PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Callcredit held on Monday 28 July 2014

The role of CRAs in the market

1. Callcredit said that the role of credit reference agencies (CRAs) was very similar to that in mainstream lending. It said that the larger, more-established organisations (such as retail banks) shared data with it and other CRAs and then used the agencies' data to assess someone's credit worthiness, identity and the affordability of the loan applied for.

2. Apart from real-time data sharing, Callcredit said that the products and services that it offered to the payday market were no different to the products and services offered to other lenders to make informed and responsible lending decisions.

3. Callcredit disagreed with other parties that had suggested that the use of CRAs was relatively undeveloped in the payday lending sector compared to other sectors. It believed that its client base, which it estimated made up around 90% of the payday market, used its services extensively. It acknowledged that there were some lenders that had not used CRA data extensively in the past, and they had also not shared data, but Callcredit did not believe that this applied to the vast majority of the market, nor to the larger lenders who made up the bulk of the market.

Real-time data

4. Callcredit's real-time product (MODA) was based on daily updates, rather than real-time. It did have the capability to input data more regularly, but initially Callcredit had decided that it would be more beneficial to choose a way that the majority of the market could engage with quickly. It had discussed more frequent updates, but the general view was that it would take a long time to get up and running.

5. MODA went live on 25 June 2014 and had ten members, which included all the larger lenders. Its members were in the process of looking into how they should use the data in their decision-making process and all of them were moving at a different pace as they had different IT systems, risk policies, credit scoring models etc. However, they were all feeding in their data daily.

6. Before the launch of MODA, Callcredit had spent six to eight months developing the model with the lenders who were part of the core user group. In order to do this it had taken lots of test data from them and had then fed it back to them and done some retrospective analysis to ensure that it was fit for purpose.

7. Callcredit confirmed that MODA was a closed user group. In order to get any data, lenders had to supply their own data and Callcredit stated that without this reciprocity, it would have been difficult to get the initiative off the ground. It was hoping that over the next six months it would see a lot more interest and not purely from payday lenders.

8. Before being able to join and start using the database, lenders had to supply a 90 day history. This could be provided in one batch, but after joining, the new lenders had to commit to providing their data daily. The 90 days of -data applied to any new member, regardless of whether they were new to the market. Callcredit said that if a new company did not have this amount of retro-data, it could sit outside the closed user group and still do standard credit searches based on the monthly feed. Callcredit believed that the closed nature of the user group would continue unless it was compelled to alter this.

9. The reason for the need for the 90 days of data was to decrease volatility, as with a lot of new data being uploaded, the way that the data would be used in decision making could alter fundamentally. The 90 days was so that Callcredit could take the test data and provide some retrospective analysis to the existing members, and the potential new members, as to what the database would look like and how they would then use that data.

10. [✂]. Callcredit did not want to put up any barriers to people accessing real-time data and therefore it was willing to make its pricing policy as flexible as possible if lenders felt that it was prohibiting them meeting any regulatory or other responsible lending requirements. However, Callcredit stated that it was a commercial organisation and so did charge for its products and services.

11. [✂]. Callcredit provided us with details of its commercial arrangements with clients. [✂].[1,2]

12. Callcredit said that the real-time system had cost a large amount of money to develop as it had required a lot of testing and therefore the pricing model allowed Callcredit to recoup some of the investment made.

[1] [✂]
[2] [✂]

13. Prices varied due to the component parts of the credit report that lenders may decide to take, how long the deal was, the volumes, what other products and services lenders might take from Callcredit, along with commercial negotiations.

14. Over the next twelve months Callcredit was hoping and expecting additional payday lenders and other short-term, high-cost credit providers would join the initiative. It said that it had also got a lot of interest from other alternative finance and sub-prime lenders, along with some mainstream lenders. Therefore Callcredit would like MODA to be a much more broadly adopted initiative across the lending industry.

15. Within this timeframe Callcredit said that it would be taking feedback from its lenders about how they were using the data and what else they would like to see as it was keen to develop its offering and ensure that it was fit for purpose. Callcredit thought that it would take around six to nine months to see how the product was being used and to undertake some more detailed analytics to see where the benefits were and where lenders may feel that improvements needed to be made.

16. Changes determined by the lenders and Callcredit as significant will trigger the provision of updated information in to the MODA database from the lender. These are new accounts, settled accounts, missed payments, rectified accounts (payments received), rollovers, credit extensions and changes to payment terms.

17. If such an event triggers an updated record then an updated balance would be provided along with the new or updated record, but a balance change without any of these events would not in itself trigger an update. These events and any associated balance changes would be visible to other lenders in the MODA initiative.

18. Regarding instantaneous real-time, Callcredit said that it would see how the industry developed as, from its initial analysis, there seemed to be only a very small number of consumers who opened more than one loan in a day. Therefore it queried the benefit of having updates more than once a day.

Lenders sharing with multiple CRAs

19. Callcredit said that the larger mainstream lenders tended to share with all three main CRAs and that it was up to each lender who they wanted to share their data with and take services from. It thought that there was no precedent for the CRAs to share data amongst themselves and that it would be difficult to do this from a technical perspective because although they all had similar

facilities, the technology was different in the way they matched and stored individuals, as well as how they generated a credit report.

20. Callcredit said that lenders predominantly shared basic account information and any other information available was what differentiated individual CRAs. Callcredit said that its main selling points were the timeliness with which it uploaded the data, its ability to provide more insight in the way it categorised it, the types of context that it produced for use in automated decision making and then innovative products like CallMonitor, its alerts product.

Use of CRA data by lenders

21. Callcredit said that if a consumer undertook a credit search from one lender, another lender would be able to see that a credit search had taken place if both lenders used the same CRA.

22. Callcredit believed that the data that came from CRAs was extremely important for lenders when they were making their decisions. However, it also said that they would use their own internal databases, especially if they'd lent to that customer before. It could not say how lenders would use the data as they all had different business models, different criteria and different experiences which led to different approaches.

23. Callcredit said that there were different sections of information that people could buy and it depended on what they were eligible for. There was also the additional data services and products that it could make available.

24. Regarding payday lenders, Callcredit said that there was no difference regarding what they were purchasing compared to other mainstream lenders.

25. There was payday-specific data, but within Callcredit's main credit reporting SHARE database the data could also be made available to any lender. MODA was a stand-alone module and was the only thing that, although not purely payday, was a sort of value-add for the payday market.

26. Callcredit said that the standard mainstream credit scores that CRAs provided would not provide a great deal of discrimination for the typical payday lender. Therefore the raw data and the concepts beneath were used by the lenders to build their own scores.

27. The number of credit searches undertaken was recorded on a person's credit file in the raw data. However, understanding and weighting were also used when compiling credit scores and each lender built their scorecard using different weightings. Credit application searches leave a record of a type that is used in credit scoring; quotation searches do not.

28. Callcredit said that there was clear guidance in the market place about how quotation searches should be used, and they should be used primarily for price, not whether someone would be accepted for a loan. After giving a price, the lender would then look at other factors alongside the application search to make the lending decision.

29. Over the past year there had been an increase in the use of quotation searches across all consumer credit markets. Callcredit told us that a quotation search returned exactly the same information as an application search but without leaving a credit application footprint.

30. Callcredit said that over the last decade there had been a lot more shopping around to get the best loan. Callcredit said it thought that lenders had factored this into their credit risk assessments and that as a result that consumers could now have more credit searches on file than before without being viewed as credit hungry or as a major credit risk. Callcredit considered that for customers who needed to take out payday loans there would potentially be other credit information that would be more detrimental to their ability to access to credit than the number of application searches

31. Callcredit's own credit score product included how recently an application search had been undertaken but this was a small element of the overall credit score. Callcredit also provided antifraud products [✂].

Other developments

32. Callcredit had developed its alert product to let lenders know if there had been a significant event on one of their customer's credit files so they could take it into account when managing their ongoing credit. Callcredit thought this would be a big step forward for customer management in the short-term high-cost credit industry.

33. It had also done a lot of work around over-indebtedness, affordability and fraud and on the latter it had worked on separate traditional datasets and how it could merge different data to add some additional value.