Matthew Weighill
Inquiry Manager
Payday Lending Investigation
Competition and Markets Authority
Victoria House
Southampton Row
London WC1 4AD

Dear Matthew

Market investigation into payday lending – notice of possible remedies

We appreciate the opportunity to respond to this discussion paper. The Association of British Credit Unions Limited (ABCUL) is the main trade association for credit unions in England, Scotland and Wales. Out of the 393 credit unions which choose to be a member of a trade association, 72% choose to be a member of ABCUL.

Credit unions are not-for-profit, financial co-operatives owned and controlled by their members. They provide safe savings and affordable loans. Some credit unions offer more sophisticated products such as current accounts, ISAs and mortgages.

At 31 December 2013, credit unions in Great Britain were providing financial services to 1,122,461 people, including 126,217 junior savers. The sector held more than £1.1 billion in assets with more than £676 million out on loan to members and £949 million in deposits.[1]

Credit unions work to provide inclusive financial services has been valued by successive Governments. Credit unions' participation in the Growth Fund from 2006 – 2011 saw over 400,000 affordable loans made with funding from the Financial Inclusion Fund. The DWP has contracted ABCUL to lead a consortium of credit unions under the Credit Union Expansion Project, which will invest up to £38 million in the sector and aims to make significant steps towards sustainability.

Response to notice of possible remedies

Credit unions have been identified by many commentators and policy makers as a solution to the problem of high-cost lending and, in particular, payday lending. We agree with this only in as far as credit unions are able to provide a responsible and affordable alternative source of credit and wider financial services in a sustainable way. We feel strongly that the "bullet" repayment schedule of payday loans – principal and interest repaid in one go – is inherently irresponsible since it bears no relation to the average borrower's capacity to repay and is too often used to mask regular

[1] Figures from unaudited quarterly returns provided to the Prudential Regulation Authority

ABCUL Association of British Credit Unions Limited
Holyoake House, Hanover Street, Manchester M60 0AS
Tel 0161 832 3694 Fax 0161 832 3706
Email info@abcul.org Website www.abcul.coop

shortfalls in a borrowers' income and expenditure. Therefore we do not feel that there is a great appetite or desire among credit unions to provide a direct competitor to payday lending but instead the sector wishes to develop sustainably so that it can provide a responsible alternative which helps people to take control of their finances and climb out of debt.

Given credit unions' role in this market and contact with payday loan borrowers, we have considerable knowledge and experience of market dynamics. We are also familiar with measures which have been taken in similar alternative lending markets – namely, home-collected credit – which suffer similar failures of price competition as those identified in the investigation.

While we also appreciate that the CMA has left open many of the questions around regulation and price capping which the FCA is currently considering and implementing, we are also keen for CMA to recognise clearly the limitations of the remedies proposed to improve competition. We do not believe that the evidence of how lenders and borrowers relate in this market offers any support for the notion that a lack of information or comparability is driving poor decisions and high prices.

As the investigation itself notes, consumer demand for high-cost credit is downwardly inelastic allowing lenders to maintain high fees and charges without fear of losing business. This is because of the evident desperation facing many payday borrowers who, as the inquiry also notes, continue to borrow despite clear unaffordability in many cases. The price of credit is therefore driven by a multitude of other factors and, as the inquiry further notes, is enabling extremely high returns to capital of between 28 and 44%.

We are therefore doubtful of the potential for measures such as price comparison sites or further information disclosures to address these competition shortcomings. Indeed, many payday lenders are very transparent about the fees they charge, and use the failure of borrowers to respond to this information by denying lenders their business as supposed evidence of borrower satisfaction with their service.

As further evidence, we would point to the very similar competition remedies which were imposed upon the home collected credit industry which the Competition Commission undertook in 2006. Here, the lenderscompared.co.uk website was set up and various requirements around disclosure were imposed. Nevertheless, in the intervening years, home collected credit has become, if anything, more expensive with the largest lender – Provident Financial – raising its typical APR from 189% to 272%. In these markets, very similar dynamics are at play whereby borrowers are insensitive to price movements by virtue of limited borrowing options and, therefore, no amount of extra disclosure and comparability is likely to result in meaningful improvements in price competition.

Finally we would like to draw the CMA's attention to the research that has been undertaken in the US by the Pew Institute[2] into regulation of payday lending and the most appropriate means of

[2] http://www.pewtrusts.org/en/multimedia/data-visualizations/2012/payday-lending-in-america / http://www.pewtrusts.org/en/research-and-analysis/reports/2012/07/19/who-borrows-where-they-borrow-and-why

producing enhanced consumer outcomes. Since much consumer credit regulation is set by state authorities in the US there are unique opportunities to compare and contrast the outcomes of different responses. Ultimately this research found that the best regulatory response was that which was pursued by Colorado whereby it was mandated that loans could not be made for full repayment under the bullet model but instead must be repaid in instalments. This was found to produce lower interest charges and more affordable monthly payments resulting in significantly superior consumer outcomes.

Ultimately, Pew's recommendation is that the principal factor producing better outcomes is loan affordability and that, to this end, payments should be limited to 5% of a borrower's monthly salary.

To conclude, we do not think that textbook economic rationality can be applied successfully to market participants in the alternative and high-cost credit markets. Instead we see stubbornly inelastic demand which persists despite inordinate profits and increasing prices. Improved outcomes will only follow from regulatory action to curtail lending on unaffordable terms whereby unrealistically significant proportions of a borrowers wage are allocated to credit repayments. Affordability should be the key measure upon which regulation and remedies in this market are based.

We are grateful for the opportunity to respond to this consultation. We would be more than happy to discuss any of the points raised above in more detail. Please feel free to contact us.

Yours sincerely,

Mark Lyonette
Chief Executive – ABCUL