Payday lending compliance review:
Mystery Shopping

Ipsos MORI Report
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1 EXECUTIVE SUMMARY

1.1 In March 2012, Ipsos MORI was commissioned by the Office of Fair Trading (OFT) to undertake a mystery shopping study of payday lenders in the UK. The study forms part of the OFT’s wider review of the payday lending industry’s compliance with the Consumer Credit Act 1974 (the Act) and the OFT’s Irresponsible Lending Guidance (ILG).

1.2 The main objectives of the study were:

- to gain a general understanding of the typical customer experience, when contacting a payday lender, in particular how easy it is for consumers to obtain sufficient information from payday lenders to enable them to ‘shop around’ and compare costs of borrowing across lenders
- to find out whether payday lenders provide adequate information to consumers about the key features of payday loans including the costs and associated risks
- to find out whether lenders explain to consumers that affordability assessments are carried out before approving loans and how they deal with borrowers who struggle to repay their loans.

1.3 Ipsos MORI carried out a total of 239 mystery shops to 156 payday lending businesses between 12 May and 9 June 2012. Of these businesses, 18 were subject to multiple assessments. The businesses surveyed included all known trade association members.

1.4 As 18 of the businesses received multiple assessments (101 assessments between them in total) and the responses received were often inconsistent across the same business, it is not possible to report the results in terms of the ‘percentage of businesses stating x or y’. The results are reported instead in terms of the total number of ‘assessments’ and of ‘lenders/businesses’ assessed on each topic and this is made clear within each paragraph.

1.5 The shoppers were allocated a sample list of payday lending businesses and were instructed to use one of four methods of contact: an in-store visit; telephone call; call-back; or an online webchat. Shoppers posed as a typical consumer seeking information from the company about payday loans on behalf of a friend, partner or relative. They were not required to take out a payday loan or give personal details. Shoppers were allocated one of five scenarios, descriptions of which can be found in Annexe A.
1.6 The total number of lenders responding on each issue fluctuates due to the difficulties shoppers had in gaining responses and therefore being unable to complete the questionnaire in full. Lenders became more reluctant to provide information, and were often keen to terminate the call or visit, once they realised the shopper was not the prospective borrower.

1.7 Nevertheless, the shoppers’ experience highlights the difficulties facing consumers who are looking for information on payday loans before making a decision. The majority of shoppers reported having to keep prompting the lender for information as very little was offered spontaneously. The fact that shoppers were making enquiries on behalf of a third party may have added to the difficulty of extracting definitive information. Many lenders were reluctant to answer shoppers’ questions or to provide more than basic information without the borrower themselves first signing up (or providing personal details such as bank statements or agreeing to undertake a credit check).

1.8 Overall, despite prompting, information and explanations received from payday lenders were patchy in both quantity and quality. Key information such as the annual percentage rate of charge (APR) and the total cost of credit was not given to the shoppers. This may inhibit consumers from ‘shopping around’ and comparing lenders.

1.9 In addition to lenders being generally reluctant to speak to someone other than the prospective borrower, the majority of lenders required more personal information of the borrower (beyond that stated in the scenarios) before they would discuss the loan in detail – information that the shoppers could not provide.

1.10 Shoppers who contacted lenders by telephone, call-backs or webchats also reported that once lenders realised they were not dealing directly with the prospective borrower, it was common for the conversation to be terminated as quickly as possible by the lenders.

1.11 Shoppers also reported that lenders tended only to provide basic information and would more often than not direct shoppers to the website where they could apply for a loan directly. However, for the majority of websites, shoppers were required to enter their personal details before they could receive information (which they were unable to do). This further limits the ability of consumers to obtain sufficient information from a range of lenders prior to making a decision.

1.12 The main problem faced when phoning lenders was described by one shopper: ‘The staff member I spoke to refused to provide information on two counts. First, I was not the person who would make the loan. Second, the application had to be submitted online. There was no option to provide any assistance on the phone’.
1.13 Whilst all or most lenders offered a call-back service on their websites, half of the lenders contacted did not follow up the shopper’s request for a call-back. Consumers attempting to use this channel would therefore be likely to experience a poor customer experience and the lenders a loss of potential business.

The Customer Experience

1.14 On the whole the customer experience highlights the difficulties facing consumers who are looking for information on payday loans before making a decision. The majority of shoppers reported having to keep prompting the lender for information as very little was offered spontaneously.

1.15 Lenders who received an in-store visit were more likely to provide information to shoppers than those assessed through other contact channels. However, the information provided was generally not complete or sufficiently in-depth to answer the shopper’s questions. Upon hearing the scenarios, a high proportion of lenders were unwilling to discuss the loan in detail because the friend, partner or relative of the shopper was not present or not in employment.

1.16 It was also common for in-store staff to direct shoppers to the lender’s website for information. Generally, lenders had to be repeatedly prompted by the shopper to provide information. Comments suggest that some were unwilling to answer questions; others were very evasive or simply ignored the shopper’s questions.

1.17 Many lenders were reluctant to answer the shopper's questions or provide more than basic information without the actual borrower first signing up or providing personal details such as bank statements or agreeing to undertake a credit check. One lender explained that it was unable to discuss payday loans until the actual borrower had signed up on its website, promising the shopper that it would provide loan information tailored to that individual. The option to speak to the lender was only available on completion of this process.

1.18 Customer experience differed depending on the mode of contact. Callers found it more difficult than in-store shoppers to keep the lender engaged and obtain information, as it was easier for the lender to terminate a call once it became clear he would not make a sale.

1.19 Typical ways in which the lender terminated the call included: directing shoppers to the website; advising the shopper that they could not provide any information without more personal details from the borrower; or citing 'privacy issues' around data protection when discussing personal finances with a third party.
1.20 Some callers also experienced difficulty making initial voice contact with the lender either because the number dialled did not connect or terminated before it was answered, or the line went directly to a mailbox with an automated message directing shoppers to the website.

1.21 Some lenders only provided a direct contact option if the shopper was an existing customer. New customers were directed to the website.

1.22 Shoppers allocated the webchat channel also had difficulty obtaining information, with two out of the six lenders failing to respond to shoppers’ questions. Similarly, four out of 18 assigned call-backs were not responded to despite the shoppers’ numerous attempts to contact the lenders.

Explanations of payday loans

Adequate explanations

1.23 During 126 assessments of 68 payday lenders, just under half (42 per cent) did not advise shoppers that payday loans were only suitable for short-term borrowing. High street lenders were more likely to explain to shoppers that payday loans were only suitable for short-term borrowing than lenders who were contacted by phone (62 per cent and 41 per cent respectively). Lenders were more likely to inform shoppers that payday loans were only a short-term borrowing option than to endorse them for longer periods. The majority (72 per cent of 123 assessments) did not explain to shoppers that payday loans tended to be more expensive than alternative borrowing options.

1.24 In 20 per cent of 98 assessments, the fees and costs associated with the loan were stated, and when prompted this rose to 30 per cent. Only a minority of lenders provided shoppers with the APR but shoppers did not clarify whether this was stated to be ‘representative’. Out of 117 assessments where information was provided, only 21 per cent mentioned the APR of the actual loan. Many lenders refused to give this detail until they had received more personal details about the borrower. Where the APR was given, shoppers reported a vast difference in the quoted figures.

1.25 When asked for information on the interest rates applicable to the loan amount in the scenario, some lenders would only give APR information per £100. In just over one third (35 per cent) of the 117 assessments, lenders quoted a total amount of interest repayable, ranging from £15 to £460; 37 per cent mentioned the total interest repayable per £100 borrowed which ranged from £10 to £30. For example, one shopper said that ‘the lender told me the interest would be £88.68 per month on a £300 loan’.
1.26 The different ways in which the interest rate or amount payable was quoted could make it more difficult for less numerate consumers to compare the loan options between lenders. Less than half of the 50 lenders who were willing to provide information gave the total cost of the loan.

Repayments

1.27 In just over a quarter of 117 assessments (26 per cent), lenders told the shopper the time period over which the rate of interest was calculated. In 75 per cent of 108 assessments, shoppers were told how long they would have to repay the loan (there is no information on whether the shoppers had to prompt for this or not). In 53 per cent of 105 assessments it was stated that the loan should be repaid in full rather than in instalments.

Fees/charges

1.28 In 40 per cent of 114 assessments, shoppers were told what the total cost of credit would be (the cost of borrowing the money comprising interest and charges). But lenders were less likely to clarify the level of individual fees and charges, with only 31 per cent of 103 assessments mentioning this.

1.29 When asked if other fees and charges were applicable, three lenders said they charged transfer fees (of five pounds) for depositing the money in the borrower’s account. Five lenders mentioned late payment fees. Another five lenders stated there were no additional charges, but did not mention whether this included late payment charges.

Consequences of failing to make repayments

1.30 The majority of shoppers had to prompt for this information, with varying degrees of success. In the 89 assessments where reference was made to default charges, lenders were most likely to mention charges for late payments (40 per cent) and missed payments (30 per cent). An explanation of the charges applicable in relation to under-payments was given in only three per cent of assessments.

1.31 In 52 per cent of assessments there was no mention of the fact that interest charges might be added for failed repayments. One shopper reported that ‘the lender only told me that failure to make repayments would affect my friend’s credit rating. After prompting for this information she did not mention that they charge for late or missing payments’. Another shopper noted that ‘when I asked about default charges, I was told that they might apply but they would have to be discussed with the lending department’.

1.32 When discussing missed payments, lenders commonly explained that default charges and interest would be applied and the cost of the debt would increase. Legal proceedings were also mentioned by some lenders.
Right of withdrawal

1.33 The right of withdrawal from the loan agreement was not commonly explained by lenders. However, in those cases where this was explained, the majority of shoppers were told how they could exercise the right.

Further information

1.34 On the whole, lenders did not ask if the shopper had any further questions. However, they were more likely to tell them how to obtain further information if asked, with most directing shoppers to their website. A minority offered information to take away such as application forms and leaflets explaining payday loans. Some offered the notes they had written whilst speaking to the shopper.

Affordability assessment

1.35 In 73 per cent of 141 assessments, lenders asked whether the friend, relative or partner was employed, but a smaller proportion specifically asked whether they had a regular income (49 per cent). While lenders were keen to find out the employment status of the friend, partner or relative, half were unwilling to provide further information on affordability assessments due to a lack of personal details about the borrower (which the shoppers could not provide).

1.36 Shoppers specifically asked about affordability assessments, and while most lenders told shoppers that they would need to provide financial information during the application process, there were only a few instances where the lender explained the criteria it used to carry out affordability assessments. However, where this happened, the shoppers reported that the explanations were clear.

1.37 Shoppers were informed that before affordability assessments could be carried out, lenders would require evidence of employment and income such as payslips or a P60, details of expenditure, and evidence of disposable income such as recent bank statements. Interestingly, in eight out of 130 assessments (six per cent) lenders suggested that a loan was available regardless of financial circumstances.

1.38 Generally, shoppers were not encouraged to take out a loan, and only one lender encouraged the shopper to ‘act quickly’. However, a minority of lenders still mentioned the possibility of taking out a loan even after the shopper told them that the borrower was in financial difficulty. Three lenders said a ‘high-speed loan’ was available but did not provide further information on how quickly the money could be transferred into the borrower’s bank account.
Default and arrears

1.39 Once the lenders were informed that the shoppers were calling on behalf of a third party, and even after prompting, in 46 per cent of 182 assessments lenders did not provide any information on their policy for dealing with borrowers who defaulted on, or failed to pay back, their payday loan by the due date.

1.40 The remaining 54 per cent did provide some information on how borrowers who could not repay their loan were treated, but only a small proportion did so without prompting. These lenders were most likely to say the loans could be: rolled over or refinanced;¹ split into monthly repayments; or that they would exercise ‘forbearance’. Nearly half did not go on to provide further details.

1.41 Despite prompting, information on responsible borrowing alternatives was not forthcoming. None of the shoppers were given information about specific organisations that could provide free debt advice. Neither were shoppers using scenarios four and five (unemployed and university student respectively) informed about the availability of free debt advice even after they had explained the borrower’s situation to the lender. Furthermore, the risks associated with non-payment were not fully explained to shoppers nor that payday loans were generally more expensive than other borrowing options.

Continuous payment authorities (CPAs)

1.42 Of 94 assessments where repayment options were discussed, only 34 per cent of lenders informed shoppers about the method(s) used to collect loan repayments. Of these, in only 16 per cent (seven assessments) lenders explained how CPAs were used. Shoppers found it difficult to obtain a clear explanation of CPAs and how they operated.

1.43 Whilst lenders did not understate the risks, they were equally unlikely to highlight the potential consequences (for example, going overdrawn if insufficient funds were available). Only three shoppers were told about this. In the three assessments (seven per cent) where the differences between CPAs and direct debits were explained, only large companies provided clear explanations.

¹ Whilst payday loans are generally meant for short-term periods (usually repaid on the borrower’s next pay date) many payday lenders allow loans to be ‘rolled over’ beyond the original repayment date so the duration of the credit is extended but the amount of the credit and the terms and the conditions are unchanged. Refinancing refers to a situation where a payday loan is refinanced on different terms and conditions; the outstanding loan amount is repackaged into a new loan, possibly with additional borrowing and/or over a longer term.
1.44 Only one lender (after prompting) told the shopper that a CPA could be cancelled by contacting the payday lender or card issuer. In none of the seven assessments where CPAs were explained did lenders tell the shoppers (even after prompting) that: borrowers had the right to cancel the CPA and that the borrower could also cancel the CPA by contacting their bank.

**Rollover loans/refinancing**

1.45 38 lenders were assessed on this section of the questionnaire and, as with other issues, shoppers reported that the longer the call or visit went on the more difficult it was for them to keep the attention of the lender or sales staff. This was mainly due to the enquiry being made 'on behalf of someone else'. Lenders attempted to terminate the call or in-store visit when they realised that they were not going to make a sale.

1.46 When shoppers asked specifically about 'rolling-over' or refinancing loans they were given the impression that this facility was available.

1.47 ‘Rollover’ loans were suggested in 40 per cent of 53 assessments where financial difficulty had been discussed, as a possible means of avoiding charges for missed or late payments.

1.48 Shoppers also reported that lenders explained that rollover loans could be used when extra time was needed to pay: ‘I was told that a payment could be made to give the customer extra time to pay’. However, there was no indication that ‘rollovers’ were actively promoted as a benefit of the loan.

1.49 Where the lender indicated a payday loan could be refinanced or rolled over, in 61 per cent of 23 assessments lenders mentioned that rollover loans were available, 39 per cent that borrowing could be extended and 13 per cent that a loan extension was guaranteed. A further 17 per cent implied that multiple loans were easily available, although shoppers reported that lenders did not encourage or promote multiple loans as a solution.

1.50 When it came to asking about falling behind with payments, almost all the shoppers had to prompt for information about lenders' attitudes, and whilst the majority did not actively encourage loan 'rollovers' they were mentioned in 21 assessments as a means of dealing with arrears.
Mental capacity limitations

1.51 A total of 10 assessments were carried out using the mental capacity limitations scenario (scenario three). Once the issue was raised by the shopper, only one lender sought additional information about the potential borrower's mental capacity. None of the shoppers was told that they should consider other forms of borrowing before taking out a payday loan.

1.52 Two lenders said they had procedures in place to deal with borrowers with mental capacity limitations.

General lending practices

1.53 A minority of lenders were willing to lend to a friend, partner or relative that was unemployed or receiving benefits, irrespective of the person's disposable income levels, although shoppers were told that the borrower would have to provide evidence of income and outgoings. One lender encouraged falsifying information to qualify.

1.54 Approximately half of the shoppers allocated scenario four (unemployed, lone parent on Income Support and Housing Benefit) and scenario five (university student) were told that they would not be eligible for a payday loan because they did not have a regular income of more than £700 a month. Lenders that also provided pawnbroking services offered cash in exchange for gold and other goods where payday loans were not feasible.

1.55 There was evidence that payday lenders were aware of the current OFT review into payday lenders’ compliance with the Act and ILG. One lender explicitly stated that it had stopped providing payday loans following the OFT’s announcement.

1.56 Finally, most lenders did not refer to the fact that they were consumer credit licence holders or whether they adhered to an approved code of practice. However, one lender did mention that it was ‘approved’ by the OFT.
2 Objectives and methodology

Introduction

2.1 On 24 February 2012, the OFT launched a review of the payday lending sector’s compliance with the Act and the ILG.2 This mystery shopping exercise forms part of the initial information gathering phase of this review.

2.2 A ‘payday loan’ for the purposes of the review is defined as a short-term, high-interest, unsecured loan which is expected to be repaid by the time/when the borrower receives their next regular income payment. This is usually within 30 days of having been granted the loan but can also be repaid within a shorter period of time. References to a ‘payday lender’ are references to businesses which offer these types of loans.

Background

2.3 In 2006 amendments were made to the licensing provisions of the Act including the addition of section 25(2B), which states:

For the purposes of section 2A(e) the business practices which the OFT may consider to be deceitful or oppressive or otherwise unfair or improper include practices in the carrying on of a consumer credit business that appear to the OFT to involve irresponsible lending.

2.4 Under section 25A of the Act, the OFT is required to issue guidance on determining whether persons are fit to be licensed under the Act.

2.5 The OFT issued the ILG in March 2010 which specified the standards expected of creditors including licensees providing payday loans. The ILG was updated in February 2011.3

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2 www.oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review
2.6 The ILG covers all stages of the lending process, from advertising and marketing through to arrears and default. It includes examples of business practices at each stage of the process which may constitute irresponsible lending. Creditors are expected to adhere to the standards set out in the ILG, including:

- not using misleading or oppressive behaviour when advertising, selling or seeking to enforce an agreement
- explaining the key features of the agreement to enable the borrower to make an informed choice
- making a reasonable assessment of whether a borrower can afford to meet repayments in a sustainable manner, and
- treating borrowers fairly, and with forbearance and consideration, if they experience difficulties.

Research objectives

2.7 To gain an understanding of the typical consumer experience when contacting payday lenders. For example:

- the quality and consistency of information and explanations provided
- whether there is a discrepancy between what is advertised and what is offered to the consumer
- whether the lender is clear and transparent about its identity and any associated companies
- whether consumers are pressurised into taking out a payday loan without adequate time to take the information away and ask questions or to ask for further information
- whether consumers are given the impression that they will be eligible for a loan regardless of financial or employment considerations
- whether consumers are given the impression that it is easier and quicker to take out a payday loan than is actually the case
- whether consumers are told their details may be passed onto third parties and what this involves
- whether permission to do this is actively sought.
2.8 To assess the extent to which payday lenders provide adequate pre-contractual information and explanations about loan agreements regardless of the method of contact. For example:

- whether the information and explanations provided are sufficiently comprehensive to enable prospective borrowers to assess the suitability of the loan
- whether the cost of the credit, level of repayments, duration, total amount repayable and the right of withdrawal are clearly explained
- whether the risks of payday loans and the consequences of not repaying on time are clearly explained
- whether the payday lender encourages responsible borrowing or to consider alternative options
- whether the information is provided in good time before entering into a loan agreement
- whether the payday lender is open and encourages questions about the loan agreement and allows the consumer time to consider all the information provided.

2.9 To assess the extent to which payday lenders carry out affordability assessments (insofar as this is possible using a third party approach) before granting the loan and whether they explain to consumers what this will entail. For example:

- whether information is provided that suggests an affordability assessment will be undertaken
- whether an explanation of the affordability assessment is given including how and when this will be done
- whether affordability assessments would be carried out each time a new loan is taken out, including ‘rolled over’ loans and refinancing
- whether there is a maximum number of times a loan can be ‘rolled over’ or refinanced.
2.10 To assess the quality and consistency of information and advice (insofar as this is possible using a third party approach) that payday lenders give to borrowers in financial difficulties: For example:

- whether there is a clear policy in place to deal with borrowers who cannot repay their loan
- whether 'rollover' loans or refinancing are promoted to borrowers who cannot meet their loan repayments
- whether interest and charges would be stopped to allow more time to repay the loan
- whether debt collection and/or legal proceedings would be immediately initiated to collect outstanding loan repayments
- whether responsible borrowing is encouraged by referring the borrower to a debt advice service
- whether the payday lender would continue to attempt to debit money from the borrower's bank account
- whether the implications of 'rolling over' or refinancing the loan are clearly explained.

**Methodology**

2.11 From a sample of 156 payday lenders provided by the OFT, mystery shoppers carried out 239 assessments using a total of five different scenarios.

2.12 Given the wide variation in the size of the businesses in this sector, it was necessary to conduct several assessments (mystery shops) of some of the larger businesses. For example, four large businesses each received 11 assessments (44 in total), while 138 businesses received one assessment. The distribution is shown in the table below.

<table>
<thead>
<tr>
<th>Number of assessments</th>
<th>Number of businesses receiving assessment</th>
<th>Total number of assessments carried out</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>138</td>
<td>138</td>
</tr>
<tr>
<td>Two</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td>Three</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Four</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Five</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Six</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Seven</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Eight</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Nine</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Ten</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Eleven</td>
<td>4</td>
<td>44</td>
</tr>
<tr>
<td>Total</td>
<td>156</td>
<td>239</td>
</tr>
</tbody>
</table>
2.13 A breakdown of the 239 mystery shops carried out using four different contact channels is as follows:

<table>
<thead>
<tr>
<th>Contact channel</th>
<th>Number of visits</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-store visits</td>
<td>150</td>
</tr>
<tr>
<td>Telephone calls</td>
<td>65</td>
</tr>
<tr>
<td>Call-backs</td>
<td>18</td>
</tr>
<tr>
<td>Online webchats</td>
<td>6</td>
</tr>
</tbody>
</table>

2.14 A further 57 mystery shops were attempted but could not be completed due to difficulties experienced contacting the payday lender. For example, 16 shoppers were unable to speak to call centre staff either because the call was not answered, the line went directly to a mailbox and a member of staff did not call back or the line simply went dead. All numbers called were listed on the lender’s website and flagged as a customer service or enquiries number. No calls were left in a queuing system. Two shoppers reported that after selecting the automated option for new customers they were redirected to a message informing them to apply via the website. One shopper reported calling a lender 22 times on eight different days but was still unable to get through to a member of staff. A further four shoppers allocated the call-back contact channel did not receive a response from the lenders they contacted.

2.15 A total of 35 in-store visits were not completed due in one case to the lender informing the shopper that it no longer offered payday loans despite having done so in the past. One shopper was told that the store had been instructed by its Head Office not to offer payday loans whilst the OFT’s review was underway. Another shopper was informed that the lender had stopped offering payday loans a few years ago, although there was still a poster advertising payday loans displayed on the wall of the store. Two web-chat assessments could not be completed as in both cases the call centre staff did not respond to the shoppers’ questions.
2.16 Details of the final sample are in the table below.

<table>
<thead>
<tr>
<th>Contact channel</th>
<th>Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In-store visit</td>
</tr>
<tr>
<td>London</td>
<td>9</td>
</tr>
<tr>
<td>South East</td>
<td>11</td>
</tr>
<tr>
<td>South West</td>
<td>9</td>
</tr>
<tr>
<td>Wales</td>
<td>7</td>
</tr>
<tr>
<td>West Midlands</td>
<td>8</td>
</tr>
<tr>
<td>East Midlands</td>
<td>13</td>
</tr>
<tr>
<td>East of England</td>
<td>10</td>
</tr>
<tr>
<td>Yorks. and Humberside</td>
<td>12</td>
</tr>
<tr>
<td>North West</td>
<td>14</td>
</tr>
<tr>
<td>North East</td>
<td>9</td>
</tr>
<tr>
<td>Scotland</td>
<td>10</td>
</tr>
<tr>
<td>N. Ireland</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>115</strong></td>
</tr>
</tbody>
</table>

2.17 In-store visits were allocated across 12 regions of the UK including Scotland, Northern Ireland and Wales. The five scenarios were allocated evenly across the assessments with the exception of scenario three. Where applicable, regional analysis has been provided but results should be interpreted with caution due to the low number of assessments carried out within each region. For this reason raw figures are provided in place of percentages.
2.18 Online lenders were contacted via telephone. Whilst some information is available on websites without prospective borrowers having to provide personal details, the level of information sought by the questionnaire could not, in the main, have been obtained solely from such information.

2.19 Where base sizes allow, the results of different sized businesses are analysed. Lender size was categorised as small, medium and large and definitions of each are as follows:\(^4\)

- **Small**: mainly high street based lenders, usually with one or two outlets
- **Medium**: high street lenders who operate local/regional chains with multiple outlets or with an online presence
- **Large**: lenders with national or cross-regional networks/strong online presence.

**Mystery shops**

2.20 Mystery shops were carried out by a long-term fieldwork partner of Ipsos MORI between 12 May and 9 June 2012. All shoppers were required to complete an extensive training programme and had been profiled in detail which included personal and consumer background variables. For every assignment there was a three-stage briefing process. Firstly, all mystery shoppers completed the standard training module before qualifying for the panel. Secondly, shoppers were briefed on the background to the OFT’s compliance review and given details of what information must be collected. Finally, shoppers completed scenario-specific training modules focusing on how to carry out the visits, the calls, call-backs and webchats.

2.21 Four initial pilot assessments were carried out: Two in-store visits were conducted by a mystery shopper and the research team at Ipsos MORI conducted the call, call-back and webchat. Initial observations suggested that it would be difficult to obtain the required information in sufficient detail outlined in the questionnaire.

2.22 The mystery shoppers reported that although they had to prompt the lender or its sales staff on each topic, they were able to gather some information successfully. However, the calls and webchat proved more difficult as once lenders realised there was no prospect of a sale and the level of questioning became in-depth, they would attempt to end the conversation by redirecting the shopper to the website or stating that the borrower must get in touch themselves.

\(^4\) These categorisations were based on information available to the OFT at the time of commissioning the mystery shop.
2.23 This preliminary finding was echoed later in the feedback from shoppers involved in the mystery shop. One shopper was told that the lender could not give out information without more information about the borrower and so they would have to sign up on their website first. Another lender simply stated that it would not discuss fees with a third party. In many cases, there was no option to speak to lenders over the phone because the contact options on their automated telephone systems were only available for existing customers. The information gathered at the pilot stage helped to inform the development of the briefing materials provided to the shoppers.

2.24 In order to help shoppers focus on the key objectives, the essential questions were highlighted in the questionnaire to act as a prompt if their conversation with the lender or its sales staff went off-topic. The full questionnaire can be found in Annexe A.

2.25 Shoppers conducting an in-store visit were instructed to use notes as a prompt for asking questions. Shoppers conducting a call, call-back or webchat used a detailed questionnaire to guide their conversations. Shoppers were required to complete the questionnaire online as soon as possible which was then validated by the fieldwork team to ensure accurate and full responses were recorded.

**Scenarios**

2.26 In total there were five scenarios which were allocated evenly across the contact channels and regions. Scenario three was allocated fewer shops:

- **Scenario one** – employed with no disposable income
- **Scenario two** – employed with disposable income
- **Scenario three** – employed with disposable income, mental capacity limitations
- **Scenario four** – unemployed, lone parent on Income Support and Housing Benefit
- **Scenario five** – university student

2.27 Full details of the scenarios can be found in Annexe B.

2.28 It should be noted that the financial services sector is one of the most challenging in which to conduct mystery shopping because of the sensitive and confidential nature of the financial information involved and the desire of providers to close a sale.
2.29 Shoppers reported that the longer the call or visit went on, the more difficult it was for them to keep the attention of the lender and gain the information required. This was mainly because the enquiry was being made on behalf of someone else (‘a friend, partner or relative’). Lenders were keen to terminate the call or visit when they realised they were not going to make a sale.

2.30 Shoppers commented that, generally, lenders tended to be sales orientated and were less willing to spend time explaining the specifics or give detailed information about payday loans, unless it was directly to the prospective borrower.
3 FINDINGS AND ANALYSIS

Explanations of payday loans

These questions are designed to test whether, how and when payday lenders are meeting their legal obligations to provide prospective borrowers with pre-contractual information and explanations on payday loans. The questions will test whether payday lenders explain the key risks associated with taking out a payday loan and whether prospective borrowers are provided with opportunities to take information away and/or ask questions.

Please note: percentages are based on all lenders responding on an issue unless stated otherwise.

Explanations of main features and risks of payday loans

3.1 Sixty eight payday lending businesses were assessed on whether they explained that payday loans were only suitable for short-term borrowing. Across all 68 businesses, a total of 126 assessments were conducted including 11 businesses that were assessed multiple times.

3.2 In 42 per cent of assessments, shoppers were not informed that payday loans were only suitable for short-term borrowing.

3.3 Of the 126 assessments, 62 were carried out on large companies. In 32 per cent of assessments, shoppers were not informed that payday loans were only suitable for short-term borrowing. 27 telephone assessments were also undertaken and in 59 per cent of assessments shoppers were not advised that payday loans were suitable for short-term borrowing only.

3.4 Of the 11 businesses which were assessed multiple times, none were consistent in informing shoppers that payday loans were only suitable for short-term borrowing. For example, one lender gave shoppers this information in four out of the eight assessments it received. Another lender advised shoppers of this in eight out of nine assessments.

Suitability for long-term borrowing

3.5 Sixty six lenders were assessed on whether payday loans were promoted as being suitable for borrowing over longer periods. Across these 66 lenders, 118 assessments were carried out and 11 businesses were assessed multiple times.

3.6 In 94 per cent of the 118 assessments, payday loans were not promoted to shoppers as being suitable for borrowing over longer periods.
3.7 Of the 11 businesses which were assessed multiple times, six were consistent in not promoting payday loans and five were inconsistent in whether they did or did not.

3.8 In the six per cent of assessments where payday loans were promoted as a longer-term borrowing option, shoppers’ responses indicated that five large lenders and two of the smaller lenders promoted payday loans as suitable for longer-term borrowing.

*Effects of borrowing on credit reference record*

3.9 Sixty seven businesses (121 assessments – 11 businesses were multiple shopped) were assessed on whether they explained to the shopper that taking out a payday loan might affect a borrower’s credit reference file.

3.10 In 77 per cent of assessments, lenders failed to explain that taking out a payday loan might affect the borrower’s credit reference record.

3.11 Of the 11 businesses that were assessed multiple times, four consistently did not explain that taking out a payday loan may affect the friend, relative or partner’s credit file.

3.12 One shopper reported that the lender made taking out a payday loan sound ‘very easy’, and was informed that the borrower would only have to provide two forms of identification and a cheque book or debit card. No references were made to the potential risks or possible penalties for non-payment.

3.13 In 21 per cent of assessments of large lenders, shoppers were informed of the possible effect on an individual’s credit file, and this increased to 25 per cent of assessments of medium-sized businesses and 44 per cent of assessments on small lenders.

3.14 The channel through which the lender was contacted made little difference to the response received, although shoppers enquiring by telephone were slightly less likely to be told about the risk to their credit file (20 per cent of 25 telephone assessments).

3.15 Shoppers were not asked to specifically report whether lenders offered this information without prompting, but overall shoppers reported frequently having to ask the lender very direct questions in order to elicit an answer.

*Cost of borrowing money*

3.16 Sixty seven businesses were assessed on whether they advised that payday loans tended to be more expensive than other forms of borrowing. Across these 67 businesses, 123 assessments were carried out and 11 businesses were assessed multiple times.
3.17 In 72 per cent of the 123 assessments, shoppers were not advised by lenders that borrowing money via a payday loan tended to be more expensive than other forms of borrowing.

3.18 Of the 11 businesses that were assessed multiple times, three consistently did not advise shoppers that payday loans tended to be more expensive than other forms of borrowing.

3.19 Shoppers allocated scenario four (unemployed, lone parent on Income Support and Housing Benefit) were more likely to be informed that payday loans could be an expensive way of borrowing money. Shoppers using scenario one (employed but with no disposable income) were less likely to be informed of this.

**APRs**

3.20 Sixty four businesses were assessed on whether they informed shoppers of the APR applicable to the payday loan amount cited in the scenario. Across these 64 businesses, 117 assessments were carried out and 11 businesses were shopped multiple times.

3.21 In 21 per cent of 117 assessments, lenders quoted the APR.

3.22 Of the 11 businesses that were assessed multiple times, four consistently failed to inform the shopper of the APR relevant to the payday loan amount.

3.23 Where the lender provided the shopper with APR information, varying amounts were provided. Nine stated it was less than 20 per cent. At the other end of the scale, two lenders quoted an APR of between 2,500 per cent and 5,000 per cent.

3.24 One lender explained that APRs did not apply to payday loans because they were for short-term borrowing only and so the APR was not applicable.

3.25 Shoppers also reported that lenders were only willing to provide APR information once they received more personal details about the borrower, and one lender was reported to be ‘very vague’ when responding to the shopper’s questions on APR.

**Interest rates**

3.26 Sixty four businesses (117 assessments) were assessed on whether they explained the period over which the rate of interest was calculated. 11 businesses were assessed multiple times.

3.27 In 26 per cent of the 117 assessments shoppers were given this information. For example, one shopper was told that it would be ‘20 per cent interest per month’ and another was told it would be ‘one per cent per day’.
3.28 Of the 11 businesses that were shopped multiple times, four consistently did not provide the time period for the rate of interest and seven provided inconsistent information.

3.29 Larger lenders were much less likely to provide this information than smaller lenders. 23 per cent of 57 assessments and 40 per cent of 15 assessments carried out on these sized lenders gave the period rate of interest.

3.30 A comparison of the channels shows that high street lenders were more likely to provide this information: 29 per cent compared to 12 per cent of assessments made by phone. Most shoppers who were informed of the rate of interest period were told it was calculated either daily or monthly.

3.31 Sixty three businesses were assessed on whether they provided information to the shopper on the annual rate of interest. Across all these businesses, 117 assessments were carried out and 11 businesses received multiple assessments.

3.32 In only 14 per cent of assessments was the annual rate of interest stated, and the other 86 per cent did not mention it.

3.33 Of the 11 businesses that were assessed multiple times, six consistently did not provide information on the annual rate of interest.

3.34 Among the 14 per cent of total assessments where annual rates of interest were stated, the figures quoted ranged from 143 per cent to 2,000 plus per cent. There were no major differences recorded between methods of contact, scenarios or size of lender.

*Total interest payable*

3.35 Sixty five businesses were assessed via 117 assessments on whether information on the total amount of interest repayable on the loan amount cited in the scenario was provided. 11 businesses received multiple assessments.

3.36 In 35 per cent of assessments shoppers were provided with the total amount of interest repayable, ranging from £15 to £460. In 37 per cent of assessments the total interest repayable per £100 borrowed was quoted at between £10 and £30.

3.37 Of the 11 businesses that received multiple assessments, three consistently did not provide shoppers with the total amount of interest repayable and eight were inconsistent in whether they provided it or not.
3.38 Smaller lenders were most likely to state the total amount of interest repayable (44 per cent of 16 assessments carried out on small lenders) and were least likely to give the figure per £100 borrowed. For example, one lender explained that the total amount of interest would be £89.95 per month on a £500 loan but another lender explained that if £100 was borrowed the amount of interest would be £12.50 and the administration fee would be £2.50. The borrower would therefore receive £85. In other words, the interest and the fee are deducted from the loan at the time of borrowing.

*Total cost of the loan*

3.39 Sixty five businesses were assessed on whether they provided information to shoppers on the total cost of the loan. Across these businesses, 117 assessments were carried out and 11 received multiple assessments.

3.40 In 43 per cent of the 117 assessments, the shopper was provided with information on the total cost of the loan.

3.41 Of the 11 businesses that received multiple shops, one consistently did not provide the total cost of the loan, and the other ten businesses were inconsistent on providing information or not on the total cost.

3.42 Assessments dealing with scenario four (unemployed, lone parent, on Income Support and Housing Benefit) were least likely to be given this information (16 per cent of the 19 shoppers who used this scenario). Seven per cent of assessments carried out on medium-sized lenders quoted the total cost of the loan (one assessment out of 14 on medium-sized lenders).

3.43 Shoppers reported that some lenders gave the total figure repayable on a fixed amount rather than the specific amount requested by the shopper, making it difficult for consumers to compare across lenders. For example, one shopper was told that on a loan of £50, £65 would have to be repaid at the end of the month; another shopper was told that for every £80 borrowed £100 would be paid back. A third shopper was informed that £29 per £100 borrowed would have to be paid back at the end of the month.

*Total charge for credit*

3.44 Sixty three businesses were assessed on whether they provided information on the total charge for the credit i.e. how much it would cost the friend, partner, relative to borrow the money. Across these 63 businesses, 114 assessments were conducted and 11 were assessed multiple times.

3.45 In 40 per cent of the 114 assessments shoppers were told what the total charge for credit would be.
3.46 Of the 11 businesses that received multiple assessments, three consistently did not advise shoppers what the total charge for credit would be and eight did not provide consistent explanations of the total charge.

3.47 Small-sized lenders were more likely to state the total charge for credit (53 per cent of 15 assessments) whilst medium-sized lenders were least likely to (21 per cent of 14 assessments).

3.48 In five out of 114 assessments, lenders informed shoppers that there would be 'no charge' (to borrow the money), in 13 assessments the total charge was less than £25, and in 18 assessments a figure of between £25 and £75 was given. Shoppers were quoted £75 or a greater amount in seven assessments.

3.49 Where information was given to shoppers on the total charge for the credit the explanations provided did not clarify whether charges did or did not apply. One shopper was told that they would only have to pay a charge for receiving credit and that no interest would accumulate. Two shoppers were told that the loan was 'free of charge' and one lender explained that for every £100 borrowed, the borrower would receive £80.05 and the remaining £19.95 would be kept by the company.

3.50 One lender stated that only a fee would be charged and there would be no interest. However, at another branch of the same lender, the shopper was informed that only interest was charged and no fees were payable.

Repayment period

3.51 Sixty three businesses were assessed to see if they gave information on the length of the repayment period. Across these 63 lenders, 75 per cent of assessments (108 assessments – 11 businesses received multiple shops) showed that shoppers were told how long they would have to repay the loan.

3.52 Of the 11 businesses that received multiple assessments, three consistently provided information on the repayment period but eight did not.

3.53 In 54 per cent of assessments conducted by telephone, the repayment period was explained. However, shoppers visiting high street stores were more likely to receive this information (81 per cent). Larger lenders were better at informing shoppers compared to smaller lenders (86 per cent of 49 assessments and 67 per cent of 15 assessments respectively).

3.54 In the majority of cases (76 per cent of assessments) where lenders informed shoppers of the repayment period for the loan, typically it was one month. Shoppers were not asked to report whether the information was given freely but general feedback suggests that shoppers more often than not had to prompt the lenders to obtain this information.
**Repayment options**

3.55 Sixty one businesses (105 assessments – 11 businesses multiple shopped) were surveyed on whether they stated that the loan should be repaid in one amount or in several instalments.

3.56 In 53 per cent of the 105 assessments, shoppers were informed that the loan should be repaid in one single amount.

3.57 Of the 11 businesses that received multiple assessments, only one consistently stated that the loan would be recovered in one payment. Results from the other 10 businesses highlighted inconsistencies in the information provided, with some saying one payment and others stating that the loan could be paid back in instalments.

3.58 There was little difference across the scenarios but medium-sized lenders were more likely than small lenders to discuss this with shoppers (75 per cent of 12 assessments and 40 per cent of 15 assessments respectively). In a further 31 per cent of assessments there was no reference to repayment options at all.

3.59 In 15 per cent of assessments where instalment payments were offered, the options were either weekly or monthly. However, five lenders offered alternative loans which would allow the borrower a longer period over which to repay, for example, in 12 monthly instalments.

**Fees/charges**

3.60 Fifty eight businesses were assessed on whether fees or charges would be payable. Across these 58 businesses, 103 assessments were carried out and 11 businesses were shopped multiple times.

3.61 Fees and charges were mentioned in less than one third (31 per cent) of the 103 assessments.

3.62 Of the 11 businesses that received multiple assessments, two lenders provided inconstant responses to the same question. One business consistently did not mention whether fees or charges would be payable, the other was consistent in informing shoppers that they were payable.

3.63 Medium-sized lenders were more likely to discuss fees with shoppers than smaller lenders (33 per cent of 12 assessments compared to 23 per cent of 13 assessments respectively). In 13 assessments, shoppers were told there would be a fee/charge of up to £25, in four assessments the fee/charge stated was up to £75.
3.64 Reasons given for the charges and fees included:
  - late payment charges
  - administration fees for missed payments
  - account set-up fees
  - fees for transferring the money to the borrower’s bank account.

3.65 In addition, five lenders told shoppers there were no additional charges, and four lenders did not break the fees down for the shopper.

3.66 Across the contact channels, eight out of the 23 assessments conducted by phone (35 per cent) mentioned fees and charges, five out of the six assessments conducted using a call back (83 per cent) mentioned fees and charges and 19 out of 73 high street assessments (26 per cent) mentioned fees and charges.

3.67 Twenty five businesses were assessed on whether information on administration fees or charges was provided. Across these 25 businesses, 32 assessments were carried out and six were shopped multiple times.

3.68 In 38 per cent of assessments where fees/charges were discussed, shoppers were advised that an administration fee or charge would be payable which ranged from £2.50 to £60.

3.69 A number of reasons for the administration fee were given, including:
  - dealing with missed payments
  - charges for ‘rolling over’ the loan to cover the cost of the paperwork – this would be included in the monthly repayment
  - covering the account set-up up charges.

3.70 Of the six lenders that received multiple assessments, three were consistent in their responses. One consistently referred to an administration fee and two consistently did not make any reference to an administration fee. During one assessment a lender mentioned a fee would speed up the lending process. Shoppers were not asked whether this information was given prompted or unprompted but the majority of shoppers reported having to ask specific questions in order to elicit information.

3.71 Across the channels, two out of the eight assessments conducted by telephone referred to administration fees, two out of the five assessments by call-back referred to administration fees, and eight out of 19 assessments conducted on the high street (42 per cent) referred to administration fees.
**Consequences of failing to repay the loan**

3.72 Forty eight businesses were assessed on whether information on any specific charges and interest for failing to repay a payday loan was provided to the shopper. Across the 48 businesses, 89 assessments were carried out and 11 businesses were shopped multiple times.

3.73 Of the 89 assessments where default charges were mentioned, lenders were most likely to mention charges for late payments (40 per cent of assessments) and missed payments (30 per cent of assessments). Charges for under payments were mentioned in three per cent of assessments. However, in over half (52 per cent) of assessments, default charges were not mentioned at all.

3.74 Of the 11 businesses that received multiple assessments, one consistently did not provide information on the approximate level of charges for late payments, missed payments or under payments, i.e. they never informed shoppers about fees. The other ten businesses provided different levels of information which was never consistent. There were no significant regional differences between multiple assessments of the same businesses.

3.75 Fifty five businesses were assessed on whether the lenders provided further information on fees and costs, which equates to 98 assessments. In total, 11 businesses received multiple assessments, none of which gave consistent information regarding this issue.

3.76 In one in five (20 per cent) of the 98 assessments, the fees and costs associated with the loan were provided upfront, but when prompted this rose to 30 per cent. However, in 13 per cent of assessments, no information about fees or costs was given. One shopper explained: ‘The staff member did not offer this information as they had stated that this would need to be covered with the applicant.’

3.77 In two per cent of assessments it was implied that the service was free and the lenders stated there would be no extra costs added to the amount the borrower would have to pay back.

3.78 Without being prompted, in five per cent of assessments information was offered on different circumstances (for example ‘when taking out a further loan there would be no extra charges’). This figure only rises to 26 per cent after being prompted. In 17 per cent of assessments lenders failed to explain any different circumstances where fees would apply at all. In eight per cent of assessments, lenders said there were no additional fees or charges and two per cent said there were no additional fees for defaulting.
3.79 A full breakdown of information provided can be found in chart 1 below.

**Chart 1:**

Q22. Did the payday lender provide any of the following information?

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees and costs were only provided after being prompted</td>
<td>30%</td>
</tr>
<tr>
<td>Explained the different scenarios after being prompted</td>
<td>26%</td>
</tr>
<tr>
<td>Fees and costs were clear and upfront</td>
<td>20%</td>
</tr>
<tr>
<td>Failed to explain the different scenarios</td>
<td>17%</td>
</tr>
<tr>
<td>No information at all was given about fees/costs</td>
<td>13%</td>
</tr>
<tr>
<td>Does not charge any additional fees/costs</td>
<td>8%</td>
</tr>
<tr>
<td>Explained the different scenarios without being prompted</td>
<td>5%</td>
</tr>
<tr>
<td>Does not charge for fees/costs for default</td>
<td>2%</td>
</tr>
<tr>
<td>Implied that the service is free</td>
<td>2%</td>
</tr>
</tbody>
</table>

Base: 98 assessments

3.80 Twenty one businesses were assessed on whether they provided information on the consequences if borrowers missed a payment. Across these 21 businesses, 28 assessments were carried out and three businesses received multiple shops.

3.81 Of the 28 assessments, 57 per cent said that default charges and interest would be applied, 43 per cent mentioned the increased cost of the debt and 39 per cent discussed possible legal proceedings. In addition, 32 per cent of assessments discussed the potential damage that failing to repay their loan on time might have on the borrower’s credit rating which might make it difficult to obtain credit in the future. Of the three businesses that were assessed multiple times, all provided inconsistent information in their responses.

3.82 Shoppers attributed the lack of information on the consequences of missed payments to a number of reasons. For example, some lenders would not discuss the details of the loan with a third party; some lenders were so ‘vague’ in their responses that little information was gained.
3.83 One shopper reported that ‘the member of staff they spoke to was not sure and normally would not deal with this type of enquiry’. Another was told that ‘payday loans were insured by an outside company. The loan was repaid by cheque to the lender and if this bounced the loan was immediately given to the insurer who would take action.’

*Right of withdrawal*

3.84 As it was difficult for shoppers to engage with lenders long enough to complete the survey in its entirety, only 51 businesses were assessed on whether information was provided on the borrower’s right of withdrawal. Of these 51 businesses, 90 assessments were carried out and 11 were shopped multiple times.

3.85 Across the 90 assessments, only nine per cent informed shoppers of the right to withdraw from a loan agreement once entered into. One shopper was told that it was an OFT requirement to inform the borrower of their rights.

3.86 Of the 11 businesses that received multiple assessments, seven consistently failed to inform shoppers of the right of withdrawal.

3.87 Of the eight assessments where shoppers were advised about the right to withdraw, in seven it was explained how the right could be exercised, and shoppers were informed of the 14 day time limit. However, only three lenders gave the start and end dates of the 14 day time limit, and one said that if the right of withdrawal was exercised, the lender would be unlikely to lend to the individual again.

3.88 One shopper reported that they explicitly asked about the right of withdrawal but that the advisor ‘swiftly moved on’ ignoring their question.

*Opportunity to ask questions*

3.89 Sixty one businesses were assessed on whether they asked the shopper if they had any questions about the information which had been provided. Across these 61 businesses, 115 assessments were carried out and 11 businesses were assessed multiple times.

3.90 In 37 per cent of 115 assessments lenders asked whether shoppers had any questions. Of the 11 businesses that received multiple shops, three consistently did not ask whether the shopper had any questions.

3.91 Fifty nine businesses were assessed on whether they offered to answer any questions that the shopper might have. Across these 59 businesses, 110 assessments were carried out and 11 businesses were shopped multiple times.
3.92 Across the 110 assessments, 57 per cent offered to answer the shopper’s questions.

3.93 Of the 11 businesses that were shopped multiple times, three businesses provided consistent information. One offered on all occasions to answer the shopper’s questions, and two businesses consistently did not offer to answer the shopper’s questions.

3.94 Larger lenders were more likely to probe for questions – in 38 per cent of 58 assessments carried out on large lenders, shoppers were asked whether they had any questions. Small lenders were more likely to offer to answer questions – in 69 per cent of 13 assessments carried out on small lenders, shoppers were told that the lender would answer any questions they had. Lenders were more likely to ask shoppers using scenario one if they had any questions (47 per cent of assessments using this scenario) but were equally likely to offer to answer any questions across all scenarios.

3.95 Sixty businesses were assessed on whether they asked the shopper if they understood the explanations provided. Across these 60 businesses, 113 assessments were carried out and 11 businesses were shopped multiple times.

3.96 In 36 per cent of the 133 assessments, lenders asked the shoppers if they understood the explanations.

3.97 Of the 11 businesses that were assessed multiple times, three businesses were consistent in that they did not ask whether shoppers understood the explanations they had received. The 30 shoppers using scenario one and the 26 using scenario five were more likely to be asked this than the nine shoppers using scenario three – 43 per cent and 42 per cent compared to 22 per cent respectively. Similar proportions of assessments carried out by phone or on the high street asked whether shoppers understood the explanation provided (32 per cent and 35 per cent respectively).

Further information/explanation

3.98 The majority (69 per cent) of 108 assessments did not ask whether shoppers required any further information or explanation. 30 shoppers using scenario two were more likely to be asked this (47 per cent) than other scenarios. Lenders were equally as likely to ask whether further information was required by those contacting by phone as those visiting the high street (28 per cent and 32 per cent respectively).

3.99 Sixty five businesses were assessed on whether lenders told shoppers how to obtain further information should their friend, relative or partner require it. Across these 65 businesses, 123 assessments were carried out and 11 businesses received multiple assessments.
3.100 In 68 per cent of assessments, shoppers were told how to obtain further information.

3.101 Lenders assessed over the phone were more likely to inform shoppers how they could obtain further information than those assessed in-store (81 per cent and 62 per cent respectively). Small lenders were more likely than medium-sized lenders to offer this advice (73 per cent of 15 assessments compared to 46 per cent of 13 assessments). Of the 11 businesses that received multiple assessments, only two were consistent. One business was consistent in never explaining to shoppers how to obtain further information and one business was consistent in always explaining how to find it.

3.102 Sixty four businesses were assessed on the methods used to give shoppers this information. Across these 64 businesses, 119 assessments were carried out and 11 businesses received multiple shops.

3.103 Just under half (41 per cent) of 119 assessments offered to provide the shopper, or send them, written information such as a leaflet.

3.104 Of the 11 businesses that received multiple assessments, one was consistent in never offering to give or send the shopper written information for the three assessments it received. Shoppers using scenario five were more likely than others to be offered written information (50 per cent of 26 assessments). Only two lenders who were contacted by phone offered to send any written information (seven per cent of 29 assessments) but this was offered in 46 assessments carried out in store (54 per cent of 85 assessments).

3.105 Information given to shoppers mainly took the form of glossy leaflets which briefly outlined the services offered by the lender. Some lenders often referred shoppers to their website for further information. This was common across all contact channels but most common for lenders assessed over the phone.

3.106 Fifty eight businesses were assessed on whether they offered to provide or send pre-contract information or a copy agreement to the shopper. Across these 58 businesses, 106 assessments were carried out and 11 businesses received multiple assessments.

3.107 In five per cent of 106 assessments, shoppers were offered an example of pre-contract information or a copy agreement in template form. The proportions that were offered this is similar across the contact channels – four per cent of both callers and visitors.

3.108 Of the 11 businesses that were assessed multiple times, ten were consistent in never offering to provide or send pre-contract information or a copy agreement.
Affordability assessment

These questions are designed to test whether payday lenders tell shoppers if they carry out affordability assessments prior to granting a loan. The payday lender should assess whether the prospective borrower can afford to repay the loan given his/her existing financial commitments. Relevant considerations may include: whether repaying the loan will mean that the prospective borrower will be unable to repay priority debts (mortgage/rent/utility bills) or other pre-existing loans/credit commitments, therefore increasing his/her overall level of indebtedness.

Please note: percentages are based on all lenders responding on an issue unless stated otherwise.

3.109 Lenders were quick to enquire about the employment status of the prospective borrower but more reluctant (especially over the telephone) to provide or request further information. From shopper comments this was due to the lender being unwilling to discuss the personal details of the prospective borrower with a third person.

3.110 In the majority of assessments (88 per cent), lenders did not encourage the friend, partner or relative of the shopper to take out loans and they equally did not suggest other types of loan should be considered. Alternative forms of borrowing were more likely to be suggested to shoppers using scenario four (unemployed single parent) where lenders in 40 per cent of assessments suggested other loan products.

3.111 Across all assessments, two lenders offered a larger loan than was requested and eight suggested that financial circumstances would not affect the ability of a prospective borrower to take out a loan. These eight lenders were all assessed based on scenarios one and two (employed).

3.112 Seventy seven payday lenders were assessed on whether they asked if the friend, relative or partner was employed, had a regular income or had a bank account. Across all 77 businesses, a total of 141 assessments were conducted and 11 businesses were assessed multiple times.

3.113 In 73 per cent of assessments, shoppers were asked whether the third party was employed, but a smaller proportion were specifically asked whether the friend, partner or relative had a regular income (49 per cent). In less than half (43 per cent) of the 141 assessments conducted, lenders asked whether the prospective borrower had a bank account.
3.114 Of the 11 businesses that were assessed multiple times, only four were consistent in always asking if the friend, relative or partner was employed. None consistently asked if the friend, relative or partner had a regular income or a bank account.

3.115 Across the 141 assessments, one lender stated that decisions to offer a loan were dependent on affordability and not employment, and therefore whilst the friend, relative or partner was unemployed (scenario four) they would be able to lend against child benefit payments if these totalled at least £100 per week. Another lender told a shopper, also using scenario four, that they would not offer a loan to someone receiving Income Support and Housing Benefit but that they could if the borrower was receiving Employment and Support Allowance.

3.116 Shoppers using scenario five which stated that the friend, partner or relative was a student were much more likely to be asked whether they were employed (81 per cent) compared to only 57 per cent of those using scenario three (mental capacity limitations).

3.117 Generally, lenders who received a high street visit were more likely than lenders who were assessed by phone to ask whether the borrower was employed, had a regular income and a bank account. Seventy four per cent of high street assessments compared to 64 per cent of assessments conducted by phone showed that lenders asked whether the borrower was employed, 54 per cent compared to 27 per cent asked whether they had a regular income and 46 per cent compared to 27 per cent asked whether they had a bank account.

3.118 When asked if they offered a loan straight away, 94 lenders were unable to provide information due to a lack of personal details or required more information/confirmation of details. Across all 94 businesses, a total of 139 assessments were conducted, 11 businesses were assessed multiple times.

3.119 In 50 per cent of all assessments, lenders would not provide any further information without more personal details of the prospective borrower. In six per cent of assessments, the lenders offered the loan amount straight away when the scenario was explained.

3.120 Of the 11 businesses which were assessed multiple times, five were consistent in their responses. One always offered the loan for the amount being sought straight away, two were always unable to provide information due to the lack of personal details, and two always required more information/financial details.
Among the 139 assessments, callers found lenders more reluctant to provide information (72 per cent) than visitors to high street stores (36 per cent). A further fifth of lenders (20 per cent) would not proceed unless they had more financial details about the borrower and the same proportion (20 per cent) requested written confirmation of income and expenditure before they would proceed. Shoppers using scenario one (34 assessments) and scenario two (34 assessments) were more likely to need written confirmation (26 and 29 per cent respectively). Shoppers using scenario one (12 per cent) and scenario two (nine per cent) were most likely than other scenarios to be offered the loan amount straight away.

One per cent (two lenders) offered a larger loan once they had heard the scenario (scenario one - employed with no disposable income and scenario three – mental capacity limitations).

Sixty six payday lending businesses were assessed on whether they had advised that the friend, relative or partner should consider other forms of lending before taking out a payday loan. Across all 66 businesses, a total of 120 assessments were conducted, 11 businesses were assessed multiple times.

In 83 per cent of assessments, the lender failed to advise the shopper that they should consider other forms of borrowing before taking out a payday loan. Of the eight assessments carried out using scenario three (mental capacity limitations), no shoppers were advised of this.

Of the 11 businesses which were assessed multiple times, three were consistent in not advising that the friend, relative or partner should consider other forms of borrowing first.

Sixty eight payday lending businesses were assessed on whether they informed the shopper that they would have to carry out an affordability assessment before considering a loan application. Across all 68 businesses, a total of 120 assessments were conducted, 11 businesses received multiple shops.

In 57 per cent of assessments, the lenders did not inform shoppers that affordability assessments would have to be carried out before a loan application could be considered.

Of the 11 businesses which were assessed multiple times, only three consistently did not inform the shopper that an affordability assessment would have to be carried out before a loan application could be considered.
3.129 Among the 120 assessments, shoppers using scenario one were less likely to be informed about an affordability assessment (of 36 assessments, 67 per cent said they were not told). Small lenders were more likely to inform shoppers that affordability assessments would have to be carried out – 71 per cent of 17 assessments on small lenders informed shoppers of this whilst 48 per cent of 56 assessments on large lenders and 36 per cent of 14 assessments on medium lenders informed shoppers of affordability assessments.

3.130 While shoppers were not asked to report if this information was given prompted or unprompted, the majority of shoppers reported having to prompt throughout the assessments. In one out of three assessments in London, lenders informed shoppers of affordability assessments, in Wales two out of six informed shoppers, in Scotland five out of eight informed shoppers and in the two assessments in Northern Ireland shoppers were not informed.

3.131 Of those lenders who informed shoppers about the affordability assessment, 32 payday lending businesses were further assessed to see if they explained the criteria they used. Across all 32 businesses, a total of 52 assessments were conducted, six businesses were assessed multiple times.

3.132 In 54 per cent of assessments, the lender explained the criteria used to assess whether a prospective borrower could afford a loan (shoppers were not required to report whether or not they had to prompt for this information).

3.133 Of the six businesses that were assessed multiple times, two consistently explained the criteria used to assess whether a prospective borrower could afford a loan.

3.134 The same 32 lenders were assessed on whether they stated that affordability assessments were carried out for new customers, when a new loan agreement was taken out or whenever a loan was ‘rolled over’ or refinanced. Across all 32 businesses, a total of 52 assessments were conducted and eight businesses were assessed multiple times.

3.135 In 40 per cent of assessments, lenders advised that affordability assessments were carried out for new customers, compared to 23 per cent for every new loan issued. Only one lender explained that the assessments would be carried out again the first time the loan was ‘rolled over’. However, in 50 per cent of assessments lenders did not give information as to when affordability assessments would be carried out.

3.136 Of the eight businesses which were assessed multiple times, only one was consistent in telling the shopper that affordability assessments were carried out for new customers and for every new loan.
3.137 Eighteen payday lending businesses were assessed on whether they explained to the shopper about what information might be requested as part of an affordability assessment. Across all 18 businesses, a total of 28 assessments were conducted, eight businesses were assessed multiple times.

3.138 In 89 per cent of assessments, the lender required evidence of employment and income, for example a payslip or P60; 39 per cent would need details of expenditure, and 21 per cent would need evidence of disposable income. For a full breakdown of information required for an affordability assessment see chart 2 below.

3.139 Of the eight businesses which were assessed multiple times, seven consistently told shoppers that evidence of employment status and income would be required.

3.140 Other types of information that lenders said might be requested or taken into consideration included: a credit score (14 per cent); details of other payday loans (14 per cent); details of any county court judgments (11 per cent); previous dealings with the borrower (seven per cent); the borrower’s total amount of debt (seven per cent); contacting the borrower’s employer (seven per cent); number of children or dependents (four per cent); other loans (four per cent); and a credit report (four per cent).

3.141 In 28 assessments, none of the lenders surveyed enquired whether their partner had a regular disposable income and any non-credit debts or assets; and, if so, the amount of equity in these assets. One lender did not provide any examples of information that might be requested as part of an affordability assessment.

3.142 Almost all the data was collected from high street stores. Only four assessments on this issue were achieved over the telephone due to difficulties in keeping the lender interested once they realised they were not going to make a sale.
Chart 2:

Question: Did the payday lender explain what information may be requested as part of an affordability assessment?

3.143 Seventy three payday lending businesses were assessed on whether they suggested that a loan was available regardless of the friend, relative or partner’s financial circumstances. Across all 73 businesses, a total of 136 assessments were conducted, 11 businesses were assessed multiple times.

3.144 In six per cent (eight assessments in total), lenders suggested that a loan was available regardless of financial circumstances.

3.145 Of the 11 businesses which were assessed multiple times, nine did not suggest that a loan was available regardless of financial circumstances. Two lenders gave inconsistent responses.
3.146 The assessments where statements were made suggesting that loans were available regardless of the friend, relative or partner’s financial circumstances were in the East of England (two out of eight assessments), the South East (one out of ten assessments), the East Midlands (one out of twelve assessments), Wales (one out of seven assessments), Yorkshire and Humberside (one out of ten assessments), and the North West (one out of 13 assessments).

3.147 There were no major differences between the contact channels in this area. In 97 and 93 per cent of assessments carried out respectively by phone and in high street outlets, lenders did not make these statements.

3.148 Across the 136 assessments, small lenders were much more likely than medium or larger lenders to make such suggestions (17 per cent of the 18 assessments).

3.149 Six payday lending businesses suggested that loans were available regardless of the friend, partner or relative’s financial situation and were subsequently assessed on the kinds of statements they made. Across all six businesses, eight assessments were conducted, and two businesses were assessed multiple times.

3.150 In three of the assessments, the lender mentioned that the loan was guaranteed; another three mentioned that there were no credit checks; and one said that they would need to be recommended by an existing customer.

3.151 Of the two businesses which were assessed multiple times, only one consistently said there were no credit checks.

3.152 Seventy two payday lending businesses were assessed on whether they suggested that a payday loan could be made available without requesting any of the information listed in chart 2. Across all 72 businesses, a total of 129 assessments were conducted, 11 businesses were assessed multiple times.

3.153 In 98 per cent of assessments, lenders said they would need further information before providing a payday loan. However, three lenders suggested a loan could be made available without providing information, with one saying that the credit check would only be internal.

3.154 Of the 11 businesses which were assessed multiple times, ten responded consistently in that they did not suggest that a payday loan could be made available without requesting further information.
3.155 Seventy two payday lending businesses were assessed on whether they encouraged the consumer to act quickly, said that only bank or debit card details were needed, or suggested that a loan could be provided at high speed. Across all 72 businesses, a total of 128 assessments were conducted, 11 businesses were assessed multiple times.

3.156 In 88 per cent of assessments, payday lenders did not make statements that might encourage consumers to take out a loan quickly.

3.157 Of the 11 businesses which were assessed multiple times, four were consistent in that they never made statements which would promote taking out a payday loan quickly.

3.158 Among the 128 assessments, only one encouraged the shopper ‘to act quickly’, four told shoppers that only bank details were required and three told shoppers of the high speed with which the loan could be provided. With the exception of one telephone call, the instances described above took place in high street branches.

3.159 Sixty one payday lending businesses were assessed on whether they encouraged a loan application even after the shopper mentioned their friend, partner or relative was in financial difficulty. Across all 61 businesses, a total of 110 assessments were conducted, ten businesses were assessed multiple times.

3.160 In 12 per cent of assessments, the lender still encouraged loan applications despite the prospective borrower’s financial situation. Lenders were more likely to do this in-store than over the telephone, and it was more evident in cases where shoppers used scenario one (employed but with no disposable income).

3.161 Of the ten businesses which were assessed multiple times, six were consistent in that the lender did not encourage loan applications after the shopper mentioned that the friend, relative, partner was in financial difficulty.

3.162 Eight payday lending businesses were assessed on whether they informed shoppers whether a credit reference search would take place before or after a loan could be issued. By this stage, shoppers were facing difficulty keeping the lenders surveyed interested in their questions and many lenders were simply advising that the prospective borrower would need to get in touch for further information. Across all eight businesses, a total of 13 assessments were conducted, four businesses were assessed multiple times.
3.163 No shoppers were advised that a credit reference search would take place before the loan could be issued. In one assessment, the lender said that a credit reference search would take place after a loan was issued. This lender did not state that some searches could leave a footprint on the borrower’s credit record. The lender did not mention or offer to use ‘quotatoin searches’ rather than ‘application searches’. The same lender also did not advise that multiple applications could leave a footprint on the borrower’s credit file.

3.164 Of the four businesses which were assessed multiple times, none mentioned whether a credit reference search would take place before or after a loan could be issued.

3.165 Sixty three payday lending businesses were assessed on whether they offered to carry out an affordability assessment via the shopper. Across all 63 businesses, a total of 118 assessments were conducted, 11 were assessed multiple times.

3.166 In only one assessment did the lender offer to carry out an affordability assessment via the shopper if the shopper provided the friend, partner or relative’s details, proof of income and the last three months’ bank statements of the prospective borrower.

3.167 Of the 11 businesses which were assessed multiple times, none offered to carry out an affordability assessment via the shopper.

**Default and Arrears**

*These questions are designed to test whether payday lenders advised shoppers of their policies and procedures for dealing with borrowers who are unable to make repayments. Further, the questions test how payday lenders treat borrowers who are experiencing financial difficulty, for example, whether the payday lender will freeze interest/charges on the loan or agree a repayment plan with the borrower.*

*Please note: percentages are based on all lenders responding on an issue unless stated otherwise.*

3.168 Fifty eight payday lending businesses were engaged in conversation long enough to be assessed on whether they provided information on how borrowers who got into financial difficulty or were unable to repay their loan would be treated. Across all 58 businesses, a total of 98 assessments were conducted, 11 businesses were assessed multiple times.
3.169 In seven per cent of assessments, the lender provided information to the shopper about their policy for dealing with customers in financial difficulties. After prompting, this figure rose to 54 per cent. Forty six per cent did not provide any information about their policy for dealing with customers in financial difficulties even after prompting.

3.170 Of the 11 businesses which were assessed multiple times, only one business responded consistently by providing information on how customers who got into financial difficulty would be treated, but only after prompting.

3.171 Among the 98 assessments, small and medium-sized lenders were much less likely than larger lenders to provide information on how customers who got into financial difficulty would be treated (40 per cent of the 15 and 38 per cent of the 13 versus 61 per cent of the 44 assessments respectively). However, there was little difference across the contact channels – of the 24 assessments carried out over the phone, 42 per cent did not provide any information whilst 48 per cent of the 71 high street assessments also did not provide any information.

3.172 Across the regions, neither of the two assessments carried out in London nor the two assessments carried out in Northern Ireland provided information on how borrowers were dealt with if they were unable to repay their loan. In three of the five assessments in Wales, shoppers were informed of this but only after prompting. In three of the four assessments in Scotland, shoppers were also informed but again this was after prompting.

3.173 Where the lender provided information on how they dealt with borrowers in financial difficulty, 33 payday lending businesses were assessed to see what this would entail. Across the 33 businesses, a total of 53 assessments were conducted, eight businesses were assessed multiple times.

3.174 In 40 per cent of assessments, the lender stated the loan could be ‘rolled over’ or refinanced. A minority (17 per cent) suggested that the loan could be split into easily repayable amounts, and ‘exercising forbearance’ was mentioned in six per cent of assessments. However, 47 per cent did not state any of these options.

3.175 Of the eight businesses which were assessed multiple times, two gave consistent responses – one did not state anything, and the other said the loan could be rolled over or refinanced.
3.176 Within the 53 assessments overall, four out of 14 assessments conducted by phone said the loan could be rolled over, one of the two call back lenders said the loan could be rolled over, and 43 per cent of high street assessments said the loan could be rolled over (16 out of 37 assessments). Lenders who received a phone call assessment were most likely not to provide the information outlined above (71 per cent of 14 assessments).

3.177 One lender stated that they were not ‘ogres’ and would come to an arrangement with the borrower if they could not afford the repayments. As they were ‘strict about who they lent to’, they were happy to help a borrower whose circumstances had changed since the application had been approved. Encouragingly, the same lender said they would actively help the borrower with debt advice and put them in contact with debt advisory bodies, but they did not state which ones.

3.178 Fifty two payday lending businesses were assessed on whether they actively indicated that they would offer a borrower in financial difficulty the opportunity to ‘roll over’ or refinance their debt. Across all 52 businesses, a total of 93 assessments were conducted, 11 businesses were assessed multiple times.

3.179 In 60 per cent of the assessments, the lenders did not mention ‘rollovers’ but ten per cent did so without prompting, while 30 per cent did after prompting.

3.180 Of the 11 businesses which were assessed multiple times, only one business was consistent in not actively indicating that they would offer a ‘rollover’ if the borrower was finding it difficult to repay their loan.

3.181 Among the 93 assessments, large companies (51 per cent of 45) were far more likely than small (27 per cent of 11) or medium-sized companies (eight per cent of 12) to offer ‘rollovers’ to borrowers who were in financial difficulty.

3.182 Lenders surveyed in two of the assessments conducted in London did not indicate that ‘rollovers’ were available for borrowers who found themselves in financial difficulty. In the two assessments conducted in Northern Ireland and the four assessments conducted in Scotland, lenders did not indicate that ‘rollovers’ were available to help those in difficulty. Four out of seven assessments conducted in the East of England and three out of five conducted in the West Midlands did indicate that ‘rollovers’ were available to borrowers who found themselves in financial difficulty.

3.183 Twenty four payday lending businesses were assessed on whether they advised that the interest rate would increase for the remainder of the loan if a borrower was unable to make their loan repayment and the loan was ‘rolled over’ or refinanced. Across all 24 businesses, a total of 37 assessments were conducted, six businesses were assessed multiple times.
3.184 In 30 assessments (81 per cent), the lender did not advise that the interest would increase for the remainder of the loan.

3.185 Of the six businesses which were assessed multiple times, two consistently did not advise that the interest would increase for the remainder of the loan if it had to be rolled over or refinanced. The other four businesses were not consistent in their responses.

3.186 Among the 37 assessments, seven lenders explained that the interest rate would increase if the borrower did not repay their loan on time. One gave the reason without being asked, two did so after being prompted. Four lenders did not explain the reasons, even when they were asked.

3.187 None of the lenders gave a precise new interest rate which would apply to a loan which had been rolled over, however one lender stated that the new rate would "go through the roof" and could be up to 5,000 per cent APR regardless of the period for which it was rolled over.

**Continuous Payment Authority (CPA)**

Continuous Payment Authority (CPA) is a recurring payment which is taken from a credit or debit card and is a method of payment used to pay ongoing subscriptions, bills or in this case, payday loans. These questions are seeking to establish whether payday lenders provide consumers with information on their policies and procedures regarding the use of CPA, whether prospective borrowers are made aware that the payday lender uses this method to collect loan repayments and how and when it is used. Further, the questions sought to establish whether prospective borrowers are made aware of how they can cancel the CPA and any adverse consequences the use of CPA may have on their account.

*Please note: percentages are based on all lenders responding on an issue unless stated otherwise.*

3.188 Fifty three payday lending businesses were assessed on whether they informed the shopper of the method used to collect repayment of the loan. Across all 53 businesses, a total of 94 assessments were conducted, 11 businesses were assessed multiple times.

3.189 In 34 per cent of assessments, the lender provided the shoppers with an explanation of the methods of payment borrowers could use to repay their loans. Shoppers who called the lenders were less likely to be given this type of information than those visiting the high street (13 per cent compared with 40 per cent respectively).
3.190 Of the 11 businesses which were assessed multiple times, only one was consistent in every assessment in that it did not inform shoppers of the method it used to collect payments.

3.191 Twenty one payday lending businesses who provided basic information on repayment methods were assessed to see if they offered borrowers different repayment options, or whether one option was mandatory. Across all 21 businesses, a total of 32 assessments were conducted, seven businesses were assessed multiple times.

3.192 Shoppers were offered options in 31 per cent of assessments. In the other cases, they were offered only one method of payment which was mandatory.

3.193 Of the seven businesses which were assessed multiple times, three were consistent in that they did not offer any repayment method options.

3.194 Among the 32 assessments, methods of repayment quoted included: paying in store with cash (four assessments); paying by cheque including post-dated cheques (nine assessments); debit or bank card (six assessments); direct debit (six assessments); over the telephone (two lenders); and standing order (one lender).

3.195 Shoppers who visited high street lenders were more likely than callers to receive information in this level of detail. Only two callers were able to get this information whereas 23 in-store visitors were given this information. This is probably due to the fact that it was easier for the call centre staff to terminate the calls once they were aware that the shopper was calling on behalf of someone else and that they were not going to make a sale.

3.196 Thirty one payday lending businesses which indicated that they used CPA were assessed to see if they advised shoppers on its use. Across all 31 businesses, a total of 45 assessments were conducted, seven businesses were assessed multiple times.

3.197 Shoppers were informed of how CPA was used by the lender in 16 per cent of assessments (seven lenders).

3.198 Of the seven businesses which were assessed multiple times, three consistently did not explain how CPA was used.

3.199 Among the 45 assessments, four lenders provided the following information without prompting: CPA is set up with a debit or credit card; by providing the payday lender with their card number borrowers are giving authority to the payday lender to take regular payments from that card. The remaining three lenders gave the information to the shopper after being prompted.
3.200 Of the seven businesses that explained how CPA was used, three shoppers said the explanations were ‘very clear’, another three said it was ‘clear’ and only one said it was ‘not clear’.

3.201 Only one lender assessed told the shopper that CPA could be cancelled by contacting the payday lender or card issuer. None of the lenders informed shoppers that borrowers had the right to cancel the CPA and that the borrower could also cancel the CPA by contacting their bank.

3.202 Thirty one payday lending businesses were assessed on whether they explained how CPA differed from direct debit. Across all 31 businesses, a total of 45 assessments were conducted, seven were assessed multiple times.

3.203 In the vast majority of assessments (93 per cent) lenders did not explain the difference between CPA and direct debit to shoppers. However, in seven per cent of assessments the difference was explained. All the lenders that explained the difference were large companies. Shoppers reported that the explanations provided to them were clear.

3.204 Of the seven businesses which were assessed multiple times, four consistently did not explain how CPA differed from direct debit.

3.205 Thirty one payday lending businesses were assessed on whether they told shoppers that a CPA could only be cancelled by informing the payday lender who held the authority. Across all 31 businesses, a total of 45 assessments were conducted, seven were assessed multiple times.

3.206 In seven per cent of assessments, the lenders were reported to have told the shoppers that a CPA could only be cancelled by informing the payday lender.

3.207 Of the seven businesses which were assessed multiple times, five businesses were consistent in not explaining that a CPA could only be cancelled by informing the payday lender who held the authority.

3.208 Thirty one payday lending businesses were assessed on whether they explained any adverse consequences of using CPA to the shoppers. Across all 31 businesses, a total of 45 assessments were conducted, seven were assessed multiple times.

3.209 In 93 per cent of assessments, the lender did not explain the potential adverse consequences a borrower might experience through using CPA; for example, going overdrawn if insufficient funds were available at the time their account was debited. No shoppers were offered a copy of a written CPA agreement.

3.210 Of the seven businesses which were assessed multiple times, five were consistent in not advising shoppers of any of the adverse consequences associated with the use of CPA.
3.211 Among the lenders who did explain CPA, shoppers in two assessments said the lenders made statements that understated the risks associated with the use of CPA. The two shoppers that reported this were given a selection of statements from which to select those that applied to their visits. The following were all chosen (shoppers could choose more than one option):

- CPA is included in the terms and conditions of its loan agreements
- An account will only be debited on the date(s) expressly set out in a loan agreement
- Debits on other date(s) will be made only if specifically agreed, for example, as part of a payment plan
- A lesser or greater amount than those expressly set out in a loan agreement will not be debited unless such amounts have been specifically agreed, for example, as part of a payment plan
- Loan payments will only be debited from an account where it has specific authority to do so
- If a borrower experiences difficulties meeting repayments under a CPA it will exercise forbearance, and if appropriate amend or suspend the CPA and try to arrange a more sustainable repayment plan.

**Rollover loans/refinancing**

*The general purpose of a payday loan is to provide borrowers with a cash advance until their next pay day, although this can also be for a shorter period of time. However in certain circumstances, the borrower can elect to 'renew' the loan for a fee and delay payment for a further agreed period of time. These questions are designed to elicit information on whether payday lenders will 'rollover' or 'refinance' payday loans and, if so, how many times they allow a borrower to do this. Further, the questions will test whether information is provided to the borrower on what a rollover/refinancing a loan involves, the consequences for the borrower of doing so, and whether affordability assessments are carried out at this stage.*

*Please note: percentages are based on all lenders responding on an issue unless stated otherwise.*

3.212 Only 50 lenders were assessed on this particular area of the questionnaire because shoppers reported that the longer the call or visit went on the more difficult it was for them to keep the attention of lenders or their sales staff and extract the required information. This was mainly due to the enquiry being made 'on behalf of a friend, partner or relative' as advisers attempted to terminate the call or visit when they realised that they were not going to make a sale.
3.213 Fifty businesses were assessed on whether they stated that a payday loan could be rolled over or refinanced. Across these 50 businesses, 84 assessments were carried out and ten businesses received multiple assessments.

3.214 In 43 per cent of assessments, shoppers were told that it was possible to roll over a loan, and in two per cent of assessments shoppers were told that it was possible to refinance the loan. In 55 per cent of assessments, lenders did not mention whether it was possible to roll over or refinance a loan.

3.215 Of the ten businesses that received multiple assessments, two businesses were consistent in their responses. One consistently stated that it was possible to roll over the loan and one was consistent in not stating it was possible. Shoppers using scenario one (employed with no disposable income) were more likely to be told that it was possible to roll over a loan (58 per cent of assessments).

3.216 Twenty two businesses were assessed on the issue of providing information regarding what a rollover loan involved. This equates to 38 assessments. In total, seven businesses were assessed multiple times.

3.217 In most of these 38 assessments (74 per cent), lenders were willing to provide information on ‘rolling over’ or refinancing a payday loan. It was also reported that in 97 per cent of these assessments, lenders did not actively encourage or promote taking out multiple monthly loans.

3.218 Chart 3 below shows the information shoppers received when told about ‘rolling over’ or refinancing a loan. Of the seven businesses that were shopped multiple times, four lenders gave consistent responses. One did not provide any information and three were consistent in providing the information.
3.219 Seventeen payday lending businesses indicated that a payday loan could be refinanced or rolled over. Across the 17 businesses, 23 assessments were conducted. Four businesses were assessed multiple times.

3.220 Across the 23 assessments, 61 per cent mentioned that rollover loans were available, 39 per cent that borrowing could be extended and 13 per cent mentioned that a loan extension was guaranteed. A further 17 per cent implied that multiple loans were easily available.

3.221 Of the four lenders that were assessed multiple times, two provided consistent information; one said that it could extend the borrowing, and another said that rollover loans were available. Another lender explained that the loan could be extended twice but that if the borrower was planning on extending the loan for longer periods they should consider a different type of loan which was repayable in monthly instalments.

3.222 On the whole, minimal further information was provided by lenders regarding the process of ‘rolling over’ or refinancing. In one case, the shopper was told by a lender that ‘rolling over’ or refinancing was not available but that there was nothing to stop the borrower taking out other payday loans with other lenders.
3.223 Another shopper was advised by a lender that the best way to ensure they could 'roll over' their loan was for the borrower to take a cheque book that was currently in use to the lender's store (i.e. not a new or an old cheque book). There was no further information on why the lender suggested this.

3.224 One shopper noted that, when pressed, the payday lender did advise that a 'rollover' was possible, but a payday loan might not be the best solution if they were struggling to make the repayments.

3.225 Twenty two businesses were assessed on whether the effect of rolling over a payday loan was explained. Across these 22 businesses, 38 assessments were carried out and seven businesses were assessed multiple times.

3.226 One third of the 38 assessments (34 per cent) explained the effect of extending the life of, or 'rolling over', a payday loan, and of these the majority of the shoppers rated the explanation to be 'clear' (seven assessments) or 'very clear' (four assessments); two lenders gave explanations which were 'not clear'.

3.327 Of the 13 assessments where lenders gave an explanation of the effect of extending a payday loan, nine shoppers were told that extra costs and charges would be incurred for rolling over for a month, five shoppers were told that extra interest would be added and three were told that it was an expensive form of borrowing.

3.328 Only one lender explicitly told a shopper that 'rolling over' should be avoided because it was an expensive option. Another shopper was told that their credit rating might be affected. Of the seven businesses that were assessed multiple times, two were consistent in not explaining the effect of rolling over a loan.

3.329 Twenty two businesses were assessed on whether the lender stated whether the loan could be rolled over into the next month. Across these 22 businesses, 38 assessments were carried out and seven were shopped multiple times.

3.330 Across the 38 assessments, 89 per cent stated that the loan could be 'rolled over' into the next month. Of these, 66 per cent explained this after prompting whilst a quarter (24 per cent) did so without prompting. The method of contact had no impact on whether lenders stated loans could be 'rolled over'.

3.331 Larger lenders were less likely than small or medium lenders to explain this: three small and two medium lenders did so but four out of 24 assessments on larger lenders did not explain this even after prompting. Of the seven businesses that were assessed multiple times, three were consistent in stating the loan could be rolled over into the next month but only one business was consistent in providing this information unprompted.
3.332 Shoppers that had been told the payday loan could be ‘rolled over’ were asked whether any risks were explained. Chart 4 below shows the proportion of assessments in which the risks were explained.

Chart 4:

Q80. Did the payday lender explain the risks associated with rolling over the loan as follows …?

- Additional interest will be added: 38%
- The cost of the loan will increase: 29%
- Due to the high APR payday loans are unsuitable for long term borrowing: 12%
- None of the above: 53%

Base: 34 assessments

3.333 Twenty businesses were assessed on this issue which equates to 34 assessments and five were assessed multiple times.

3.334 Overall, in 35 per cent of assessments, lenders provided information on the risks associated with rolling over unprompted, 12 per cent after prompting and just over half (53 per cent) did not mention any of the risks above. Four lenders suggested that ‘rolling over’ a payday loan was not ideal and that it should be avoided as it made the loan more expensive. Of the five businesses that were assessed multiple times, none gave consistent explanations of the risks associated with rolling over a payday loan.

3.335 Twenty businesses were assessed on whether shoppers were warned about the consequences of ‘rolling over’ a payday loan. Across these 20 businesses, 36 assessments were carried out and seven were shopped multiple times.

3.336 Shoppers reported that in 69 per cent of 36 assessments (20 businesses) the caller or visitor was not warned of any consequences. One lender told the shopper that the loan could be ‘rolled over’ as many times as required but that this was not ideal as payday loans were not designed for longer borrowing periods.
3.337 Of the twenty businesses, seven were assessed multiple times on explaining consequences and three were consistent in their responses. One consistently warned the shopper about the consequences and two were consistent in never warning the shopper about the consequences.

3.338 Shoppers were able to assess eight businesses on attitudes towards borrowers experiencing financial difficulties. Across these eight businesses, 11 assessments were carried out and two businesses were assessed multiple times.

3.339 Across the 11 assessments, lenders made the following statements to shoppers:

- The borrower should seek financial advice and help from the Money Advice Service if they have had to take out several payday loans in the last six months (two lenders said ‘Yes’)
- The lender would not be able to provide further loans to a borrower in financial difficulty, until the borrower has received financial advice and repaid all outstanding loans (three lenders said ‘Yes’)  
  The lender would carry out an affordability assessment each time it is asked to 'roll over' the payday loan (three lenders said ‘Yes’).

**Mental capacity limitations**

The following questions are designed to test whether payday lenders (when made aware of any mental capacity limitations) seek further information from prospective borrowers and; whether payday lenders have policies and procedures in place when dealing with prospective borrowers who may have/previousy had mental capacity limitations. These questions were only relevant for scenario three which involved mental capacity limitations.

*Please note: percentages are based on all lenders responding on an issue unless stated otherwise.*

3.340 A total of ten assessments were carried out using scenario three (mental capacity limitations) on ten businesses.

3.341 Once the issue was raised by the shopper, only one lender sought additional information about the potential borrower’s mental capacity limitations. The shoppers who used this scenario were told to explain that, if asked, the prospective borrower’s mental capacity limitations fluctuated and that they had bi-polar disorder.

3.342 Two of the ten lenders stated that the company had processes/procedures in place to assess borrowers with mental capacity limitations. However, in neither case did the lender explain what these processes/procedures were. Two lenders stated they would be willing to lend without taking into account
the borrower's mental capacity limitations. These two lenders were willing to lend to the borrower without carrying out any enquiries as to whether the borrower was able to make an informed decision due to their mental capacity limitations.

3.343 None of the 10 lenders assessed using scenario three made any reference to borrowers who might have experienced, or be experiencing, mental capacity limitations on their websites or in their promotional material.

**General/other lending practices**

*These questions are designed to gain further information on payday lenders' business practises, identify any specific business practices which may be considered to be unfair or deceptive and to test whether payday lenders adhere to the Data Protection Act 1998.*

*Please note: percentages are based on all lenders responding on an issue unless stated otherwise.*

3.344 Sixty nine businesses were assessed on whether the lender offered a payday loan for an amount greater than the shopper had asked for. Across these 69 businesses, 108 assessments were carried out and 12 businesses were assessed multiple times.

3.345 Of these 108 assessments, 92 per cent did not offer a payday loan for an amount greater that that indicated in the scenario. Of the remaining eight per cent, there is no evidence to suggest that pressure or coercion was placed on the shopper, although one was offered an incentive/discount of a lower interest rate but the lender did not specify exactly what this would be.

3.346 Of the 12 businesses that were assessed multiple times, ten were consistent in that they did not offer an amount greater than that which was asked for.

3.347 One large high street lender was visited by a shopper using scenario one (employed with no disposable income) gave an alternative option and suggested a Log Book loan as these offered a minimum loan of £500, despite the shopper mentioning that only £200 needed to be borrowed.

3.348 Eighty two lenders were assessed regarding their willingness to lend to borrowers in certain circumstances. A total of 144 assessments were carried out, and 11 businesses were assessed multiple times.

3.349 Across the 82 lenders, six were willing to lend to the unemployed or those on benefits; five to students, three to those without bank accounts and two to those with no disposable income.
3.350 All four assessments in London indicated that lenders would not lend to any one of these groups of people. The survey produced similar results across the regions: eight assessments carried out in the South West, eight assessments in the West Midlands, seven in Wales and 11 in the North West.

3.351 Assessments carried out on larger lenders showed they were marginally less likely to indicate that they would lend to one of the above groups (91 per cent compared to 86 per cent of assessments carried out on medium lenders and 83 per cent of assessments carried out on small lenders).

3.352 One small lender that received an in-store visit in the South East was reported to have mentioned falsifying details of income and expenditure in order to qualify for a loan or as part of the affordability assessment.

3.353 Two lenders put pressure on the shopper to make a decision for their friend, partner or relative but the shopper did not provide any further details on how this was done. Both lenders were small businesses and one was assessed on the phone, the other received an in-store visit in the South East.

**Consumer confidence**

3.354 Seventy nine businesses were assessed on whether statements were made about consumer confidence. This equates to 137 assessments and 11 businesses were assessed multiple times.

3.355 Four lenders mentioned to shoppers that they followed an ‘approved code’, two referred to their Consumer Credit Licence; and, one larger lender in the East of England mentioned it was ‘endorsed’ by the OFT.

**Additional information about the payday lender**

3.356 Seventeen businesses were assessed multiple times, of which three were consistent in providing website information and three were consistent in not providing it.

3.357 Overall, in 50 per cent of the 209 assessments, lenders provided the details. Fewer small lenders (19 per cent assessments on smaller businesses) provided details of their websites, whilst 63 per cent of assessments carried out on large lenders did so.

3.358 Thirty nine businesses were assessed on whether the information they provided to shoppers matched the information on their website. This equates to 71 assessments and nine businesses received multiple assessments.
3.359 Of the 71 assessments, 83 per cent were reported to provide consistent information. The areas of mismatch for the other 17 per cent of assessments included matters relating to APRs, fees, risks and whether the business was a lead generator or a credit broker rather than a lender. Of the nine businesses that received multiple assessments, only five lenders consistently provided information replicating website content.

3.360 Shoppers were asked to provide further details of any mismatching information which are summarised below:

- The payday loan interest rate quoted on one website was £15 per month per £100 borrowed. During the visit the shopper was told it was 13 per cent per £100.
- There was a special offer of ten per cent interest rate variable for the first month offered on one website which was not offered in-store.
- One lender told a shopper that the charges were 20 per cent or £20 per £100 borrowed during the assessment. On the website it stated that 'We charge ten per cent interest per month plus a £10 admin charge per cheque (typical APR 242 per cent)'.
- One lender’s website did not state that the maximum loan limit for new customers was £50. The default charge was listed as £30 on the website, but in-store sales staff said it was £35.
- One shopper was unable to find information about additional charges for missed or late payments on the website. Also, there was a promotional rate of ten per cent on a £100 payday loan available through the website. But no reference to a 25 per cent promotional offer that was available in-store.
- During one phone survey the lender quoted the maximum amount available for a new customer as £200, but the website mentioned £500. In addition the website quoted only one interest rate of 29 per cent whilst the lender quoted two rates of interest, 29 per cent and 25 per cent. The website clearly mentioned a default/late payment fee but the lender did not mention this during the telephone call.
Annexe A – Scenarios

SCENARIO ONE - Employed with no disposable income.

The friend/relative/partner earns £16,000 per annum which is approximately £1,103 per month after tax and £254 per week. They have expenses including rent, utility bills, food, travel etc and have no disposable income left over. They want to borrow £200 for a month as they have either overspent at Christmas and need some money to get through the month/pay bills and/or their washing machine/cooker/fridge/boiler/other household appliance has broken down and will need to be repaired/replaced.

SCENARIO TWO – Employed, with disposable income

The friend/relative/partner earns £24,000 per annum which is approximately £1,500 per month after tax and £360 per week. They have expenses including rent, utility bills, food, travel etc and a disposable income of approx £100 per week. They want to borrow £750 for a month which will be used to pay for a holiday to the USA to visit relatives who are based there.

SCENARIO THREE – Employed with a disposable income, mental capacity limitations

The friend/relative/partner earns £28,000 per annum which is £1,784 per month after tax and approximately £411 per week. They have expenses including mortgage repayments, a credit card, another unsecured loan, utilities, food and travel etc with a disposable income of approximately £100 per week. They want to borrow £3,000 for a month as they have either overspent at Christmas and need some money to pay bills and get through the month OR their washing machine/cooker/fridge/boiler/other household appliance has broken down and will need to be repaired/replaced. They have never had a payday loan before. The friend, /relative/partner has, in the past, experienced mental capacity limitations but this fluctuates (if asked, the friend/relative/partner has Bi-polar Disorder).
SCENARIO FOUR - Unemployed, lone parent on Income Support and Housing Benefit

The friend/relative/partner is unemployed and in receipt of Income Support which is approximately £640 per month and £160 per week. They have a young child and are a lone parent. They have expenses including utility bills, repayments on a catalogue and a home collected credit debt, food, travel etc and a disposable income of £50 per month; however this varies from month to month. The friend/partner/relative is still struggling to pay the bills they have run up over Christmas buying presents for their child and they want to borrow £500 for a month, to tide them over. They have a number of existing payday loans at present, which have either been rolled over or refinanced but they are up to date with the payments. They do not have a bank account.

SCENARIO FIVE – University student

The friend/partner/relative is a 20 year old full-time student. They had a temporary part-time job in over the Christmas period but this finished in January and they have no current income. They live in a rented student house and receive a student loan of approx £7,000 per year which has been spent on living expenses and fees. They have an overdraft of approx £1,500 and a credit card debt of around £1000, on which only minimum repayments are being made. The friend/partner/relative has not previously taken out any payday loans and would like to borrow £500 for a month to pay for a new laptop/use as a top up to their existing student loan.
Annexe B – Questionnaire

General information
It is likely that many applications, however they are made, will not be fully completed due to the lack of personal details that the researcher will be able to provide to the payday lender. If this is the case the researcher should confirm this by ticking the relevant boxes in the questionnaire.

It is important that the researcher sticks to the agreed questionnaire as far as possible and ensures that the call does not go down a different route. The OFT’s concern is that the exercise is not undertaken as a regulator approaching a company, but rather a ‘typical’ consumer approaching a lender for a payday loan. If the conversation starts to lead away from the prescribed questions the researcher should make every attempt to get back on track straight away.

If the payday lender asks how the researcher obtained their contact details the researcher should state the following as appropriate:

**Telephone/online:** that they found the payday lender online, for example, via a Google search, or

**High Street Stores:** obtained details from website/advertising/by word of mouth.

<table>
<thead>
<tr>
<th>Information about the payday lender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payday lender’s name</td>
</tr>
<tr>
<td>Consumer credit licence number</td>
</tr>
<tr>
<td>Initial point of contact – online/telephone/SMS text/visit to high street store.</td>
</tr>
<tr>
<td>Type of contact used to complete the mystery shop – online/telephone/call back/SMS text/visit to high street store</td>
</tr>
<tr>
<td>Telephone number called/website visited/store address</td>
</tr>
</tbody>
</table>
Scenario used (number)

Name of representative (if known)

Date and time of call/visit

How long the call/visit lasted

Was the call ended early due to lack of personal details provided?

General introduction

The researcher may wish to use the following text to set out the reason for contacting the payday lender: ‘I am calling on behalf of a relative/partner/friend who is a little short on money at the moment, s/he has asked me to call as they are not confident speaking on the phone/dealing with this sort of thing and s/he has asked me to gather some information about a payday loan on their behalf’.

EXPLANATIONS OF CREDIT AGREEMENTS

1. Adequate explanations

Questions 1-34 below are designed to test whether, how and when payday lenders are meeting their legal obligations to provide prospective borrowers with information on, and an explanation of, the loan agreement. The questions will also test whether payday lenders explain the key risks associated with taking out a payday loan and whether prospective borrowers are provided with opportunities to take information away and/or ask questions. If the shopper does not have the opportunity to cover all of the questions in this section, the key information to obtain during the call/visit is highlighted in blue.

1. Did the payday lender explain that payday loans are only suitable for short term lending?
   
   ☐ Yes
   ☐ No

2. Did the payday lender explain that taking out a payday loan may affect the friend/relative/partner’s credit file?
   
   ☐ Yes
   ☐ No

3. Did the payday lender promote a payday loan as being suitable for borrowing over longer periods of time? That is, longer than a
<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Usual/standard short term loan of e.g. 6 months?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Did the payday lender advise the caller/visitor that payday loans tend to be more expensive than other forms of borrowing?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender inform the caller/visitor of the annual percentage rate (APR)?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender state the period rate of interest? For example, daily, weekly, monthly?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender state the annual rate of interest?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender state the total amount of interest repayable?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender state the total interest repayable per £100 borrowed?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Did the payday lender state how much would have to be repaid in total? (the total cost of the loan)</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Did the payday lender state what the total charge for credit would be (how much it will cost to borrow the money?)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yes □  No □</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>If yes, please provide details: ____________________________</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| 12. | Did the payday lender state the total amount payable that is, how much will have to be paid back altogether, including the amount borrowed? |
|   | Yes □  No □ |
|   | If yes to both, please state how much ____________________________ |

**Any other comments the mystery shopper may have:**

| 13. | Did the payday lender state what the repayment period of the loan would be? (For example, one week, one month etc) |
|   | Yes □  No □ |
|   | If yes, what was the repayment period of the loan? __________ |

| 14. | Did the payday lender state whether the loan should be repaid in one amount or several installments? |
|   | Yes, in one amount □  Yes, installments □  No □ |

| 15. | If the repayment is via installments, did the payday lender state the number of repayments that would be required? |
|   | Yes □  No □ |

| 16. | Did the payday lender state how much the repayments would be? |
|   | Yes □  No □ |

| 17. | Did the payday lender state what the frequency of the repayments would be? (For example, weekly, fortnightly or monthly) |
|   | Yes □  No □ |
If yes, how many installments/how much is repayable at each/when?

______________________________

Any other comments the mystery shopper may have:

1(b) - Fees/charges for arranging a loan

If the payday lender has not mentioned any fees and costs associated with arranging a loan, the researcher should prompt the payday lender and could ask: ‘Are there any fees associated with arranging the loan? What fees do you charge? What do the fees cover?’

18. Did the payday lender mention whether other fees/charges would be payable?

☐ Yes
☐ No

If yes, how were these described?

______________________________

19. If yes, did the payday lender refer to an administration fee/charge?

☐ Yes
☐ No

If yes, how much and when would this be payable?

______________________________

20. Did the payday lender state that there would be a charge/fee for speeding up the lending process?

☐ Yes
☐ No

If yes, please specify

______________________________

Any other comments the mystery shopper may have:
1(c) - Consequences of failing to make repayments

<table>
<thead>
<tr>
<th>Information on fees/charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payday lenders should provide information to the borrower on the potential consequences should they fail to repay their loan on time. This should include information on whether there are any charges attached to this and if so, what these charges are.</td>
</tr>
</tbody>
</table>

If the payday lender has not mentioned the fees and costs associated with failing to repay the loan on time, the caller should prompt the payday lender and could ask: Are there any fees associated with arranging the loan? What fees do you charge? What do the fees cover? Would failing to make repayments affect the friend/relative/partner’s credit rating?

21. If the payday lender referred to default charges and interest did they provide the caller/visitor with an approximate level/amount of the charges/interest regarding the following types?

- [ ] charges for late payment
- [ ] charges for missed payment
- [ ] charges for under payment

22. Did the payday lender provide any of the following information? Please tick the relevant box/boxes:

- [ ] fees and costs were clear and upfront;
- [ ] fees and costs were only provided after being prompted
- [ ] no information at all was given about fees/costs
- [ ] implied that the service is free
- [ ] the payday lender explained the different circumstances (e.g. if you take out a further loan there will be no extra charges) without being prompted
- [ ] the payday lender explained the different scenarios after being prompted
- [ ] the payday lender failed to explain the different scenarios
23. Did the payday lender provide information regarding the consequences for missing a payment, including:
- the increase in the cost of the debt
- any default charges and interest applied when a payment is missed;
- potential damage to credit rating which can make getting credit in the future more difficult or expensive
- legal proceedings (including court action and associated costs);
- potential damage to credit rating which can make obtained credit in the future more difficult

Any other comments the mystery shopper may have:

1(d) - Right of withdrawal

Borrowers are entitled to change their mind and withdraw from a loan agreement for whatever reason; the payday lender should inform borrowers that they have the right to do so and how and when this right may be exercised.

24. Was the caller/visitor told of the right of withdrawal from a loan agreement?
   - Yes
   - No

25. Was the caller/visitor told how to exercise the right of withdrawal?
   - Yes
   - No

26. Was the caller/visitor told about the 14 day time limit regarding the right of withdrawal?
   - Yes
   - No
27. If yes, did the payday lender state when the 14 day time limit starts/finishes?  
☐ Yes  
☐ No

Any other comments the mystery shopper may have:

<table>
<thead>
<tr>
<th>1(f) - Further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payday lenders should advise borrowers that further information on the loan agreement can be provided if required. Prospective borrowers should not be pressurised into signing up to a credit agreement and should be given a reasonable opportunity to ask questions, obtain further information and take this information away with them.</td>
</tr>
</tbody>
</table>

28. Did the payday lender ask whether the caller/visitor had any questions?  
☐ Yes  
☐ No

29. Did the payday lender offer to answer any questions the caller/visitor may have?  
☐ Yes  
☐ No

30. Did the payday lender ask if the caller/visitor understood the explanation provided?  
☐ Yes  
☐ No

31. Did the payday lender ask whether the caller/visitor required any further information/explanation?  
☐ Yes  
☐ No

32. Did the payday lender explain that, if the friend/relative/partner wanted further information, how they could obtain that information?  
☐ Yes
33. Did the payday lender offer to give/send the caller/visitor written information, for example, a leaflet etc?

☐ Yes
☐ No

34. Did the payday lender offer to provide/send pre-contract information or a copy agreement?

☐ Yes
☐ No

Any other comments the mystery shopper may have:

2. AFFORDABILITY ASSESSMENT

Questions 35-56 below are designed to test whether payday lenders are carrying out affordability assessments prior to granting a loan. The payday lender should assess whether the prospective borrower can afford to repay the loan given his/her existing financial commitments. Relevant considerations may include: whether repaying the loan will mean that the prospective borrower will be unable to repay priority debts (mortgage/rent/utility bills) or other pre-existing loans/credit commitments, therefore increasing his/her overall level of indebtedness.

If the shopper does not have the opportunity to cover all of the questions in this section, the key information to obtain during the call/visit is highlighted in blue.

35. Did the payday lender ask whether the friend/relative/partner:

☐ was employed
☐ had a regular income
☐ had a bank account

36. After the relevant scenario was explained to the payday lender, did they:

☐ offer a loan for the amount being sought straight away
☐ offer the caller/visitor a larger loan
☐ unable to provide information due to the lack of personal details
<p>| | |</p>
<table>
<thead>
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<tbody>
<tr>
<td>37.</td>
<td>Did the payday lender advise the caller/visitor that the friend/relative/partner should consider other forms of borrowing first, before taking out a payday loan for the amount requested?</td>
</tr>
<tr>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
</tbody>
</table>

| 38. | Did the payday lender inform the caller/visitor that it would have to carry out an affordability assessment before considering a loan application? |
|   | Yes  |
|   | No   |

| 39. | Did the payday lender explain the criteria used to assess whether a prospective borrower can afford a loan? |
|   | Yes  |
|   | No   |

| 40. | Did the payday lender state whether affordability assessments are carried out for any of the following? |
|   | for new customers |
|   | for every new loan |
|   | the first time a loan is rolled over |
|   | every time a loan is rolled over |
|   | the first time a loan is refinanced |
|   | every time a loan is refinanced |
|   | other |

|   | no information given |

<p>| 41. | Did the payday lender explain what information may be requested as part of an affordability assessment? Please use the following boxes to indicate what type of information/financial details would be requested: |
|   | evidence of employment status and income (e.g. payslips/P60) |
|   | details of expenditure with evidence |
|   | disposable income |
|   | employer would be contacted |
|   | assets and the amount of equity in those assets |
|   | number of dependents |
|   | total amount of debt |</p>
<table>
<thead>
<tr>
<th>Question</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>42. Did the payday lender make any statements suggesting that a loan was available regardless of the friend/relative/partner’s financial circumstances?</td>
<td>Yes</td>
</tr>
<tr>
<td>43. If yes, did the payday lender make any of the following statements:</td>
<td></td>
</tr>
</tbody>
</table>
- the loan is guaranteed  
- friend/relative/partner has been pre-approved  
- there are no credit checks  
- other  

| 44. Did the payday lender suggest that a payday loan could be made available without requesting any of the information listed in question 41? | Yes | No |
| 45. If yes to the above, which information did the payday lender indicate would not be requested? | List |
| 46. Did the payday lender make any of the following statements? |  
- encouraging the consumer – ‘to act quickly’  
- only bank details are needed  
- only debit card details are needed  
- suggest a high speed at which a loan will be provided  
- other  

<p>| 47. Did the payday lender offer an incentive if the friend/relative/partner | | |</p>
<table>
<thead>
<tr>
<th>Question</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>signed up to an agreement quickly?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>If yes, what was the incentive?</td>
<td>________________________________</td>
<td></td>
<td></td>
</tr>
<tr>
<td>48. Did the payday lender encourage loan applications even after the</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>caller/visitor mentioned their friend/partner/relative was in financial difficulty?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>49. If yes, did the payday lender say whether a credit reference search would take place before or after a loan could be issued?</td>
<td>Before</td>
<td>After</td>
<td></td>
</tr>
<tr>
<td>50. If yes, did the payday lender explain that some types of searches may leave a ‘footprint’ on the borrower’s credit record?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>51. Did the payday lender mention/offer to use ‘quotation searches’ rather than ‘application searches’?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>52. Did the payday lender warn that multiple applications will/may leave a footprint on the borrower’s credit file?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>53. Did the payday lender offer to carry out an affordability assessment via the caller/visitor?</td>
<td>Yes</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>If yes, what information was required?</td>
<td>________________________________</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 3. HANDLING OF DEFAULT AND ARREARS

Questions 57-62 below are designed to test whether payday lenders have in place clear and appropriate policies and procedures for dealing with borrowers who are unable to make repayments. Further, the questions will be testing how payday lenders treat borrowers who are experiencing financial difficulty, for example, whether the payday lender will freeze interest/charges on the loan or agree a repayment plan with the borrower.

If the shopper does not have the opportunity to cover all of the questions in this section; the key information to obtain during the call/visit is highlighted in blue.

<table>
<thead>
<tr>
<th>54.</th>
<th>Did the payday lender provide information on how borrowers who get into financial difficulty/who are unable to repay their loan would be treated?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>□ Yes, without being prompted</td>
</tr>
<tr>
<td></td>
<td>□ Yes, once prompted</td>
</tr>
<tr>
<td></td>
<td>□ No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>55.</th>
<th>If yes, did the payday lender state whether:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>□ it will exercise forbearance</td>
</tr>
<tr>
<td></td>
<td>□ loans can be split into easily repayable amounts to be repaid over a longer period without incurring additional fees/interest charges</td>
</tr>
<tr>
<td></td>
<td>□ the loan can be ‘rolled over’ or refinanced</td>
</tr>
<tr>
<td></td>
<td>□ if so, what these terms mean</td>
</tr>
<tr>
<td></td>
<td>□ borrowers are offered ‘breathing space’/extra time to repay</td>
</tr>
<tr>
<td></td>
<td>□ it refers borrowers to Money Advice Service (MAS)/Citizens Advice Bureau or other debt advice agency for free debt advice?</td>
</tr>
</tbody>
</table>
56. If the payday lender indicated that it would advise the borrower to seek free debt advice, were specific organisations mentioned?

- Yes
- No

If yes, please list the organisation(s) ______________________________

57. Did the payday lender actively indicate that they would offer a borrower who is in financial difficulty/cannot repay their loan the opportunity to ‘roll over’ or refinance their debt?

- Yes, without being prompted
- Yes, once prompted
- No

58. Did the payday lender state that, if a borrower was unable to make their loan repayment and the loan was ‘rolled over’/ refinanced, the interest rate would increase for the remainder of the loan?

- Yes
- No

59. If yes, did the lender give any reasons for the increase?

- Yes, without being asked
- Yes, when asked
- No (including when asked)

What was the new interest rate? ______________________________

Any other comments the mystery shopper may have:

---

4. Continuous payment authority (CPA)

Continuous Payment Authority (CPA) is a reoccurring payment which is taken from a credit or debit card and is a method of payment used to pay ongoing subscriptions, bills or in this case, payday loans. Questions 61 -72 below are designed to test the policies and procedures payday lenders have in place regarding the use of CPA, whether borrowers are made aware that the payday lender uses this method to collect loan repayments and how and when it is used. Further, the questions will test whether borrowers are made aware of how they can cancel the CPA and any adverse consequences the use of CPA may
If the shopper does not have the opportunity to cover all of the questions in this section, the key information to obtain during the call/visit is highlighted in blue.

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>Did the payday lender inform the caller/visitor of the method it uses to collect payments? Direct Debit/CPA etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>If yes, did the payday lender offer options or was one method mandatory?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>If the payday lender uses CPA, did it state/explain how CPA is used?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>63</td>
<td>If yes, did the payday lender explain any of the following?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If any of the above information was provided, was it given:

- without being prompted
- once prompted
- not at all

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
<td>If yes, was the explanation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Yes</td>
<td>No</td>
<td></td>
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<tr>
<td>-------------------------------------------------------------------------</td>
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<tr>
<td>65. Did the payday lender explain how CPA differs from direct debit?</td>
<td></td>
<td></td>
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<tr>
<td>66. If yes, was the explanation clear?</td>
<td></td>
<td></td>
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<tr>
<td>67. Did the payday lender’s explanation state that a CPA can only be</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>cancelled by informing the payday lender who holds the authority?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>68. Did the payday lender explain any adverse consequences borrowers may</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>experience as a result of using CPA? For example, risk of being</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>overdrawn if insufficient funds are in the account when the payment is</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>taken.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>69. Did the payday lender offer to provide a copy of the CPA agreement</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>in writing?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>70. Did the payday lender make statements which understate the risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>associated with CPA?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>71. If yes, did the payday lender state whether:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPA is included in the terms and conditions of its loan agreements</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
it will only debit an account on the date(s) expressly set out in a loan agreement
it will only debit on other date(s) if specifically agreed, for example, as part of a payment plan
it will not debit lesser or greater amounts than those expressly set out in a loan agreement unless such amounts have been specifically agreed, for example, as part of a payment plan
it will only debit loan payments from an account where it has specific authority to do so
if a borrower experiences difficulties meeting repayments under a CPA it will exercise forbearance, and if appropriate amend or suspend the CPA and try to arrange a more sustainable repayment plan.

Any other comments the mystery shopper may have:

5. Rollover loans/Refinancing

The general purpose of a payday loan is to provide borrowers with a cash advance until their next pay day, however in certain circumstances, the borrower can elect to ‘renew’ the loan for a fee and delay payment for a further agreed period of time. Questions 73-83 below are designed to test whether payday lenders will ‘rollover’ or ‘refinance’ payday loans and if so, how many times they allow a borrower to do this. Further, the questions will test whether information is provided to the borrower on what a rollover/refinancing a loan involves, the consequences for the borrower of doing so and whether affordability assessments are carried at this stage.

If the shopper does not have the opportunity to cover all of the questions in this section, the key information to obtain during the call/visit is highlighted in blue.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>72.</td>
<td>Did the payday lender state that it could ‘roll over’ or ‘refinance’ a payday loan?</td>
</tr>
<tr>
<td></td>
<td>Yes – possible to rollover the loan</td>
</tr>
<tr>
<td></td>
<td>Yes – possible to refinance the loan</td>
</tr>
<tr>
<td></td>
<td>No</td>
</tr>
</tbody>
</table>

|73. | If yes, did the payday lender provide information on what ‘rolling over’/’refinancing a loan involved? |
|   | Yes |
No
If yes, what information was given?

**74.** Did the payday lender actively encourage or promote taking out multiple monthly loans?
- [ ] Yes
- [ ] No

**75.** Did payday lender make any of the following statements?
- [ ] a loan extension is guaranteed
- [ ] rollover loans are available
- [ ] we can extend your borrowing
- [ ] any other statement to imply that multiple loans were easily available?
Please provide further information

**76.** Did the payday lender explain the effect of extending the life of the payday loan or ‘rolling over’ loans?
- [ ] Yes
- [ ] No

**77.** If yes, was the explanation provided:
- [ ] very clear
- [ ] clear
- [ ] not clear

**78.** If yes, what explanation was given?
____________________________________
- [ ] no explanation was given

**79.** Did the payday lender state that the loan could be ‘rolled over’ into the next month?
- [ ] Yes, without being prompted
- [ ] Yes, once prompted
- [ ] No

**80.** If yes, did the payday lender explain the risks associated with rolling over the loan as follows?
- [ ] the cost of the loan will increase
- [ ] additional interest will be added
- [ ] due to the high APR they are unsuitable for long term borrowing

If yes, was it provided:
- [ ] without being prompted
<table>
<thead>
<tr>
<th>81. Did the payday lender warn the caller/visitor about the consequences of ‘rolling over/refinancing’ loans?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>82. If yes, did the payday lender inform the caller/visitor that:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

- the friend/partner/relative should seek financial advice/financial health check via the Money Advice Service if the friend/partner/relative has had several payday loans in any 6 month period
- it was not able to provide further loans to a borrower in financial difficulty, until the borrower has received financial advice and repaid all outstanding loans
- it will carry out an affordability assessment each time it is asked to ‘roll over’ the payday loan?

Any other comments the mystery shopper may have:

6. Mental capacity limitations

Questions 84-89 below will only be relevant if dealing with scenario three which involves mental capacity limitations. The following questions are designed to test whether payday lenders (when made aware of any mental capacity limitations) seek further information from prospective borrowers and; whether payday lenders have policies and procedures in place when dealing with prospective borrowers who may have/previously had mental capacity limitations.

<table>
<thead>
<tr>
<th>83. Did the payday lender ask for further details/information about the relative/friend/partner’s mental capacity limitations once the issue was raised?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>84. Did the payday lender state that it had processes/procedures in place when assessing potential borrowers with mental capacity limitations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
</tbody>
</table>
85. If yes, did the lender provide information on what this involves?  
- Yes  
- No

86. Did the payday lender indicate/state that it would be willing to lend to the friend/relative/partner without taking into account their mental capacity limitations?  
- Yes  
- No

87. Did the payday lender refuse to lend to the friend/relative/partner without carrying out any enquiries as to whether the friend/partner/relative was able to make a decision?  
- Yes  
- No

88. Does the payday lender’s promotional material/website make reference to borrowers who may have experienced/be experiencing mental capacity limitations?  
- Yes  
- No

Any other comments the mystery shopper may have:

7. Specific irresponsible lending practices

Questions 90- xx are designed to gain further information on payday lenders’ business practices, identify any specific business practices which may be considered to be unfair or deceptive and to test whether payday lenders adhere to the Data Protection Act 1998.

89. Did the payday lender offer a payday loan for an amount greater than caller/visitor had asked for?  
- Yes  
- No

90. If yes, did they do this by:  
- putting pressure on/inappropriately coercing (you the caller/visitor), for example, not allowing the you to ask questions (please provide details) ________________________________  
- offering incentives, for example, that the ‘discount’ is only available on that day? (please provide
<table>
<thead>
<tr>
<th>7(a) - Other deceptive and/or unfair practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>91. Did the payday lender indicate that it would be willing to lend to borrowers who:</td>
</tr>
<tr>
<td>☐ are unemployed/in receipt of income support</td>
</tr>
<tr>
<td>☐ are students</td>
</tr>
<tr>
<td>☐ do not have a bank account</td>
</tr>
<tr>
<td>☐ do not have any disposable income</td>
</tr>
<tr>
<td>92. Did the payday lender encourage the caller/visitor to falsify details of the friend/partner/relative’s income and expenditure as part of the assessment of affordability in order to qualify for a loan?</td>
</tr>
<tr>
<td>☐ Yes</td>
</tr>
<tr>
<td>☐ No</td>
</tr>
<tr>
<td>93. Did the payday lender say anything to indicate that it may be prepared to distort/falsify the caller/visitor’s details as part of the assessment of affordability?</td>
</tr>
<tr>
<td>☐ Yes</td>
</tr>
<tr>
<td>☐ No</td>
</tr>
<tr>
<td>94. Did the payday lender try to force the caller/visitor into making a decision about a loan agreement on behalf of the friend/partner/relative?</td>
</tr>
<tr>
<td>☐ Yes</td>
</tr>
<tr>
<td>☐ No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Any other comments the mystery shopper may have:</th>
</tr>
</thead>
<tbody>
<tr>
<td>7(c) - Consumer confidence</td>
</tr>
<tr>
<td>95. Did the payday lender make statements to increase customer confidence, such as:</td>
</tr>
<tr>
<td>☐ it followed ‘approved code’</td>
</tr>
<tr>
<td>☐ it was endorsed by the Office of Fair Trading</td>
</tr>
<tr>
<td>Question</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>it holds a consumer credit licence? If so please provide licence number</td>
</tr>
<tr>
<td>it is a member of Trade Association</td>
</tr>
<tr>
<td>Any other comments the mystery shopper may have:</td>
</tr>
<tr>
<td>7(d) - Additional information about the payday lender</td>
</tr>
<tr>
<td>If this questionnaire is being carried out in-store and the payday lender has not mentioned a website, the caller/visitor should ask ‘do you have a website where my friend/relative/partner can find out more information?’</td>
</tr>
<tr>
<td>96. Did the payday lender provide details of a website where the caller/visitor could obtain further information?</td>
</tr>
<tr>
<td>If yes, what is the website address?</td>
</tr>
<tr>
<td>97. If applicable, does the information provided over the telephone/during the visit match the information contained in the payday lender’s website and/or other advertising material?</td>
</tr>
<tr>
<td>98. If no, in what areas did this differ?</td>
</tr>
<tr>
<td>□ adequate explanation of features and risk of payday loans</td>
</tr>
<tr>
<td>□ fees</td>
</tr>
<tr>
<td>□ APR</td>
</tr>
<tr>
<td>□ is the business a credit broker rather than a lender?</td>
</tr>
<tr>
<td>□ is the business a lead generator rather than a lender?</td>
</tr>
<tr>
<td>□ other</td>
</tr>
<tr>
<td>Please provide further details</td>
</tr>
</tbody>
</table>

END OF QUESTIONNAIRE