

## **PAYDAY LENDING MARKET INVESTIGATION**

### **Summary of a response hearing with LendingMetrics held on Friday 8 August 2014**

#### **Role of LendingMetrics in the market**

1. LendingMetrics (LM) is a brand of Perfect Data Solutions, a sister company of Lending Software Solutions Limited which trades as Laps-IT. Both companies are active in the online lending market.
2. Lending Software Solutions (LSS) was a leading provider in the UK and Australia of technology for both payday and instalment online lenders. Its software package (Laps-IT) handled interaction with credit reference agencies as well as providing an end to end loan application. Using a lender's parameters, it made credit decisions for the lenders in real time. It also acted as a back office processing system allowing lenders' call centre or underwriters to work through manual aspects of the application. It dealt with funding collections, calculation of APRs and production of loan agreements.
3. Perfect Data Solutions (PDS) was launched as a real-time sharing platform among predominantly pay day lenders but also instalment lenders to give them visibility of the activity of their customers in terms of the information they were providing as part of an application. It identified inconsistencies and potential fraud in an application along with information on the provision and performance of loans through other lenders and multiple loan applications by a customer. Lenders systems sent an update of customer accounts every 60 seconds. PDS' customers were generally small or medium sized lenders and who used Laps-IT.<sup>1</sup>
4. PDS considered its system unique in that it showed whether an offer of credit had been made by a lender.
5. LM covered less than [X] % of the market in payday loans. LM were finalising discussions with Equifax about working together to integrate LM's real-time technology with Equifax's database.<sup>2</sup> It expected its coverage to increase to in excess of [X] %.

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<sup>1</sup> Laps-IT was capable of integrating with multiple credit reference agencies (CRAs) and not just PDS

<sup>2</sup> This has now been announced [http://www.lendingmetrics.com/files/PDS\\_Equifax\\_Press\\_Release.pdf](http://www.lendingmetrics.com/files/PDS_Equifax_Press_Release.pdf)

## Real Time Data

6. Lenders submitted data in batches at least every 60 seconds to provide what LM considered to be real time. This 60 second cycle meant that any material change to a customer's account would be updated on PDS' system within 1 second to 1 minute.<sup>3</sup> of a material change to an application. The material change was core information to do with the applicant, the application or the loan performance.
7. In addition to PDS's real-time system, it also operated 'TrueTime®' for use by lenders buying leads from lead generators. When a lender was sent a 'lead look'<sup>4</sup> from a pingtree and made a decision on whether to purchase the lead or not, this decision was reported back to TrueTime® platform even before the lender reported a yes or no to the lead generator. This system prevented recycled leads from being purchased.
8. PDS did not offer other types of data such as income or identity validation.
9. Charges varied depending on the type of search, volume and if it was a repeat search on a customer. PDS also offered a reduced rate for a 'secondary search' where a lender had the ability to undertake a second credit search immediately before issuing funds after having already undertaken one search in the application process.<sup>5</sup> This was a unique feature of the software.

## Differences in product offering to other CRAs

10. A company who used LSS was not obliged to use LM as a credit reference agency.
11. The product was a niche feature in a lender's decision process. The product did not return ID verification or bank account verification or have visibility of a customers' credit position of other loans, overdrafts, credit cards. Lenders used the service as a gatekeeper. If an application was successful in passing through the DAS level of the process (lead intelligence, application intelligence and loan performance intelligence), the lender then looked at the wider credit picture of the customer and used other agencies to supply the ID and bank account verification.

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<sup>3</sup> Depending on when the event occurred and it being flagged on the lender's system relative to when the next update would be sent.

<sup>4</sup> That is a completed customer application form to allow the lender to decide whether to purchase that lead or not.

<sup>5</sup> This had particular benefits for lenders with manual underwriting processes where a loan decision might take multiple hours.

12. The information supplied in comparison to that of other agencies was richer and more granular as LM designed the technology to return the information that lenders required. For example, a typical CRA search showed that a customer was one month in arrear in payment whereas LM showed a customer's payment due date and actual payment date.
13. All searches carried out by lenders using PDS data left a footprint that was visible to other customers but the information was categorised as to its nature. Lenders undertaking a search on a borrower whose file had been reviewed by another and were able to differentiate between a lead look and a full application. This allowed lenders to build intelligence on the behaviour of lead generators and gave a mechanism to identify if data was manipulated.

### **Lead generators**

14. LM were aware of instances of lead generators manipulating a customer's application form as it was fed through a pingtree such that certain fields were changed to fit with a given lender's specified preference for certain profiles of customers. This problem was sufficient that its TrueTime® data system and its DAS product had been designed to combat the practice. Similarly, affiliates might manipulate an application form when submitting it to different ping-trees.

### **Laps IT and Consultancy Services**

15. LM offered credit risk consultancy services by assisting lenders in creating and maintaining their credit policy using LM data or any other bureau data. The number of applications submitted by a customer was of less importance than the data submitted in those applications. The data showed inconsistencies such as different salary amounts, occupations or addresses submitted by the customer and helped differentiate between an honest and dishonest customer. The information was valuable to the lender in helping prevent fraud and identifying the true credit worthiness of a customer.
16. The cost to a lender to avail of Laps-IT and LendingMetrics consultancy services was in the region of £[redacted]. Ongoing IT costs to have the technology hosted and to provide licence fees for a small lender was in the region of £[redacted] per month. As a lender grew, so did the financial commitment.
17. If a lender wished to offer a suite of up to 2 products, they were offered between 7 – 10 consultancy days at a cost of between £[redacted].

18. Due to Laps IT integration with major CRAs, new entrants did not have to bear additional integration costs. This would not be the case 2 – 3 years ago when a new entrant was typically charged £[X] by a major CRA.
19. LM understood that new entrants could purchase 100,000 borrower records with known outcomes (ie whether they had been issued a loan and whether they had defaulted) from another lender for perhaps £10,000. Buying such a dataset would allow a new lender to develop their own credit risk model.

## **Remedies**

20. LM said that a price comparison website (PCW) was next to meaningless for a lender without the ability to fully assess the customer -otherwise lenders would be able to give indicative rates. They said it was more appropriate to allow accredited lenders full access to customer data and allow them carry out real time assessments.
21. They believed that as a result of work being carried out by the Competition and Markets Authority and the Financial Conduct Authority, lenders will expand their approach to risk-based pricing. This would result in an indicative price being either artificially high or artificially low.
22. They acknowledged that customer data was very valuable and any misuse of data should result in a lender being expelled from the site. A PCW should not have significant financial barrier to allowing every lender entry to the site but it would need to be policed.
23. LM believed it should be possible to gather all the necessary information to generate a decision in a 1 page application form. The information should be personal information and a section on income and other financial commitments. A PCW should ask questions on the type of loan requested – payday or short-term and the term of the loan.
24. Where the lead generators were responding to the requirements of the lenders, additional information was requested. This facilitated some filtering out of applications.
25. Repayment scenarios were treated on the website using a ‘what if’ button. This gave clear visibility of arrears charges.
26. LM believed the website could be funded by either a monthly fee, linked to revenue or turnover of the lender so it was not a barrier to small lenders or a charge per redirected customer. This charge could be disclosed on the website.

27. On a PCW the technology allowed lenders to filter out applicants they would be unlikely to lend to prior to conducting searches. This filter was from information provided by the consumer in the application, intelligence from a lenders proprietary database, policy rules and matching algorithms. Only when a customer had successfully passed through the pre-filter process would they progress to the next stage of checking identification, bank account details and finally a credit reference report. Lenders carried out a full credit suite of searches on an expensive lead due to the high cost of buying that lead.
28. Improving transparency on when a credit search had taken place or was about to take place was addressed by more overt disclosure on the website. There was an intermediate step where a customer has to agree to a credit check being carried out. Australian regulators required messages be presented in a particular style referred to as a 'modal popup' which highlighted the question being asked.
29. If such a system were adopted for lenders, it needed to be mandatory for affiliate websites and lead generator websites that took application data.
30. LM saw themselves as being well placed to supply a PCW. They had been working in the online lending sector as technology providers for the past 6 years.
31. Other areas for improvement and transparency included the way in which lead generators operated, means to identify where a lead was coming from and parallel selling where one affiliate website sent a lead to multiple lead generators.