ANNEXE A – QUANTITATIVE FINDINGS

Introduction

A.1 A payday loan is a small, short-term, unsecured loan that is generally expected to be repaid in full by a single payment on the borrower’s next payday or within one month.

A.2 In order to understand more about the size and nature of the payday lending market in the UK, and the business models of payday lenders, the OFT issued two data requests:¹

- a detailed data request to 21 payday lenders requesting information in particular on revenue sources, default rates and affordability assessments

- a short data request to all payday lenders known to be operating in the UK (including the 21 lenders receiving the detailed request) requesting data about number of loans and turnover.

A.3 The 21 lenders to which the detailed data request was sent were a mix of large, medium-sized and small lenders from across the market, including online and high-street lenders. All but one were also among the 50 lenders which received compliance inspection visits during our review (Annexe D).

A.4 We received responses to the short data request from a total of 190 payday lenders.²

¹ The requests were made using the OFT’s powers under section 36B of the Consumer Credit Act.

² We were unable to obtain information from some firms. As it was not possible to establish whether these businesses were still operating at the time of the data request, we have based our market size estimates solely on the 190 responses received.
Size of market

A.5 Based on the 190 responses received, we estimate the total number of new payday loans issued in 2011/12 to be between 7.4 and 8.2 million,\(^3\) with the total value of new loans issued estimated as between £2.0 and £2.2 billion.\(^4\)

A.6 In contrast, the OFT’s High-Cost Credit report in 2010 estimated that the value of payday loans issued in 2008 was £900 million.\(^5\)

A.7 We estimate that total turnover from payday loans was around £860 million in 2011/12.\(^6\) This represents a very significant increase from around £220 million in 2009/10.\(^7\)

A.8 Based on the information provided by the 21 respondents to the detailed data request, the average payday loan issued in 2011/12 was for an amount between £265 and £270 over 30 days.

A.9 On average, the 21 respondents reported that the cost of borrowing £100 was around £25. However, this ranged from £14 to £51, indicating that consumers may benefit from shopping around and comparing loan offers from different companies.

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\(^3\) New loans for this purpose do not include ‘rollovers’ or refinancing.

\(^4\) This was calculated as the average value of loans issued by the 21 respondents to the detailed data request multiplied by the total number of new loans issued across all 190 respondents. It assumes that the average value of loans issued by the 169 lenders that responded to the short data request only is the same as the average value of loans of the 21 lenders that responded to the detailed request.

\(^5\) [www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/](http://www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/)

\(^6\) Total turnover was estimated by aggregating the annual turnover from payday lending for all 190 respondents. Turnover includes interest and other fees/charges from loans but not the value of the loans themselves.

\(^7\) However, this does not take account of turnover of firms that may have been operating in 2009/10 but have since left the market.
Market structure

A.10 The data suggests that the payday market is relatively concentrated, with three companies accounting for 55 per cent of the market by turnover and 57 per cent by value of loans.\(^8\)

A.11 The 21 respondents to the detailed data request account for around 85 per cent of the payday market by turnover, which indicates that there is a very long tail of firms in the market.

A.12 Eleven of the 21 operated only online, and the other 10 operated from retail premises (although some also had an online presence).

A.13 Eight of the 21 firms were involved only in payday lending. For the remainder, payday lending formed only part of their business, accounting for between two and 99 per cent of overall turnover.

Business model

Sources of revenue

A.14 As noted above, we asked the 21 firms what the average cost of borrowing £100 was, and their responses indicated that it was around £25. However, the turnover data provided suggests that average turnover per new loan was between £105 and £116.

A.15 This difference is partly due to the fact that the average loan value was between £265 and £270, but is also likely to reflect additional fees and charges on loans not paid back on time.

A.16 Taking into account the total value of new loans in 2011/12, the data suggests that turnover derived from basic lending fees and charges was between £435 and £470 million, which represents 59 to 64 per cent of total payday revenue.

\(^8\) Based on total turnover of around £860 million and a total value of loans issued in 2011/12 of £2.2 billion, see above.
A.17 As such, between 36 and 41 per cent of payday revenue would have derived from other sources, such as revenue from rolling over or refinancing loans and other fees and charges such as administration fees and charges for default or late payment.

Rollovers

A.18 The 21 respondents were asked for information on revenue and the proportion of loans that were rolled over or refinanced.

A.19 For the purposes of the data request, rolled over and refinanced loans were considered together in order to account for the different naming practices of different lenders, and were broadly defined as follows:

All loans which are not repaid on the repayment date initially agreed, but where the borrower is not considered to have defaulted as a further agreement has been entered into between the borrower and the lender. This includes (but is not limited to) all loans that fulfil the definitions of ‘Rollover’ and ‘Refinancing’ set out [below].  

A.20 These firms reported that 28 per cent of all new loans issued in 2011/12 were subsequently rolled over or refinanced at least once. These loans accounted for almost 50 per cent of total payday revenue, including the initial borrowing cost, subsequent interest charges and other fees. 

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9 ‘Rollovers’ were defined as ‘loans that can 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’ was defined as ‘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’.

10 A small proportion of revenue in 2011/12 may have derived from loans initially issued in the previous year, and some of the loans issued in 2011/12, especially those issued in the last few months, may have generated additional revenue in 2012/13.
A.21 Furthermore, five per cent of all new loans issued in 2011/12 were rolled over or refinanced four or more times, accounting for around 19 per cent of total revenue.

A.22 This indicates that, whilst the majority of borrowers are paying back loans on time, a significant minority are incurring additional interest and possibly charges and this makes up a significant proportion of payday lenders’ revenue.

A.23 Given the proportion of consumers rolling over multiple times, we looked at whether lenders were restricting the number of rollovers.

A.24 All but one of the 21 lenders provided information on their policy on rollovers and refinancing. Of these, three said they did not allow customers to roll over or refinance at all, two said they did not limit the number of times a loan could be rolled over or refinanced, and the other 15 lenders said they limited rollovers or refinancing to a maximum of three occasions.

A.25 However, the data provided casts doubt on these stated policies. 17 of the 21 lenders reported deriving revenue from customers who had rolled over or refinanced loans four or five times, and 16 of the 21 reported deriving revenue from customers who had rolled over or refinanced loans more than five times.

Repeat customers

A.26 In addition to customers not paying back loans on time and rolling over or refinancing, there is evidence to suggest that payday lenders receive a significant proportion of their revenue from customers taking out multiple loans over the course of a year.

A.27 The 21 respondents stated that, on average, 58 per cent of customers took out more than one new payday loan in 2011/12 (excluding rollovers and refinancing) and these customers accounted for around 81 per cent of total payday revenue.

A.28 On average, 15 per cent of customers took out more than five loans in the year, accounting for 36 per cent of revenue.
Default

A.29 In considering the extent to which borrowers default on their loans there are a number of different measures to consider.

A.30 The data request defined ‘default’ as relating to customers who have failed to keep to the terms of their agreement, for example by failing to repay their loan on time or at all.

A.31 On this basis, the 21 respondents to the detailed data request reported on average a default rate in 2011/12 of 20 per cent.

A.32 We also asked firms about the proportion of loans repaid on time or repaid late. On average, the data suggests that 68 per cent of loans were repaid on time and 18 per cent were repaid late, which implies that 14 per cent of loans were never repaid.

A.33 For this data to be consistent, we infer that:

- 14 per cent of borrowers never repaid their loans
- six per cent repaid late without entering into any sort of arrangement with the lender (and so were considered to have broken the terms of their agreement)
- 12 per cent repaid late but entered into some sort of arrangement with the lender (and so were not considered to have broken the terms of their agreement).

A.34 What is clear is that a significant proportion of borrowers experience difficulties in repaying. According to the above data, 32 per cent of all loans are repaid late or never repaid at all.

A.35 One would expect to find that the more stringent the affordability assessment, the lower the default rate for a given credit product. A high default rate may therefore indicate that the affordability assessments that are being carried out are not capturing (or not sufficiently weighting) all the factors that determine whether a customer will be able to repay the loan in a sustainable manner and within the initial loan period.
Affordability

A.36 To test this further, we requested data on the types of factors lenders take into consideration when assessing affordability. These appear to vary significantly from company to company.

A.37 Specifically, we asked lenders whether they considered evidence of income, employment, repayment history with the lender, outstanding loans with other creditors, other outgoings, and credit reference agency (CRA) checks.

A.38 Seven lenders reported always using all of these checks when carrying out an affordability assessment, and a further eight reported always using five of the six.

A.39 Most of the remaining respondents reported using several of these checks. 18 of the 21 lenders stated that they always considered evidence of income and employment, and 19 of the 21 stated that they always considered repayment history when undertaking affordability assessments.

A.40 Eleven respondents stated that they always conducted CRA checks when carrying out an affordability assessment, and a further four stated that they did CRA checks in some cases. One lender stated that it relied solely on CRA checks in assessing affordability.

A.41 The evidence does not however indicate the proportion of new or rolled over or refinanced loans which are subject to these checks or the criteria used to check affordability for each factor. It also does not provide any indication of the weight different lenders place on different factors in making their affordability assessment.