Mutual Clothing and Supply Company Limited response to CMA review of Part 3, article 29 and Part 1 of Schedule 4 of the Home Credit Order (Lenderscompared)

Mutual are a family owned and run home collected credit lender operating in the east midlands. Following the market exit of other firms, Mutual are the sole remaining 'large lender' under the Order. Since 2021, four of the five 'large lenders' who were required to fund the lenderscompared website have exited the market.

We see clear evidence of a change in market circumstances which mean the relevant parts of the Home Credit order are no longer appropriate.

As a result of these changes, the website is no longer an effective tool for consumer. We think that the relevant parts of the Home Credit Order now need to be revoked by the CMA.

Clear change in circumstances

In the decision to launch a review of the relevant parts of the Home Credit Order, the CMA has outlined 3 possible changes of circumstances;

1) The reduction in 'large' lenders
2) The reduction in the number of home credit lenders overall
3) The lower levels of visits to the lenderscompared website

We agree that this is a correct assessment of what has occurred in the market and strongly agree that it indicates a change of circumstances.

Evidence of a change in circumstances

Mutual have observed the following change in circumstances which have recently occurred in the home credit market.

Change in Circumstances #1: Market exit of Home Credit firms

In 2018, the following four 'large' lenders (alongside our firm) were parties to the agreement with the 3rd party provider who runs the lenderscompared website. These four lenders have since exited the market.

Lender	Market exit
Morses Club PLC	Went into administration 17/11/2023
Naylors Finance Limited	Exited Home credit in 2022, Went into administration 18/09/2023
S.D. Taylor	Went into administration 15/03/2022
Provident Personal Credit Limited	Exited Home credit in 2021, winding up of company started 06/09/2023

Additionally, we have seen market exit of medium sized home credit firms who at one point were checked by the Office of Fair Trading as to whether they qualified as 'large' lenders.

Lender	Market exit
CLC Finance (Company Name: Hamsard 3225 limited)	Went into administration 08/08/2023

Short term Finance (holdings) limited	Voluntary liquidation 19/01/2023

As noted by the CMA, the number of home credit firms has reduced from 400 as recently as 2019 to around 165 in 2023.

There are now far fewer lenders on the lenderscompared website with no lender having a national footprint.

For a price comparison website to function there needs to be lenders on the website which consumers can find in their area to compare.

We have evidence to show that the market exit means that in large areas of the country, the price comparison website will show one or possibly no lenders. In 40% of the top 25 postcode districts (e.g. LE1 XXX), we are the only lender showing on the website for 3 different search terms[1].

This calls into question whether the website is functioning as intended and remains appropriate in addressing competition issues.

Change in Circumstances #2: Reduction in supply of home credit loans

There has been a substantial reduction in the supply of home credit loan agreements.

In July 2022, the FCA[2] released the following data on the number and value of home credit loan agreements being issued by firms. All home credit firms are required to report the number and value of loans issued in their 'product sales data' returns to the FCA.

Measure	April-19	April-20	April-21	April-22
Number of agreements outstanding	2,276,172	2,058,662	1,824,147	590,814
Value of agreements outstanding	£1,313,902,275	£1,236,099,951	£1,108,578,063	£280,997,228

The drop in value of over £1 billion of home credit is a reduction of 79% from April 2019 to April 2022.

With the market exit of large firms accelerating in 2023, the supply of home credit loans will have contracted even further.

According to their published accounts for the financial year ending 25 February 2023[3], Morses state they issued £60,800,000 worth of home credit loans (to Feb 2023) down from £108,000,000 in 2022. This supply of home credit loans has now also gone from the market.

If necessary, the FCA can provide the CMA with more up-to-date figures on the supply of credit in the home credit market from lenders' product sales data returns.

[1] £100 loan search with 'up to 28 weeks', £500 loan search with '36 to 60 weeks', £500 loan search for '2 years or more'

[2] https://www.fca.org.uk/freedom-information/data-consumer-credit-loan-agreements-july-2022

[3] https://www.morsesclubplc.com/media/MC2023ARA/morsesclub_ar23_web.pdf (Table page 19)

Home credit businesses rely on experienced and established local agent and manager networks to help and support the customers and manage their borrowings. The largest home credit lenders who operated in this market had developed these networks over many decades (or purchased already established businesses). For instance, we at Mutual have been in existence for over 100 years. With the market exit of these large firms these networks have disappeared. This means that large scale national supply of loans using a home credit model has gone forever as the costs involved in a national home credit lender re-establishing networks in a period of a few years would be exorbitant. Mutual are a modestly sized regional lender and we have no intention of expanding significantly.

This substantial reduction in home credit loan supply calls into question whether there are enough lenders remaining and providing home credit for the lenderscompared to be an effective price comparison tool.

Change in Circumstances #3: Effectiveness of a price comparison website

Increased internet use by both lenders and consumers since 2006 has diminished the need for a price comparison website to compare prices in the home credit market.

When the Competition Commission (CC) investigated Home Credit in 2006, one of the reasons the comparison website was setup was because consumers found it difficult to find the costs of the loan unless they made a direct loan application to their agent (at which point they were already too close to the point of borrowing). Firms also found it difficult to find the loan prices of competitors and so were unable to highlight differences in loan cost to consumers. This meant there was price insensitivity in the consumer base. The CC introduced the price comparison website measures to improve price transparency.

Nowadays, lenders make far more use of their own websites to publish their loan prices making comparison easier for consumers and other firms. Typically, we see home credit lenders who have a website using a loan slider which allows consumers to view the costs of different sized loans and different terms. Even without loans sliders, the advertising regulations generally require a lender to present a representative example on their website. At the time of the Competition commissions final report these loan sliders did not exist as they were developed first by the payday lending / HCSTC sector. Home credit lenders' websites were also underdeveloped.

Loan costs are now easier to find and more available for the consumers than in 2006.

Lenders transparency on loan costs is important for competition to function effectively. Therefore, the CMA could consider whether it is appropriate to make it a requirement that lenders who operate in the home credit market, and have a consumer facing website, display their loan prices somewhere on their website. This requirement would be in line with article 16 of the Home Credit Order which requires lenders to publish their loan costs for each class of loan agreement while the total number of loans entered into within the previous 12 months is 100 or greater.

Change in Circumstances #4: Reduction in consumer visits to the website

The CMA has highlighted that visits to the website have dropped by around 60% from 2017 levels in 2023. There has been a long period of decline in visits to the website which was likely to continue even without Morses' market exit.

We think that consumers find the website through lender's marketing (which requires a statement about lenderscompared) and possibly from the payment card statement rather than say a google search. This is evident from the high numbers of direct visits to the website and from referrals which are likely to be click throughs from lender's websites.

With Morses exit, there will inevitably be less visitors to the website because of lower levels of marketing and because of the reduction in issuance of loans. This will mean the number of visits will continue to drop[4].

There must come a point when the website is no longer viable because of the decline in visitors.

The change in circumstances means the relevant parts of the home credit Order are no longer appropriate and the CMA should revoke them

In our view, the change of circumstances is such that the lenderscompared website is no longer an effective tool for price comparison for consumers or other lenders.

There is no longer enough supply of home credit or enough lenders providing home credit loans for the website to function effectively. In the area we operate in, our evaluation shows that in at least 40% of postcodes we are now the only provider of home credit. There are no credit unions appearing in these areas either.

With the exit of the last national home credit provider, we think this situation is likely to be replicated across the country and there may be a substantial number postcode areas where no lenders appear on the website at all.

One of the purposes of the comparison website was to encourage lenders to compete on price and be able to do so with confidence. Over the many years since the lenderscompared website was setup, we have produced comparative marketing to show the substantial savings on loan costs which customers can gain when taking a loan out with Mutual compared with the main national firms. In recent years this has been a saving of over £200 in interest costs on a typical £500 loan.

The current reality is that we can no longer produce price comparison marketing because the home credit market collapse means there are large areas where we are the only lender. There is no one left to compare against.

We see no realistic prospect of the home credit market increasing in size in any significant manner or of a large national lender entering the market. A nationwide agent network would be too costly to establish. As the largest lender remaining in the market, we have no intention to increase the size of our firm in any significant way. It is highly unlikely there will be reversal of recent trends in lender exit and an increase in the number of lenders on the website or the number of consumers using the website to compare loans.

In recent years there has been a steady decline in the numbers of visitors using the website and we think this decline is likely to continue.

We think the point has been reached where the website is no longer working effectively and is no longer able to produce a meaningful benefit to consumers. There is also no realistic prospect of conditions in the home credit market improving, existing lenders expanding or new entrants coming in.

[4] When assessing the number of visitors, the seasonal pattern of demand seen in Home Credit needs to be taken into consideration; where the number of applications for loans increase before Christmas and then decline in January and February.

In these circumstances, we think the only option now is to revoke the parts of the order relating to the lenderscompared website.

Why the website is no longer effective

The lenderscompared website is no longer an effective tool for price comparison and improving price competition because:

a) Significant market exit of all the large national firms and a vast reduction in the total number of home credit firms overall. 4 of the 5 ‘large’ lenders have exited.
b) Significant contraction in the supply of home credit loans of over 80% since 2019
c) Declining number of consumers are using the website
d) There is no national provider of home credit
e) Many postcodes appear to have one or no lenders to compare against
f) Price information is available elsewhere

Why the funding mechanism for the website is no longer appropriate

The parts of the order relating to the funding mechanism for the lenderscompared website are no longer appropriate because:

a) The funding of the website is not sustainable (having only one lender to fund the website is not a sustainable situation)
b) The funding mechanism is inappropriate as it means Mutual will bear the cost for the market failure of others
c) The funding mechanism is disproportionate as it requires Mutual to fund a nationwide website when we only operate out of 16 towns and cities in the east midlands
d) The funding mechanism is disproportionate as it requires a modest regional lender who funded only 3% of the website’s costs as recently as 2021 to fund 100% of running costs in the future
e) The funding mechanism is inappropriate because it imposes a burden on the only remaining ‘large' firm which goes far beyond the intention of the original Order which required funding of the website to be spread among 6 lenders.

The relevant parts of the Order concerning funding of the website are inappropriate because they will place an undue and disproportionate burden on our firm which goes far beyond the intentions of how the website would be funded in the original Order.

Respondent details

Mutual Clothing and Supply Co. Ltd.
39 Bedford Street South
Leicester
LE1 3JN