

## **Payday Lending in the UK: Background Note**

- 1.1 Pay day loans are provided to people in employment, with bank accounts, and operate by the lender accepting a post dated cheque (usually of £100) from the customer which is dated to the forthcoming pay day. A cash advance is then made of between £71 and £85, depending on the lender's terms (see table below for details of lenders in this market). The difference between the amount of the advance and the £100 is the fee charged by the lender. Multiple cheques are accepted at the same time, with lenders offering up to a £750 - £800 to new customers. So, for example, a new customer would provide 8 cheques to the lender, each of £100, and receive a cash advance of £640 (the difference of £160 being the fees charged that will be collected by the lender on the customer's pay day). APR's on the agreements are typically in the region of 1200%, although one lender states that they can rise as high as 9899%<sup>1</sup>.
- 1.2 Customers are given the option to 'roll over' the cheques if they cannot afford to have them cashed against their accounts when the pay day comes around. To do this, the customer must pay another set of fees direct to the lender at the same rates as the initial agreement. So, in our example, the £800 liability could be deferred for another month by the customer paying a further £160 in fees. Rolling over loans is particularly problematic as no amount is being paid off the original liability. For example, after just 5 months of paying £160 per month in fees (total of £800), the original liability of £800 would still be outstanding in full.
- 1.3 The table on the following page details the main brands and companies involved in the provision of Payday loans in the U.K, and the main terms and conditions of their loans.
- 1.4 Some, but not all, lenders restrict the amount of times that loans can be rolled over in this way, and have policies in place that require at least some payment off the capital amount to be made once a loan has been rolled over more than two or three times. However, there are no details given as to the amount of payment that is required in order for further rolling over to take place so debts can still be rolled over considerably prior to being cleared.
- 1.5 Lenders frequently advertise the fact that no credit checks are required and that money is available quickly. No assessment appears to be made of a customer's ability to repay. Application forms do not generally ask for any details concerning expenditure or outstanding debts of borrowers. It is likely therefore that these loans

---

<sup>1</sup> QuickQuid Website, 29<sup>th</sup> March 2008

would fall foul of any reasonable definition of 'irresponsible lending' – a term included in the Consumer Credit Act 2006 that the OFT must consider when licensing credit providers from 6<sup>th</sup> April 2008.

- 1.6 There is an absence of published information concerning the size of payday lending operations in the U.K. However, the expansion of Moneyshop stores over the past 12 months, the entry into the UK of QuickQuid in the third quarter of 2007, U.S takeover of Month End Money and the significant increase in internet sites and financial brokers offering payday loans over the past 12 months indicates that the sector is growing rapidly.
- 1.7 Dollar Financial, owners of the Moneyshop brand, report that their U.K. business realized growth of 71.7% in 2007 and that U.K. loan originations increased by 55.3% or \$34.5 million in that year. They have 221 company operated stores in the UK, and a further 193 operated under franchise, which is approximately 25% of all payday lending outlets in the UK<sup>2</sup>. 2007 third quarter accounts indicate that approximately £16 million worth of loans are being made each month in the UK. We estimate that a customer base of at between 150,000 and 200,000 people would be needed to sustain this. Assuming that the outlets of competitor lenders have similar reach, then this would suggest a market of approximately 600,000 – 800,000 people although recent developments, including the increased availability of payday loans on the internet may mean that this is a conservative figure.
- 1.8 The advertising of payday loans on many websites is often deliberately vague and fails to provide essential information, such as the APRs, and the impacts of rolling over loans on these. In some case advertising may breach the relevant regulations. For example, the website for Quicksilver payday loans, a brand of MEM Consumer Finance Ltd., contains the following statement:

*"Payday loan companies are required to calculate the APR% for their customers even though the measure is inappropriate for 30 day (i.e. very short term) cash advances. We'll calculate it when you go through the application process..."<sup>3</sup>*

MEM Consumer Finance Limited also launched a TV advert in December 2007, which is running throughout 2008, under the brand name *Payday Now!*. This fails to mention the APR of loans at all.

---

<sup>2</sup> Collard, S. & Kempson, E. (2005), *Affordable Credit: The Way Forward*, University of Bristol Personal Finance Research Centre, pg.3

<sup>3</sup> Quicksilver Payday Loans Website, 29<sup>th</sup> March 2008

<b>Brand Names</b>	<b>Terms</b>	<b>Company Information</b>
The Moneyshop	£9.99 on first cheque of £100 only – APR of 260.2%. Usual rates, and anything other than the first cheque, are charged at £14.99 and advances made of £85.01, which would bring APR's up to approx 1,000%	Owned by Dollar Financial, US company expanding in the U.K. Has over 250 stores in the UK now and in the quarter to 31 <sup>st</sup> December 2007 recorded lending growth of 55.3%. The company lends approximately £16 million per month in the UK
Month End Money, Payday Now!, PayDay UK, Payday Store, Quicksilver Payday Loans	£25 per £100 borrowed. Will lend up to £750 to new customers. APR – 1355% The Quicksilver website states that full roll overs allowed for two months, then some element of capital repayment required in addition to the roll over fee (amount of capital to be repaid not specified).	Owned by MEM Consumer Finance Limited which was acquired by US company CompuCredit in 2007 - unfortunately Compucredit's accounts do not break down by country, so it is not possible to determine the size of the UK operation. The company has launched a TV ad in December 2007 which is running throughout 2008
Payday Express Wageadvance.co.uk Paydaysolutions.org.uk	£20 on each £100 borrowed. APR 1286.1% (based on 31 day month). Will lend up to £800 to new customers. Money available over the internet and paid into bank accounts within 2 days or same day (for which an additional £15 fee is charged) After 3 loans, customers can apply for an increase in the limit.	Owned by Express Finance (Bromley) Ltd – documents ordered from Companies House
Albemarle & Bond	Payday loans available up to £600. No information on website concerning charges – available from within their pawnbroking stores	A national pawn broking company with 75 outlets that has expanded into pay day lending. Company income from payday lending has increased from £0.05 million in 1996 to over £3.6 million in 2006.
Chequebook Loans	£20 on each £100 borrowed – APR 1286%	Company based in Luton, offering payday loans over the internet. Private limited company. Exempted from last accounts requirements on basis of small size. Next accounts due in April 2008
Payday Advance UK	£29 on each £100 borrowed – no APR figure given on the website. Limits of up to £1000 for new customers	Company registered in Malta. Member of Consumer Credit Association UK.
QuickQuid	£25 - £50 charge on each £100 lent. (APR generally 1,576.5%) Website also states that typical rates range from 1351.7% to <b>9889.3%</b>	A subsidiary of <a href="#">CashNetUSA</a> and Cash America Intl.. Only operates on the internet for UK customers – a service started in the third quarter of 2007. No figures yet available concerning take-up. Next financials released on 24 <sup>th</sup> April 2008