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Inquiry Manager
Payday Lending Investigation
Competition and Markets Authority
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Dear Matthew

Competition and Markets Authority Payday Lending Investigation – Interim Findings and Possible Remedies

The CFA is pleased to have an opportunity to comment on the possible remedies put forward by the CMA as part of the payday lending market investigation.

We read the CMA's interim findings with interest. While we do not disagree with the findings, and the report is the most authoritative and accurate analysis of the market we have seen and it clearly shows that short term loans are a vital financial lifeline for many people, we do not necessarily agree with the way in which the CMA has arrived at its conclusions. The short-term lending market has changed dramatically since the FCA took over responsibility for regulation. Major lenders are already leaving the market, leaving consumers with less choice, not more.

Please find attached the CFA response to the CMA questions on possible remedies. It is important that the CMA takes full account of recent changes in the market when considering these possible remedies.

I look forward to discussing these issues further when we meet again.

Yours sincerely

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Chief Executive

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Competition and Markets Authority Payday Lending Investigation

Possible Remedies – Response from the Consumer Finance Association

Possible Remedy/Question	CFA Response
Price comparison website	CFA View: Any measure that helps consumers to make the best possible financial decisions whilst protecting choice and encouraging competition is something to support.
(a) What are the main challenges in establishing an effective price comparison website in this market and how might these be overcome?	<p>A price comparison website would undoubtedly help consumers shop around. But the challenge of building a price comparison website to compare a variety of different, and developing, products could result in more standardised products and less product innovation in the market. This is not necessarily good news for consumers.</p> <p>Specific challenges include:</p> <ul style="list-style-type: none"> • Participation – ensuring that sufficient lenders participate and also that only authorised lenders are able to participate; • Making the website attractive to consumers and easy for consumers to use; • Accommodating different sorts of products and enabling consumers to compare different products that may meet their needs in different ways. • Covering all competing products. <p>A comprehensive price comparison site is not just important for the payday lending industry but for the whole consumer credit market. If customers are going to have the facility to review lenders, it will be important to ensure that only actual customers can submit reviews.</p>
(b) What features should a customer be able to specify when searching for a loan using a website? For example should a customer be able to specify:	<p>Customers should be able to specify:</p> <ul style="list-style-type: none"> • Duration and value of loan required; • Repayment structure of the loan, single repayment or mini

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<ul style="list-style-type: none"> (i) The duration and value of the loan required (ii) The repayment structure of the loan (instalment loans vs traditional single repayment loans); and (iii) Inclusion of faster payment options, or the date on which customers wish cash to be received by; and (iv) Other characteristics of the loan or provider (and what those might be). 	<p>personal loan. It is important not to introduce new terminology to describe a product that already exists. An instalment loan is a form of personal loan and should be described as such; and</p> <ul style="list-style-type: none"> • How quickly the customer would like to receive the money. <p>Other characteristics customers may want to include in searches include:</p> <ul style="list-style-type: none"> • Flexibility – such as no early repayment charges; and • Customer reviews (if these are included on the site).
<p>(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?</p>	<p>The cost should be displayed as:</p> <ul style="list-style-type: none"> • The charge per £100; and • The total amount to be repaid.
<p>(d) In which order should products be ranked (eg based on the total cost of credit or other metrics) and should customers be able to specify this ordering?</p>	<ul style="list-style-type: none"> • Customers should be able to choose how the results are ordered. For some customers, this is likely to be on the basis of price, although there may not be a great deal of flexibility or difference between lenders once a cap on the total cost of credit is in place. • The £/100 price needs to be based on a representative example, for example £200 for 30 days or £200 for 12 months, to enable comparisons to be made. • For some customers flexibility may be more important. Some customers may wish to compare more than one type of product and the site should offer this facility.
<p>(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 a loan, the costs associated with repaying the loan late and/or other scenarios in which additional fees or charges might apply?</p>	<ul style="list-style-type: none"> • The potential cost of missing a payment or repaying late should be made clear to consumers, together with any other charges associated with default. It is likely that the forthcoming FCA consultation on the proposed cap on the total cost of credit will cover charges around late payments and defaults. • As stated above, the cap will eliminate much of the variety in the market. Using a representative example will keep people from gaming the system. • Simple graphs, which display how much loans cost from each firm, should be used to help consumers compare costs, an example of

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<p>(f) Which lenders and products should be included on the website?</p> <p>(i) Should all authorised lenders be required to participate?</p> <p>(ii) Should any non-payday lenders or products (for example, credit unions or instalment loans of longer than 12 months) be allowed to participate?</p> <p>(iii) Should lead generators or other intermediaries be excluded from being listed on the price comparison site?</p>	<p>what such a graph might look like is attached.</p> <ul style="list-style-type: none"> • All authorised lenders should be required to participate. • The site should include all potential products which might meet a consumer’s needs, including overdrafts, credit cards, and personal loans. It is not helpful for consumers to divide the market on a product basis. Consumers are more concerned about finding a product that meets their needs, rather than choosing from a limited range of one type of product. • Lead generators and other intermediaries should be excluded from the site. Lead generators and brokers would only be able to provide information about one example of a product that consumers may be directed to, it could be misleading for consumers if they are subsequently offered a different product.
<p>(g) How should the website be operated and governed?</p> <p>(i) Who should maintain the website and make decisions about its ongoing development?</p> <p>(ii) How should the website be funded (eg by payday lenders, and, if so, in what proportion)?</p>	<ul style="list-style-type: none"> • A price comparison site for short-term loans should be operated on a commercial basis, ideally as part of one or more existing price comparison sites that are already well-known to consumers. • There would be little value in setting up a separate price comparison site for short-term loans. Customer awareness would be low, particularly when compared to other price comparison sites, initially and consumers would be limited to comparing short-term loans when it would be more appropriate for them to compare across a range of products that may meet their needs.
<p>(h) How should the website be promoted?</p> <p>(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?</p> <p>(ii) How could search engines be encouraged to display a link to the site when certain search terms are used?</p> <p>(iii) Should the website operator have a budget for advertising and promotion? How large a budget should be allocated for this purpose?</p>	<ul style="list-style-type: none"> • The website should be an integral part of one or more existing price comparison websites and be promoted in the same way as other price comparison websites. • Lenders should be encouraged to display a link to sites where consumers are able to compare short-term loans. Websites such as moneyadvice.service.org.uk should also provide a link to relevant price comparison websites. • The budget for promotion of the website will be a matter for the operator of the website(s).

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<p>(i) What should 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)?</p>	<ul style="list-style-type: none"> • Price comparison websites for short-term loans should be an integral part of other price comparison websites. Consumers do not necessarily consider their financial needs in terms of a single type of product and need to be able to compare across different types of product in order to find the best product to meet their needs. • It would not be appropriate for the Money Advice Service to operate or host a price comparison facility for short-term loans.
<p>Measures to improve customer awareness of additional charges and fees</p>	<p>CFA View: It is essential that consumers understand the potential costs of a loan. The information must be presented in a way which is simple and easy for consumers to understand</p>
<p>(a) Should additional fees and charges for late payment and/or rolling over of loans be made more prominent?</p>	<ul style="list-style-type: none"> • Providing information to consumers about the potential cost of a loan should help consumers make informed choices and ensure consumers get the loan that is right for them. But simply providing more information is not the answer. A page of text and figures will not, on its own, help consumers make the right decision for them. The information must be presented simply and clearly. • Lenders should be required to display all the charges associated with a loan. What charges can be levied, together with the maximum amount of those charges, will be covered in the forthcoming FCA consultation paper on proposals for a cap on the total cost of credit. • The number of rollovers has decreased sharply over the past year, there has been a 75% reduction in rollovers in the last year according to CFA member figures, and is likely to continue decreasing. Consideration needs to be given to whether there is any added value to consumers in displaying charges for a facility that will be available to only a limited number of consumers. • The bar graph examples used by CMA to compare lender prices are a good tool. A website could use the same 4 example situations: 14 days, 30 days, rollover and arrears for 28 days. An example is attached.

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(b) How and when should any notification of charges be presented in the borrowing process?	<ul style="list-style-type: none"> The charges should be presented throughout the borrowing process, from using sliders to check what the cost of borrowing a particular amount might be to completing an application and submitting that application.
(c) Should fees and charges be demonstrated using one or more example scenarios? How should such scenarios be identified?	<ul style="list-style-type: none"> All customers are different and do not conveniently fall into one or two scenarios. As such, use of scenarios would be of little value and could confuse consumers rather than help them.
(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?	<ul style="list-style-type: none"> If a price comparison facility is established for short-term loans, all costs and charges should be included in the facility. If this does not happen, the facility will be of only limited value to consumers.
Measures to help customers assess their own creditworthiness	CFA View: CFA members are among early adopters of industry initiatives to improve data sharing. Responsible lenders want as much information as possible so they can make the best judgment they can about whether a customer can afford a loan.
<p>Options:</p> <ul style="list-style-type: none"> Requiring lenders to state explicitly on their website and on any form requiring customers to enter their details whether they will undertake any form of credit check, and at what stage; Requiring lenders to provide CRAs with a real-time update of any new credit facility granted and also prohibiting the visibility of a credit search by a lender; Increasing customers' ability to discover whether a lender would be willing to offer them credit, without an 'application' or 'credit search' being carried out, for example by: <ul style="list-style-type: none"> Improving clarity to customers about the use of 'application' or credit searches and 'enquiry' or 'quotation' searches by lenders and brokers; Prohibiting the use of application searches by lenders prior to conducting an initial eligibility assessment; or Requiring lenders to provide an indication of the likelihood that they would grant credit to a customer prior to a full application. Integrating an initial quotation/enquiry/eligibility check into a price comparison site. 	
(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?	<ul style="list-style-type: none"> Increased data sharing will have only limited impact if it does not extend to the entire consumer credit industry. Knowing a consumer's overall financial situation is better for both customers and lenders. This is not simply an issue for consumers considering applying for

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	<p>short-term loans. Any requirement to offer enquiry/quotation searches needs to apply to all consumer credit products.</p> <ul style="list-style-type: none"> The CMA should undertake a review of competition in the CRA market. We believe the current system could be improved in order to serve consumers and lenders better.
<p>(b) To what extent are credit checks undertaken before the submission of a formal application for credit?</p> <p>(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?</p> <p>(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 assess credit being elevated in status from guidance to a rule?</p> <p>(iii) Is there any benefit to other lenders and/or customers from searches leaving a footprint if a lender provides real-time updates of newly issued loans?</p>	<p>The approach taken varies by lender.</p>
<p>(c) How can customers’ understanding of which lenders would lend to them prior to the point of application be improved?</p> <p>(i) Where an initial eligibility check is performed by a lender and the customer is deemed ‘eligible’, should the lenders be required to ensure that all deemed eligible customers are approved should they make a formal application in the absence of evidence?</p> <p>(ii) Should lenders be required to present an indicative ‘credit score’ (from one or more CRA) that a certain proportion (eg 90%) of their respective customers have at the point of application?</p>	<ul style="list-style-type: none"> We do not believe that mainstream credit scores are of significant value in evaluating short-term credit customers. Our lender experience shows that mainstream credit scores do not have any predictive value for payday customers and provide no useful data on affordability. The majority of online lenders, and larger lenders, use a bespoke credit model. We believe the proposals put forward here by the CMA are good ideas for mainstream credit but practically impossible for short-term lending. A good statement to show on the comparison site would be: “Do not shop for a payday loan if you already have outstanding payday loans that you are having difficulty repaying. Please consider consulting a debt charity for advice instead.”

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(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?	No information available. This is an issue the CMA should focus on in their market research. We believe customers are unlikely to be aware of the different kinds of searches available and the potential impact on their ability to access credit.
(e) What are the practical challenges of integrating an eligibility check into a price comparison site?	As discussed above, it would be a practical impossibility to integrate an eligibility check into a price comparison site without taking customer identifying data. The only way this would be workable would be if the website took information from the customer and sent it to the various lenders to run credit reports and respond with a bid. It may be possible for lenders to provide real time quotes if customer data is provided by the price comparison website.
Periodic statements of the cost of borrowing	CFA View: As with all information provided to consumers, a periodic statement of the total cost of borrowing will only be helpful if it is presented simply and clearly and consumers are motivated to read it. There is an opportunity for the industry and regulators to learn from how credit card annual statements have worked.
(a) Should lenders be required to send a regular statement of borrowing costs to customers?	<ul style="list-style-type: none"> • There is always a risk associated with providing more information to consumers, that is that consumers will feel bombarded with information and simply choose to ignore it. These proposals need to be developed carefully, taking account of experience elsewhere in the consumer credit market and consumer views about what information would be helpful to them. • A simple statement of activity <i>may</i> a workable idea. Customers are used to seeing regular bank and card statements. However the form of the statement is crucial, it must be logical and minimal. • The purpose of providing regular information to consumers about the cost of borrowing needs to be clear at the outset. Providing more information to consumers without a clear rationale and call to action is unlikely to do more than simply confuse consumers. • A similar approach has been used with credit cards, where an annual statement is provided to customers setting out their

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	<p>spending and charges paid over the previous year. We are not aware of any evaluation of the impact of annual credit card statements on consumer behaviour or indeed how useful consumers find the statement.</p>
(b) The period of the statement (for example, quarterly, twice a year or annually), in light of the typical timescale of a payday lending relationship?	<p>Most short-term loan customers do not have an ongoing relationship with lenders. Semi-annual statements would be sufficient and show enough history for a customer to determine that the product has become a habit.</p>
(c) Which customers should receive a statement and at what point and when should they cease to receive a statement?	<p>If regular statements are to be sent to short-term loan customers, there need to be clear criteria for determining which customers receive statements, for example 3 or more loans from the same lender within a 6 or 12 month period.</p>
(d) The method of distribution of the statement, for example by post, email, online or through other channels	<ul style="list-style-type: none"> • There are questions around the cost and method of communication, electronic is obviously cheaper and is consistent for online customers. But electronic statements may not always meet the needs of high street customers. • There are also issues around defining which customers are required to receive the statement. It may not be possible to contact customers who have moved and no longer have live accounts.
(e) The date on which the statement should be sent and whether this should be the same for all lenders	<ul style="list-style-type: none"> • The only sensible date on which a statement of the total cost of borrowing could be sent would be the anniversary of taking out a loan. Using an arbitrary date could result in consumers who had only taken out one loan, or who had only recently taken out a loan, receiving a statement, the contents of which would be meaningless for the consumer. • There is no reason why all lenders should be required to send out statements at the same time. This approach would require the use of an arbitrary date, making the information provided less meaningful for consumers. For consumers who had taken out loans with more than one lender during the time period covered by the statement, there is a risk of consumers being overwhelmed by the information provided.

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<p>(f) What information should be include on the statement (for example, the number of loans, number of days that loans were taken out, total cost of interest, fees and charges over the period)?</p>	<p>Any periodic statements provided to consumers should be kept as simple as possible. The only information which should be provided is:</p> <ul style="list-style-type: none"> • Number of loans; • Amount borrowed; • Total cost of loans to the consumer; • Amount outstanding, if any, at the time of statement.
<p>(g) What further material should be included with the statement – for example where financial advice can be obtained or a link to a price comparison website should one be introduced under Remedy 1?</p>	<p>Again, information should be kept to a minimum to ensure it is simple and easy for consumers to understand. Additional information should include:</p> <ul style="list-style-type: none"> • A signpost to free debt advice; and • A link to loan comparison facilities.
<p>Measures to increase the transparency of the role of lead generators</p>	<p>CFA View: The CMA's proposed remedies combine well with the regulatory measures that lenders are putting in place as they protect choice, promote competition and make it tougher for rogue lenders and lead generators to exploit consumers.</p>
<p>(a) Is existing regulation sufficient to ensure that clear information is provided to customers on the relationship between brokers and lenders?</p>	<p>Many consumers are confused about whether they are dealing with a lender, a broker or a lead generator. As such, the information that is provided to consumers should be improved to ensure that it is clear from the outset what type of firm a consumer is dealing with.</p> <p>It is very important that the customer knows that the lead generator is not shopping for the lowest price and that they merely sell to the highest bidder.</p>
<p>(b) Are there any additional compliance activities that the FCA should undertake?</p>	<ul style="list-style-type: none"> • The FCA should conduct a regular trawl of websites to identify firms that are not describing themselves correctly and so are misleading customers. Action should be taken immediately to rectify this or stop the credit broker/lead generator from operating. • The FCA also needs to test the Representative APR's and representative examples used by lead generators to make sure they are up-to-date and accurate for short-term credit customers. Leads generators operating in the market currently all have APR's

Possible Remedy/Question	CFA Response
	<p>advertised that are far lower than the lenders they service. This is impossible unless the lead generators are using inaccurate data.</p> <ul style="list-style-type: none"> The CMA Interim Findings show prices as clustered around 30/100 for short-term loans, as such lead generators should not be advertising 25/100 for a 30-day loan. Nor should lead generators be advertising loans with 'no credit checks' when online lenders run credit checks.
(c) How should any such remedy be implemented?	The FCA needs to devote some resources to regular trawls of websites to identify those sites that are misleading customers and/or operating without the necessary permissions.
(d) Which classes of credit broker or other intermediary should any additional requirements apply to?	Any measures targeted at brokers or lead generators should apply to all brokers and lead generators.
(e) Should lead generators, affiliates and brokers be required to make a declaration as to the service they provide to customers and the relationship they have with lenders?	Yes.
<p>(f) What content should the declaration include, for example</p> <ul style="list-style-type: none"> (i) The basis on which a customer is introduced to a lender (for example, by selling to the highest bidder in an auction process); (ii) What the cost of credit would be from the cheapest and most expensive lenders that the intermediary sells to; (iii) An explicit statement that cheaper loans may be available from other lenders 	<ul style="list-style-type: none"> The auction process in which a customer's details are sold to the highest bidder should be replaced by a recommendation to the best lenders for the customer's circumstances. Lead generators should not use sliders as sliders create an expectation of an exact price that the lead generator cannot possibly know. Lead generators also need to include disclosure of the potential fees charged by lenders. This includes funding fees, rollover fees, late fees, etc. Many lenders charge funding fees yet this is never considered on the lead generator sites. Lead generator's description of 'how it works' needs to include a description of the auction process and sending the lead form to the lender, as well as the fact that the lender may conduct additional checks.
(g) How should any declaration be enforced?	Yes

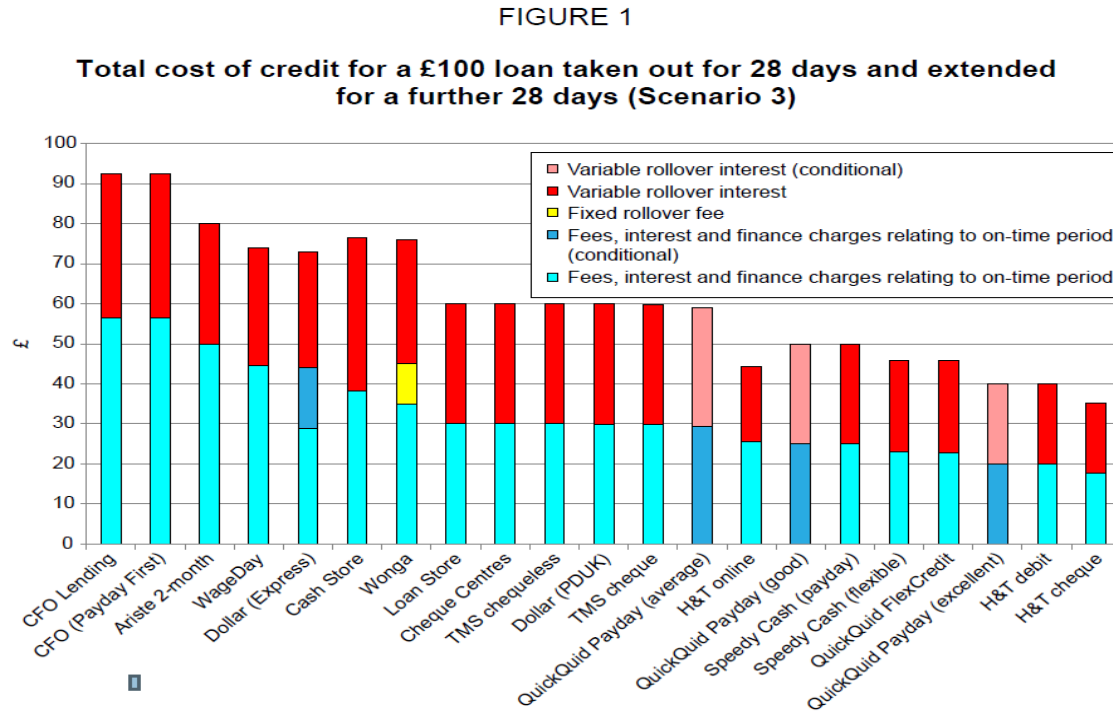
Possible Remedy/Question	CFA Response
(i) by requiring intermediaries to make a declaration; and/or (ii) by prohibiting lenders from using intermediaries that do not display an appropriate declaration?	
(h) How should the declaration be presented: (i) on a landing page or initial pop-up frame; and (ii) at the point at which details are entered?	On the home page, in a way that is easy for consumers to identify (i.e. not buried in small print at the bottom of the page) and in plain English so that consumers can understand what the declaration is saying.
(i) Should lenders be prohibited from selling or providing customer details to third parties?	Legitimate businesses can, with the necessary authority from customers, sell details of those customers to third parties. Legitimate short-term lenders should be able to do the same.
(j) Is there any risk that the business model of lead generators could be amended to avoid supervision by the FCA if any proposed remedy was implemented?	There has been a recent trend of credit brokers and lead generators stating publicly on their websites that they are neither a broker nor a lender. Clearly if the organisation is introducing consumers to lenders they are carrying out a regulated activity and should be regulated as such. There are also examples of lead generators and broker quoting costs and charges that would not be available from any of the lenders the lead generator or broker deals with. This is misleading for consumers and is an issue that needs to be addressed.
Measures the CMA is not minded to take forward: <ul style="list-style-type: none"> • Prohibition of additional fees; • Accreditation of lender websites. 	The CFA agrees that the CMA should not take forward proposals on the prohibition of additional fees. The level and structure of fees will be addressed in the forthcoming FCA Consultation Paper on proposals for a cap on the total cost of credit. Lenders already include information about the FCA as the regulator on websites. We do not believe there is any need to go further than this.

Example Comparison Page

Payday loan comparison.co.uk

Click buttons to compare lenders terms in a variety of circumstances.

Do not shop for a payday loan if you already have outstanding payday loans that you are having difficulty repaying. Please consider consulting a debt charity for advice instead



- 28 day loan
- 17 day loan
- Loan with rollover
- Loan in arrears