ANNEXE H – CONSUMER COMPLAINTS

Introduction

H.1 The last few years have seen a very significant increase in complaints received by the OFT about payday loans. Between 2008 and 2011, complaints rose from 14 a year to 368, an increase of 2529 per cent (albeit from a very low base).

H.2 Over the same period, calls to the Citizens Advice consumer service (formerly Consumer Direct) about payday lenders increased by 699 per cent from 150 to 1198.

H.3 Complaints to the Financial Ombudsman Service (FOS) increased by 797 per cent over two years from 33 in 2009/10 to 296 in 2011/12. Complaints in the first three quarters of 2012/13 total 387, already 31 per cent higher than the total for 2011/12.

H.4 When we launched our compliance review in February 2012, we invited consumers to complain to the OFT directly, and we provided a specific complaint form on our website for that purpose. This generated 77 complaints. In addition, 609 complaints were submitted to the OFT’s Enquiries and Reporting Centre between February and August 2012.

H.5 Of these 686 complaints, 95 per cent were made directly by consumers. The 686 complaints were against 56 lenders.

Key findings

H.6 Of the 686 complaints received by the OFT during a six-month period from February to August 2012, 61 per cent related to aggressive or unsatisfactory debt collection practices.

H.7 Key complaint themes included:

- aggressive practices by in-house collection departments of payday lenders, in particular sustained high volumes of repeat calls to the consumer’s place of work
- failure to show forbearance to borrowers who could not repay their loans due to financial difficulty, with lenders frequently refusing to accept, or even discuss, reasonable offers of repayment

- misusing continuous payment authority (CPA) by taking repeated part payments, often leaving consumers with insufficient funds to pay priority bills and other essential living expenses

- inadequacy or lack of affordability assessments, including lending to consumers with very low incomes and existing significant credit commitments

- encouraging borrowers in financial difficulties to ‘roll over’ or refinance their loans rather than offering forbearance

- poor customer service standards, with lenders failing to respond to complaints or other communications.

H.8 Eighty-one per cent of complaints to FOS about payday loans in 2011/12 were upheld in favour of the consumer, compared to 54 per cent for credit cards and 38 per cent for overdrafts and personal loans.

Detailed findings

Complaints to the OFT

H.9 Between November 2011 and November 2012, the OFT received a total of 6223 complaints about consumer credit, of which 1077 or 17 per cent related to payday lending.

H.10 We estimate that the payday loan market grew from around £900 million in 2008 to between £2.0 and £2.2 billion in 2011/12, an increase of some 140 per cent. There has however been a disproportionately higher increase in the number of complaints received by the OFT and other bodies.
H.11 Table A below shows that between 2008 and 2011 complaints to the OFT (principally by consumers) about payday loans increased by 2529 per cent from 14 to 368.

![Payday Lending Complaints made direct to OFT Enquiries and Reporting Centre](image1)

**Table A**

H.12 Table B below shows that over the same period, based on a sample of 50 lenders, calls to the Citizens Advice consumer service (formerly Consumer Direct) about payday lenders increased by 699 per cent from 150 to 1198.

![Calls to Consumer Direct 2008 - 2011 about Payday Lenders](image2)

**Table B**

H.13 Table C below shows a comparison of complaints received by the OFT before, during and after the initial stages of the review, covering the period from November 2011 to November 2012.

H.14 Complaints during the three months prior to the review averaged 69 per month. This increased to 143 per month in the first three months following the public launch of our review in February. In
the next three months it fell back to 85 per month, and in the following three months to 70 per month.

Table C

H.15 The number of complaints increased sharply to 228 complaints in December 2012 following publication of our Interim Report.

Nature of complaints

H.16 We have analysed the complaints received during the review to identify the most complained about practices.

(i) Debt collection practices

H.17 Complaints mostly related to allegations that payday lenders’ collections staff used aggressive tactics when contacting customers. Consumers complained of being bombarded by telephone calls on their mobile and work telephones, sometimes up to 16 times a day. Complainants alleged that collections staff ignored requests not to call customers at work.

H.18 In one case, two different members of a firm’s collections team called a customer simultaneously on different work extensions, causing them considerable embarrassment.
H.19 Another complainant said they had received at least 10 to 15 daily calls by a firm using an automated telephone dialler. The caller also left a message threatening to continue this practice until the customer made contact.

H.20 A third complainant stated: ‘The conversation ended by them putting the phone down and then calling me back an hour later to discuss the same thing. This continued between six and eight times a day for nearly a month’.

H.21 Consumers subjected to persistent and aggressive debt collection telephone calls also reported that reasonable repayment offers were rejected. One complainant said: ‘This company refuses a repayment plan and calls me between two and 20 times a day’.

(ii) Lack of forbearance

H.22 Of the remaining complaints, the most common theme was a lack of forbearance shown by payday lenders to customers in financial difficulty who could not repay their loans.

H.23 Consumers reported that lenders routinely refused to enter into discussions or accept reasonable repayment offers.

H.24 One consumer said she had asked for help on at least three occasions, including asking the lender to arrange a repayment plan or freeze interest, but her pleas for help were ignored.

H.25 Another said: ‘I called them to let them know I had lost my job… They offered me a completely unaffordable repayment plan and bombarded me with emails, texts and phone calls’.

(iii) Continuous payment authority

H.26 Allegations of misuse of CPA were also made by consumers experiencing a lack of forbearance by lenders.

H.27 Using CPA without having regard to the borrower’s financial position was the most common allegation. Complainants said they
were left with insufficient funds in their account to pay for essential living expenses such as rent, travel, utility bills or food.

H.28 Some consumers said lenders had debited large sums of money from their account after being expressly told that they could not afford to make such a large repayment, resulting in the firm ‘wiping out’ their bank account.

H.29 One typical complaint reported that payments had been taken ‘totalling £1014.90 in five separate transactions... leaving me with a total of £30 to last me a total of four weeks and my rent not being paid. They were not authorised to take these payments from my current visa debit card number’.

H.30 Another complainant said the lender had ‘emptied my bank account of all my wages over £1000, they just kept taking payments until their [sic] was no money left to take’.

(iv) Affordability assessments

H.31 Consumer complaints also highlighted a lack of, or inadequacy of, affordability assessments conducted by payday lenders.

H.32 One complainant said: ‘Most payday lenders lent to me despite some seeing on my credit file I had loads of outstanding loans and some saw on my bank statements. And some did no checks whatsoever’.

H.33 Complaints were received from relatives of vulnerable consumers, and one said: ‘[He] should never have been given a loan, he owes thousands to several banks and finance companies and also filed for bankruptcy’.

H.34 Another complainant said: ‘I am concerned that so many loans can be secured against one small wage, how is this possible?’

H.35 One complainant on behalf of a third party said: ‘In view of his low level of earnings we do not believe that any of these lenders verified his earnings or checked his ability to repay’.
(v) Rollovers

H.36 Other complaints alleged that consumers were being actively encouraged by lenders to roll over their loans.

H.37 One consumer said: ‘It was explained that it should be paid back by my next payday, but I was told not to worry as most people extended their loans, I feel I was encouraged to extend rather than pay back the full amount’.

H.38 Another complainant said that when she was making her loan application ‘the girl suggested I consider the rollover option before I’d even been given the loan’.

H.39 The inadequacy of affordability assessments at rollover stage was also a common theme, with many complainants saying that when they agreed over the phone to roll over their loan they were not asked to produce any wage slips or bank statements.

H.40 One complainant said the lender had rolled over the loan ‘a further 3 times until I eventually asked how I could go about paying the original loan off in instalments instead of extending the loan as I was having difficulty paying this off, and further credit was not helping me’.

(vi) Poor customer service

H.41 Consumer complaints also highlighted inadequacies in the complaint handling procedures used by lenders, who were said to routinely fail to respond to written or telephone complaints.

H.42 Complainants reported that lenders were often barely willing to talk to them and could be extremely rude and belittling.

H.43 One consumer said: ‘I have been calling every day, receiving the same response that someone will call me back and I have not received one call back, the lack of customer service I received is beyond a joke’.
Complaints to the Financial Ombudsman Service

H.44 Table D below shows that complaints to FOS increased from 33 in 2009/10 to 296 in 2011/12 – an increase of 797 per cent in two years. Complaints in the first three quarters of 2012/13 are already 31 per cent higher than the total for 2011/12.

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Total new complaints</th>
<th>% of resolved in favour of consumer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>33</td>
<td>58%</td>
</tr>
<tr>
<td>2010/11</td>
<td>59</td>
<td>64%</td>
</tr>
<tr>
<td>2011/12</td>
<td>296</td>
<td>81%</td>
</tr>
<tr>
<td>2012/13 Qs1, 2 and 3</td>
<td>387</td>
<td>72%</td>
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</tbody>
</table>

Table D

H.45 Whilst the overall numbers of complaints are significantly lower than for other, higher volume, credit products such as bank loans, overdrafts and credit cards (complaints to FOS about credit cards in 2011/12 totalled 19,000), the proportion of complaints upheld in favour of the consumer is significantly higher in the case of payday loans than for other credit products.

H.46 Eighty-one per cent of resolved payday loan complaints in 2011/12 were resolved in favour of the consumer, compared with 54 per cent for credit cards and 38 per cent for overdrafts and personal loans.

H.47 Most of the complaints to FOS about payday loans related to charges, lack of forbearance and debt collection practices.
H.48 The OFT and FOS have a memorandum of understanding in place which allows them to exchange information on complaint data. The FOS has given feedback to the OFT on its dealings with certain payday lenders, which it has found difficult to deal with as they are very slow to respond to complaints and do not appear to fully understand the FOS’ role or approach.

H.49 Where payday lenders fail to co-operate with FOS rulings, the OFT would regard that as being relevant to the licensee’s fitness to hold a consumer credit licence.