Payday lending – further statistics

Evidence from the CMA's provisional findings

The CMA, which took over from the CC at the start of April 2014 (see notes to editors) has analysed data relating to 15 million payday loans taken out between 2012 and 2013, carried out a survey of 1,500 customers and also looked at Credit Reference Agency records for over 3,000 payday loan customers.

- The CMA estimates that in 2012 there were around 1.8 million payday loan customers in the UK, taking out approximately 10.2 million loans, worth £2.8 billion. These figures represented a 35 to 50% increase on the preceding financial year – depending on the way in which the size of the market is measured – though more recent data indicates that this rate of growth has reduced substantially in 2013.

- There were at least 90 payday lenders offering loans to UK customers as of October 2013 but the three largest lenders (CashEuroNet, Dollar and Wonga) account for around 70% of total revenue generated from payday lending in the UK.

- Two-thirds of customers pay their loans in full on or before the originally agreed date. Once they have taken out a loan, 80% of customers take out further loans in the same year, either with the same lender or others in the market. Around four in ten customers borrowed from at least two different lenders during the year.

- Most payday loan customers borrow online – 83% of payday lending customers have taken out a loan online compared with 29% of customers who have taken out a payday loan on the high street. The median income of online payday customers is close to that of the wider UK population but is notably lower in the case of high-street borrowers.

- Within the past five years, 38% of payday loan customers had experienced a bad credit rating, 35% had made arrangements with creditors to pay off arrears; 11% had experienced a county court judgment and 10% had been visited by a bailiff or debt collector. In total, 52% of customers had experienced one or more of these debt problems in the last five years.

- Customers typically focus more on the speed and the availability of a loan rather than its cost. Over half of customers do not shop around prior to taking out a loan, and those who do often struggle to carry out effective comparisons. As a result, lenders have little incentive to compete on price. This tendency is particularly marked with late payment fees and charges – nearly one in five customers find paying the loan back more difficult than expected – and information about these charges is generally harder to find than the headline rates.

- For those customers who do shop around, it is difficult to compare prices given the differences between product characteristics and the limited usefulness of the APR in helping make comparisons between these short-term loans. Only a small proportion of customers find their lender via existing comparison websites, which suffer from a number of limitations.

- Customers do not see other credit products as a close substitute for payday loans – only 6% surveyed said they would have used another type of credit had they been unable to obtain a payday loan.

Evidence about lead generators taken from addendum to provisional findings

- Lead generators are firms which act as intermediaries between borrowers and lenders by collecting details of applicants seeking loans (leads) and selling these leads to lenders. Lead generators sold more than 9 million leads to payday lenders in 2013.

- The lead generation sector comprises a significant number of companies operating multiple websites. We identified more than 130 lead generators selling leads to major payday lenders, and the 25 lead generators we analysed in detail operated around 280 websites in total, which dealt with more than 43 million leads in 2013. Our research indicated that many customers confuse the websites of lead generators for lenders and there is often a lack of transparency in how the service provided is described.

- Lead generators typically sell leads using an auction mechanism known as a ‘pingtree’. The average price for good quality leads sold to payday lenders was £70 in 2013. The value for money represented by different lenders’ loan offers is not relevant to the auction process, and leads are instead typically sold to the highest bidder.[1]

- The number of leads sold to non-payday lenders at 8.5 million, was almost as high as the number of leads sold to payday lenders. The majority of these leads were bought by fee-charging brokers, which can charge customers a significant upfront fee, often between £45 and £70 for their loan-finding service.

[1] Some leads sold for more than £280, however lower quality leads can be sold at the ‘bottom of the pingtree’ to lenders for as little as 20 pence.