

118 118 MONEY comments on Remedy 3 - The use of application and quotation searches

In our response to the CMA's Provisional Findings and Possible Remedies, 118 118 Money commented in some detail on the brief references to real-time data-sharing contained within Remedy 3. We did not comment directly on the other aspects of Remedy 3, concerning the CMA's proposals regarding the use of application and quotation searches. However, we noted during our Response Hearing (which took place on 30 July) that this was a significant area of interest and concern to the CMA and therefore the purpose of this paper is to provide brief comments on that issue.

118 118 Money understands entirely why the CMA wishes to encourage consumers to shop-around more than occurs at present, in order to obtain the best value loans. We also understand why the CMA feels that the existence of application searches acts as a disincentive on them to do so, due to the manner in which they may be adversely viewed by other lenders. However, by restricting the use of application searches, 118 118 Money believes that the CMA is merely addressing the symptom rather than the cause of the problem that it has identified and it is therefore the wrong approach.

Whilst we appreciate that the CMA's primary objective is to increase competition to the benefit of consumers, it appears that the CMA may not have given sufficient consideration to understanding the perspective of the lenders. The reason that lenders consider the number of prior credit searches when assessing affordability is because it provides the only up to date source of information on a customer's creditworthiness. It is by no means perfect, but it does at least give some idea as to what the customer's outstanding liabilities might be. If it were not possible to use prior application searches in this way, lenders would lose a significant source of information upon which they currently rely.

In 118 118 Money's view, the CMA appears to make an artificial distinction between quotations and applications, by suggesting that quotations can be given without assessing creditworthiness. In situations where the lender exercises discretion as to the price being offered, that is simply not the case. The only way in which a lender can provide the borrower with a reliable indication as to whether a loan will be advanced is by undertaking an affordability assessment.

For the avoidance of any doubt, 118 118 Money would much prefer to have comprehensive real-time data available, such that we would know precisely the extent of a borrower's outstanding liabilities. In that case, the need for application searches would cease to exist. But in the absence of that possibility, application searches constitute a second-best option. That is why we believe that restricting the use of application searches is addressing the symptom and not the cause of the problem. The cause is the lack of reliable and up to date credit information, whilst the use of credit searches is merely the symptom of how lenders attempt to overcome it.

This also relates back to comments that we made in our original submission as to why we feel that Remedy 3 is misdirected at helping consumers to assess their own creditworthiness, rather than assisting lenders properly to assess their creditworthiness. If the tools existed to enable lenders to assess affordability properly, they would not have to rely on proxy measures which had possible unintended consequences for borrowers.

To be clear, it is quite legitimate for a lender to be concerned about (and potentially refuse credit to) a borrower who has tried and failed to obtain credit from multiple other lenders. That is sensible, risk-based underwriting and the CMA should not try to discourage it. The problem only arises where lenders may refuse credit to a borrower who has been seeking credit from multiple lenders, but has not actually be refused by (or even accepted a loan from) any of them.

The difference between those two scenarios is not the fault (or in the control) of the lender, but rather it is the fault of the credit data which is available to them. Therefore, it is this issue which the CMA must address.