reviews and reading the product and service details on each lender’s website. We do not think a comparison site can clearly communicate the suitability of a product for each consumer as circumstances for each customer are very different.

*(g)* How should the website be operated and governed?

- i Who should maintain the website and make decisions about its ongoing development?

We do not believe that there is merit in the creation of a new site. Existing price comparison sites exist and are trusted. Despite the extremely negative views of the short-term sector expressed on some of these sites, we believe that where information is provided, it is accurate and up to date.

- ii How should the website be funded (eg by payday lenders, and, if so, in what proportion)?

We do not believe that there is merit in the creation of a new site. Existing sites are marketed and promoted extensively and if the owners of these sites identify a genuine demand for their use, they will promote them to provide a commercial return. A better investment in time by the CMA may be to ensure the practices of the Pingtrees and lead generators comes under more scrutiny and the timing for the FCA reviews of these providers should be brought forward.

*(h)* How should the website be promoted?

- i. Should lenders be required to include a link to the website on their own websites and in other communications with their customers? Should the website advertise through television and other offline channels?

Comparison sites are already heavily and successfully promoted. We do not believe that there would be value in the creation or promotion of additional sites. With the significant spend of other comparison sites we do not believe a standalone payday

site can achieve media cut through without significant investment. With our limited funds we do not believe we have the financial capacity to fund an initiative like this without an impact to our pricing.

- ii. How could search engines be encouraged to display a link to the site when certain search terms are used?

This is an issue that would need to be taken up with the search engine providers.

- iii. Should the website operator have a budget for advertising and promotion? How large a budget should be allocated for this purpose?

See response (h)i above.

- (i) What should be the relationship between this website and other relevant websites, offering independent information or advice about short-term loan products, such as lenderscompared.org.uk (which offers price comparisons for home credit products and certain other cash loans) and moneyadvice.service.org.uk (which offers general advice about using payday lenders)?

Our response above covers this point.

- (j) What are the likely costs of this measure and how do they vary with the design of the remedy?

Our response above covers this point.

### Remedy 2: Measures to improve customer awareness of additional charges and fees

We believe that all costs and potential costs for customers should be clearly stated before the customer borrows. These costs should be shown in a simple and easy to understand way and, where possible, costs should be displayed in £ terms rather than percentages.

On the “How it works” page of the MYJAR website there is a clear explanation of all the charges that a customer can incur and a clear description of the instances in which such costs will apply. This information is also available to customers on their own account page after logging in. We will shortly be adding on the account page a pictorial representation of what charges are applied when so that customers can get a simple view of their loan journey.

- (a) Should additional fees and charges for late payment and/or rolling over of loans be made more prominent?

All important terms and conditions should be displayed to the customer in a clear and easily comprehensible way. Lenders should be required to highlight the costs that all customers will have to pay and which are an unavoidable part of the product and separately, the costs that might also be incurred and how these costs will arise.

The information should be standardised and consistent with what is displayed on a cost comparison site e.g. Cost per day of £100 borrowed, but lenders should be allowed to

present it in a way that is consistent with their brand. The information should be prominently displayed before the customer is able to borrow.

- (b) How and when should any notification of charges be presented in the borrowing process?

All charges should be clearly displayed and explained before the customer is able to borrow.

- (c) Should fees and charges be demonstrated using one or more example scenarios? How should such scenarios be specified?

Yes. Simple, realistic worked examples should be provided. We do not have a view on how this information should be presented. This could include worked examples of on time payment and late payment, although with the increasing diversification, having meaningful standard comparison scenarios could be challenging.

- (d) Should any information on fees for late payment or rolling over loans be included on any price comparison site, if one were created under Remedy 1?

Yes. Please see response to Question (c), Remedy 1.

- (e) What are the likely costs of this measure and how do they vary with the design of the remedy?

The costs of providing simple cost information to customers at application stage would be minimal.

### Remedy 3: Measures to help customers assess their own creditworthiness

- (a) Which of the above approaches, or which combination of approaches, is most likely to achieve the objectives of this remedy? Are there alternative approaches which would be more effective?

- Lenders who use CRA searches are already obliged to state clearly at application stage that a search will be done and applicants must opt in to proceed. We do not believe that this needs to be more explicit.
- The short-term lending sector is already moving towards the use and sharing of real-time CRA data.
- The use of quotation searches is really an area where the CRAs should take a lead. Practically this does not appear to be a significant issue for customers and it is not one that has ever been raised by our customers with us.
- We agree that application searches should only be completed when an application for credit is made. It makes no commercial sense for lenders to incur the cost of a CRA application search for a customer that would, in any case, fail other eligibility

criteria.

- We do not agree that it would be reasonable for a lender to be obliged to pre-approve applicants as outlined in 39c(iii). The cost of being obliged to pre-approve applicants on this way would ultimately need to be passed on to applicants who went on to borrow.
- We do not believe that there is merit in linking a quotation/enquiry/eligibility check into a price comparison site. Each of the CRAs already promotes their own credit check facility, each of which is already advertised and promoted. The performance of the CRAs varies by lender and the fact we can choose a CRA keeps competition in the market place amongst the CRAs who already profit very well for the searches we all perform. More scrutiny on the prices the CRAs charge could be worthwhile.

(b) To what extent are credit checks undertaken before the submission of a formal application for credit?

Lenders take account of a variety of data and information before credit is granted. The HCSTC sector is working closely with the CRAs to start using and reporting real-time data. However CRA data is only part of the decision. Lenders typically use information from applications, publicly available data and complex scoring algorithms when deciding if and how much to lend.

- i. Where searches are made, are these typically quotation or application searches? What further benefit does an application search give to a lender over a quotation search?

We are currently exploring with the CRAs the potential commercial benefits of using quotation searches. Our initial investigation would suggest that any benefit is likely to be small. We believe the CRAs have been resistant to the use of quotation searches. Previously we have used full application searches. If we move to quotation searches, when a loan is funded the quotation search will be turned in to a full application search.

The use of quotation searches may benefit the customer by protecting them from multiple credit searches on their credit file. Multiple searches in quick succession are often penalised by banks and lenders and may be an indication of third party fraud.

- ii. Would there be any benefit to the reference in the FCA's handbook on the ability of a customer to undertake a quotation search without affecting their ability to access credit being elevated in status from guidance to a rule?

No. There is no evidence that such a demand exists. The availability of quotation searches in other sectors has not indicated that this is a widely used or valued facility.

We would recommend that the CRAs should be requested to provide statistics to



the CMA on the way that quotation searches are presently used by consumers.

- iii. Is there any benefit to other lenders and/or customers from searches leaving a footprint if a lender provides real-time CRA data updates of newly-issued loans?

Yes, there is a value for lenders in being able to see the pattern of searches and applications made by the applicant.

- (c) How can customers' understanding of which lenders would lend to them prior to the point of application be improved?

- i. It is not necessary or appropriate to mandate lenders to lend if the applicants meet their criteria. If the credit and other checks are satisfactory, the lenders will provide the credit. However, the lending assessment is subject to score card checks that take other factors into account than just the CRA data and basic eligibility criteria. For good reasons, including fraud prevention, lenders do not disclose all of the criteria they use in making a lending assessment. This sort of requirement does not exist elsewhere in the retail credit environment and it would be inappropriate for it to be introduced in the HCSTC sector.

We believe that there is little or no value to the customer in understanding which lenders would lend to them before the point of application. Quotation searches are seldom used and there is no reason to believe that they should be more relevant in the short-term lending sector than in any other part of the retail credit market.

There may be a benefit to the customer using quotation searches, enabling them to shop around without incurring unnecessary searches on their file. This is very common in the insurance industry. There is however a danger in this because customers might be drawn to the product with the highest credit line and not necessarily the lowest price.

- ii. Customers can already get an indicative credit score from the CRAs, generally at no cost to themselves. It would however be misleading to suggest to them that any particular score would ensure that a loan would be granted. Additional factors such as cash liquidity can influence a lender's decisions as well as the external customer data that is built in to a lender's algorithm.

- (d) To what extent are customers aware of and/or concerned about the possible impact of multiple credit searches on their ability to access credit?

Customers are generally aware of the impact of CRA searches on their general credit score but in the HCSTC sector, this does not appear to be the prime concern of the customer. However customer perception is usually wrong. They normally think that credit searches are very detrimental when in reality they form only a small part of any lending decision.

There is no clear view at industry level of the impact of multiple quotation or

application searches on an individual's credit rating and it is likely that the type of search will be more significant than the frequency of searches.

We would recommend that the CMA seeks the views of the CRAs.

- (e) What are the practical challenges of integrating an eligibility check into a price comparison site?

We do not support either.

- (f) What are the likely costs of this measure and how do they vary with the design of the remedy?

We do not support the proposed remedies. If they were to be considered further, we believe that the CMA should identify the value of the detriment that they are seeking to address in order for the cost:benefit assessment to be made.

#### Remedy 4: Periodic statements of the cost of borrowing

We would have no problem with providing the customers with periodic statements. We believe that the statements should be provided electronically which is the way that all other communications are made by us to the customer.

Statements should provide information about when loans were taken, the repayments made and the total cost of each individual loan.

Statements should be issued not more frequently than annually and not after 6 months from the date of the customer's last loan date.

We do not believe that the statements should include reference to debt advice or to any price comparison sites.

#### Remedy 5: Measures to increase the transparency of the role of lead generators

We believe that the FCA should take early action against lead generators which undertake unauthorised sale of customer data, spamming and introduction to fee charging sites that do not lead to the provision of a loan. This is probably beyond the remit of the CMA's review.

Lead generators should be required to display prominently their status as a broker and not a lender. Although this information is already provided, it is frequently in the small print and not given prominence. They should also be required to set out clearly and prominently how the process will work e.g.:

- Step 1: complete some preliminary information
- Step 2: broker searches for a lender willing to assess application
- Step 3: redirected to lenders website
- Step 4: completion of final steps of lender's application and lender's decision is made.

We hope that the inquiry team finds these comments to be helpful and constructive. We would be pleased to offer additional clarification if that is required.

Yours sincerely,

MYJAR Group