CMA

MARKET INVESTIGATION INTO PAYDAY LENDING

Notice of possible remedies under
Rule 11 of the CMA Rules of Procedure (the "Paper")

Invitation to comment

This paper sets out the comments of UK Credit Limited ("UKC" or "we") on the possible remedies put forward by the CMA and set out in its notice dated 11 June 2014.

UKC understands that the CMA may place this response in the public domain and include this company as its source. We confirm that we have no objection to it doing so.

Background to UKC

UKC commenced trading in 2010.

UKC's sole product is an unsecured loan in respect of which the obligations of the creditor to UKC are guaranteed by a third party, typically a relative, friend or colleague of the creditor (often referred to as a "guarantor loan").

UKC offers loans of between £1,000 and £7,500 for terms of between 12 months and 60 months.

The APR on loans made by UKC varies between 44.0% and 69.9%.

Enquiries come from UKC's websites, brokers and lead generators.

Comments (References are to paragraph numbers in the Paper. Where no comment is offered UKC has no strong view on the aspect being consulted upon.)

Remedy 1: Price comparison website

26(a) An unbiased and effective price comparison site would be welcome however the scope should be broader than just the payday lending market. Such a narrow product approach may give the impression that payday lending is supported by the publisher or simply restrict the customer's focus into thinking that alternative products are not available.

One of the main challenges for establishing an effective price comparison site will be obtaining and maintaining the accuracy of data with new lenders joining and leaving the market on a regular basis. It would be possible to overcome this by instructing each lender to submit data on a regular basis and by a defined date. FCA authorised lenders will be quite used to collating and submitting product data to the regulator on a regular basis. For many firms, this will be seen as an opportunity to obtain free exposure / advertising. Once the strategy and content of the site has been agreed a further challenge will be how the site is communicated and made available to members of the public, as without public awareness it cannot be considered effective.

TV & Radio advertising will assist in raising the profile of the site. This could be further enhanced by instructing all lenders, captured by the scope of the site, to provide a link or details of the site on all of their advertising & marketing communications.

26(b) As a minimum, a prospective customer should be able to search by:

- Loan value combined with monthly affordable budget (which could then narrow the type of loan available to payday / longer term instalment).
  - Preferred duration – subject to budget
  - Preferred repayment structure – subject to budget
- Monthly interest rate
- Ability to make lump sum payments / settle early
- Speed to pay-out
- APR (for loans with a duration of 12 months or longer)
- Fees & charges
- Credit profile (good, fair, bad)

26(c) There are a number of options available for providing a comparative cost but for payday loans our preferred indicators would be:

- Total cost of credit AND
- Total amount repayable
- Whether fees and charges are applicable for late payments / default.

26(d) The customer should be able to specify which characteristic is most important to them. In the absence of any selection, however, the site should default to:

- Total amount repayable
- APR

26(e) As a minimum the site should state (using standardised terminology) what penalty charges are applied in the event of non-payment on the agreed date. Additional information could also be provided detailing any further consequences (impaired credit rating, CCJ, charging order).

26(f)

- **(i)** Ideally all authorised payday lenders should be included.
- **(ii)** Non-payday lenders should also be included. We are concerned that, as your own research seems to indicate, those seeking payday loans seem unaware of the other options that may be available to them (and that may be more suitable). Accordingly, we would also like to see other lenders participate, perhaps subject to limitations by reference to criteria such as term and/or amount of credit. Providing access to a broader range of product types is more aligned with the FCA objectives of providing better customer outcomes as we fear that an officially "endorsed" site that fails to mention other options will only serve to increase polarisation to payday loans.
- **(iii)** In order to ensure that the consumer is not misled as to the interests and responsibilities of those appearing on the site we believe that the site should not be open to brokers / lead generators or other intermediaries. Consumers have little comprehension that lead generators are motivated by matters other than the interests of the consumer and to have a site populated by parties with differing interests can only be detrimental to the consumer.

26(g)

- **(i)** Given that the consumer will be told or likely to form the impression that the site is authoritative, the site should be operated and maintained by the FCA (or similar body) or outsourced to a commercial organisation under contract to the FCA (or similar body).
- **(ii)** The site should be funded from existing fees collected by the FCA relevant to the sector represented on the site.

26(h) The site should be publicised by use of TV / Radio & offline channels similar to those used by payday lenders.

- **(i)** Lenders should be required to provide a link to the website in their own advertising / promotions. It may not be appropriate to promote in all communication types (i.e. arrears letters / complaints).
- **(ii)** We are not qualified to advise on this.
- **(iii)** The operator should have a defined budget for advertising & promotion. It should be at least equal to the budget spend for the promotion of the FSCS if it is to make any impact with those exposed to the substantial advertising of the payday lenders.

(i) Other independent (not for profit) websites should see the benefit of such a source of impartial information and be encouraged to promote it. It is unlikely that any commercial website would want to participate.

(j) Promotional & awareness costs of the website will be considerable but without awareness, the content of the website is irrelevant as there would be no audience. By linking to other relevant websites it should increase general awareness and promote better customer outcomes.

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

34(a) It is acknowledged by the CMA that the evidence shows (and our own experience confirms) that many customers focus upon speed of pay-out as their main driver. However, if appropriate outcomes are to be facilitated it is equally or more important that consumers are presented with other information that <u>should be</u> relevant to their purchasing decision. This should include:

- late payment fees / penalty charges
- rollover fees
- consequences of non-payment on credit report
- at what stage fees are applied (days)

34(b) The potential for charges to be applied should be provided in the website as an early indicator and then by the lender to the customer before any purchasing decision is made. This information should also be provided by the lender to the customer in full, in a durable medium, within the loan documentation (in the form of tariff & charges notification).

34(c) There is a significant risk of overwhelming the customer with too much information with the result that even the more important information is ignored or "lost". We do not feel that example scenarios would be any clearer than a tariff of charges.

34(d) Yes. As per our previous comments in 34 (a).

34(e) The provision of information relevant to fees and charges should be no more onerous or costly than the provision of any other item of information. Lenders should already be providing customers with details of fees and charges as part of their sales process.

Remedy 3: Measures to help customers assess their own creditworthiness

40(a) A lender should be obliged to inform the customer if they will conduct a credit search, what type of credit search will be performed, the implications of a "hard" search (if there will be a "hard" search) and at what stage(s) in the process it will be undertaken.

High level criteria should be published by the lender on the website. This would filter out those customers who do not qualify due to factors such as age, employment type, income parameters or geographical location.

If basic guidance was provided the customer could 'self-score' themselves in regard to credit rating which would limit the availability of finance from some lenders.

40(b) Credit searches are undertaken by us at the point the enquiry (application) is submitted online. The customer has to consent to the search prior to it being carried out.

(i) UKC carries out quotation (soft) searches. We do not believe that an application search provides any additional information which would be beneficial to the UKC application process.

(ii) We welcome the proposal to convert guidance to a rule as it would remove any ambiguity and create a level playing field.

(iii) Access to real-time CRA data would improve the assessment of affordability at the point of sale if this records new account / loan opened which could reduce inappropriate lending and reducing the potential of over indebtedness.

40(c)

(i) Just because a client is eligible does not mean the proposed loan is suitable or affordable. Without significant data gathering it may not be appropriate to 'approve' an application in the absence of evidence to the contrary and may promote poor outcomes for customers i.e. the use of detailed income and expenditure evaluation.

(ii) In theory this may help but equally this may be difficult to apply if lenders carry out credit searches at different times during the process. This could only be adopted if the terms of business between the lender and the CRA allowed it. Equally different lenders use different scorecards and so it would be difficult, potentially impossible to compare one score with another where different cards are used.

40(d) The less financially savvy customer probably is not aware what impact multiple credit searches have on their credit score. Equally, many are not concerned if they obtain the finance for which they have applied.

40(e) Incorporating an eligibility check into a price comparison website would be significant. If you were to be reliant upon manual input from the customer which could be prone to error (whether deliberate or accidental). If, however, the customer inputs can be electronically verified this would provide a valuable tool as the customer would only be presented with loans for which they are potentially eligible. Incorporating electronic verification would be extremely difficult at the point of enquiry due to the customer permissions required to conduct such searches.

40(f) Unable to comment

Remedy 4: Periodic statements of the cost of borrowing

45(a) Within qualifying periods a customer should be provided with a statement setting out costs (particularly where 'roll over' costs can be significant).

45(b) For a payday product we would suggest quarterly would be an appropriate time-scale.

45(c) Customers within the qualifying period whilst a balance is outstanding.

45(d) Given the frequency and costs an electronic distribution medium would seem a sensible option.

45(e) The statement date should be determined by 'anniversary' dates within the set time period for the product concerned.

45(f) All of the items as set out should be included within the statement information.

45(g) We would support (provided this was a mandatory requirement) for all lenders to adopt the use of links and sources of information which both provide education and can lead a customer to making a more informed decision.

45(h) We are unable to comment.

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

57(a) Existing regulation is sufficiently clear providing it is interpreted in the manner it was intended and implemented by the relevant broker.

57(b) We have no strong view.

57(c) We have no strong view.

57(d) We have no strong view.

57(e) Any individual or organisation representing a retail customer (in the financial service sector) should explain clearly the nature (and any resultant impacts or limitations that may be contrary to the interests of the customer) of the service they offer, and of the nature of any relationship they may have with the lender, at the earliest opportunity.

57(f) The declaration should be provided in plain English and inform the customer:

- On what basis the customer is being introduced to a lender (set fee / highest bid / tail end commission)
- Whether or not the customer has been offered the cheapest loan available based upon total amount repayable (this may not be the most suitable product but would produce a consistent measure)
- That alternative lenders and lending products are available [and that they may be more suitable for the customer].

57(g) The emphasis should be on the introducer to make the declaration. The lender could be obliged to create such an obligation in any introducer contract and be liable if it fails to create such an obligation.

57(h) The information should be delivered prior to any credit search and prior to any purchasing decision. To maximise the potential for the customer to read the information, it should appear as a pop up warning.

57(i) Lenders should comply with the requirements of the Data Protection Act and should only pass on details with the informed consent of the customer.

57(j) We have no strong view.

57(k) Unable to comment.

UK Credit Limited

7 July 2014