PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with D&D Marketing/T3 Leads held on Wednesday 27 August 2014

Background

1. D&D Marketing/T3 Leads (D&D/T3) was launched in 2005 in California and entered the UK market in October 2010. It focused primarily on payday loans but was now exploring other options such as instalment loans. D&D/T3 received most of its business from affiliated networks, partners and publishers through organic search, mainly generated via search engine optimisation (SEO) and pay per click (PPC) search engines as well as from email marketers and SMS. It did not conduct any of its own marketing. It used between [✄] and [✄] affiliates in the UK including [✄] significant email marketers. D&D/T3 ensured that the emails its email marketers sent were compliant (e.g. in terms of the wording being used), that the customer had the option to opt in or out and unsubscribe at any stage, and that the customer was not being forced or misled in to applying for a loan.

2. D&D/T3 had three tick boxes on its website and application form which the consumer had to mark to opt in. It also provided a contact who the customer could email if they wanted to opt out of receiving further communications and marketing. As soon as D&D/T3 received requests of this nature it informed its IT department which would add the details to a suppression list. It responded immediately to any consumers asking to be removed from its data base and would ask its affiliates to add them to their suppression list. It preferred organic searches to promotional emails because the customer would have had to proactively search for a payday loan showing direct interest by the customer. The best quality customers were derived from the search engines and the conversion rates were higher. Email accounted for [✄]% of its traffic; SEO [✄]%; [✄]% PPC; around [✄]% SMS; and [✄]% through its own website.

3. Email marketer affiliates emailed repeat payday loan customers who had agreed to receive promotions and other offers relating to financial services. The email did not make reference to the fact that D&D/T3 was a broker. If the customer was interested in the offer they could click on “apply now” which would take them to the application form on D&D/T3’s website. The customer was made aware that D&D/T3 was not a lender as it made repeated

disclosures to that effect, including a statement at the bottom of its website. Reference to D&D/T3 was also included in the terms and conditions and in the privacy policy on the application form. The completed application form was processed through its pingtree. The application process was pretty much the same for SEO, PPC and SMS or any other type of marketing and leads were also passed to lenders in the same way. Some email affiliates used their own websites to generate traffic. These companies clearly stated that they were brokers and that the customer’s application would be matched with a lender. D&D/T3 thought that including explicit wording on lead generators websites, identifying them as such, would be useful but would not change how a customer approached a payday loan. In D&D/T3’s experience, if a customer wanted a payday loan they (the customer) overlooked a lot of the disclosures, warnings and risks. It was customer need driving the process. D&D/T3 constantly monitored the websites of its affiliates and sent them newsletters, if it came across anything that could mislead customers they asked the affiliate to rectify it.

4. There were two different types of SEO affiliates, those which used D&D/T3’s website to generate traffic and those which used their own website, passing the customer to D&D/T3. The application process was the same as that used by email marketer affiliates. D&D/T3 monitored the websites of the SEO affiliates it used to ensure that they were compliant and clearly displayed the fact that they were just a loan matching service and that the customer’s application would be processed and matched with a potential lender. Each affiliate had [✂] which enabled D&D/T3 to identify which affiliate had referred a customer.

5. D&D/T3 had never considered conducting its own marketing because it had a network of very good and strong affiliates with which it had exclusive relationships and which it could monitor. D&D/T3 focussed its energy into running the platforms and the network. It had a very limited relationship with its customers but that did not mean that they could not contact D&D/T3 with a query or a complaint.

6. D&D/T3 passed [✂]% of the payment it received for supplying a lead to the affiliate responsible for generating that customer, keeping between [✂]% of the payment itself. The former figure [✂] for leads generated by the best SEO and PPC affiliates. D&D/T3 did not think that the customer received details as to how exactly their application was going to be processed other than the affiliate mentioning that it would be through its panel of lenders. D&D/T3 had considered whether it should run checks on applicants but noted that lenders felt more comfortable conducting their own checks as they were the ones issuing the loans.

Pingtree

7. D&D/T3 always tried to find the best match for a client. Customers were only passed to brokers in circumstances where D&D/T3 could not match that customer with any of its panel of [✂]. This might be because the customer was unemployed or had a low income and no lender was willing to consider that particular customer for a loan. Brokers also tried to find the best match for the applicant. If D&D/T3 could not match a customer with a lender or broker, most probably because the customer had poor credit, it would suggest other offers and products that the customer might be interested in, for example, an auto title loan, debit card or debt settlement service. This was a whole new process and it was up to the customer to decide whether they wanted to proceed with an application.

8. Once a customer had been provisionally accepted by a lender they were redirected to that lenders e-sign page. D&D/T3 did not know in all cases whether that customer ended up taking up taking out a loan. Lenders either used a cost per funded (CPF) model or a cost per acquisition (CPA) model to pay for leads. [✂]. However, D&D/T3 could see if customer had returned to its pingtree giving it an indication that perhaps the customer did not like the terms and conditions or the APR offered by the lender. Most of the lenders D&D/T3 worked with used the CPA model. Only a few lenders used the CPF model.

9. D&D/T3 thought that the price cap would affect lenders overall lead-buying strategies, the volumes of their enquiries and the prices they were going to pay thereby affecting lead generators profitability. It had witnessed [✂] in business in certain states in the US where a price cap had been imposed with some lenders [✂]. However, D&D/T3 thought that the industry would adjust to the changes in the market as had occurred in the US with lenders switching lending operations from one state to another or shutting the business down.

10. The Competition and Market Authority’s (CMA) remedy proposal requiring lead generators to put a declaration on their websites indicating that a customer’s details would be auctioned to the highest bidder would not change how a customer approached a payday loan, or result in a reduction in demand, because consumers wanting a payday loan overlooked a lot of the disclaimers. Customers were driven by their need of a loan. The language D&D/T3 currently used on its website was self-explanatory, explaining that it was not a lender and did not charge fees. D&D/T3 did not believe the wording on its website needed changing, noting that customers sometimes did not even look at such things. D&D/T3 did not think it would make any difference whether this disclaimer was located at the top or bottom of the page or as a footer provided the message was clear and customers did not think it would

affect them. D&D/T3 thought it might lose some potential clients as a result. It would take around [✂] to put this declaration on its website and around [✂] to ensure that its affiliates were compliant. [✂]. One thing that would be very helpful to consumers would be if they could see the loan terms (e.g. the APR and duration of the loan). D&D/T3 believed that it was useful as a lead matching service because customers did not have to try to apply and run their credit scores, perform credit checks on multiple different sites and move from lender to lender trying to obtain a loan. D&D/T3 could, through its network, provide [✂] for that customer.

11. D&D/T3 monitored its affiliates to try and ensure that they were not displaying misleading price information on their websites. It did its best to emphasise to its affiliates that the APR, rate and the loan offered to a customer might vary depending on the lender and could not be guaranteed. The APR was representative and customers needed to look carefully at the lenders terms and conditions and the privacy policy they had been matched with.

12. D&D/T3 had around [✂] whose job it was to monitor the affiliates [✂] and ensure that each new affiliate was compliant before allowing them to use D&D/T3's website. The affiliate managers were in constant communication with their affiliates. D&D/T3 also had analysts whose job, in addition to monitoring affiliates, was to monitor the lead generating process and look out for potential fraud. These sites were constantly being reviewed especially because of the new changes.

13. The payday loan market was a market in which most of the customers were repeat customers. [✂]% of overall applicants were brand new customers. Repeat customers knew which companies were lenders, which were brokers and what the various charges were and so were less likely to pay much attention to the disclaimer or learning more about the process. D&D/T3 thought new customers who might not be familiar process might find it more helpful.

14. D&D/T3 welcomed the CMA'S proposed new regulations which would give some structure and direction with regard to the display of statements and disclosures. It would have to review all its current websites to make sure that every type of warning and every type of representative APR was displayed as it should be.