ANNEXE G – MYSTERY SHOPPING

Introduction

G.1 The OFT commissioned a mystery shopping survey which was carried out by Ipsos MORI. Their report is at Annexe J.

G.2 The purpose was to improve our understanding of the consumer experience when looking for loans, and to test whether, and to what extent, consumers get the information they need to be able to shop around effectively and to make an informed decision about a payday loan and its suitability for their circumstances.

G.3 A total of 239 mystery shops were carried out between 12 May and 9 June 2012 to 156 different payday lenders – in store, over the telephone or via initial call backs or web chats from websites. All shoppers used the same questionnaire. 18 large businesses were subject to multiple assessments.

G.4 As making an application for credit typically involves an identity check (and possibly a credit reference agency check), it was not possible for mystery shoppers to make a full application. The shoppers therefore said they were enquiring on behalf of a ‘family friend or relative’ and did not actually apply for a loan.

G.5 The main focus of the survey, therefore, was to assess what generic information about the terms and conditions of payday loans is available or provided upfront, and the extent to which lenders make this available upon request by consumers.

G.6 We recognise that further, and more detailed, information might have been provided had the shopper progressed to applying for a loan and been given pre-contractual information and explanations. Nevertheless, the survey is useful in assessing the quality of the information and customer service provided to consumers who are looking to shop around for a loan.

G.7 Five different scenarios were used for the prospective borrower: employed with disposable income; employed with no disposable income; employed with disposable income but mental capacity
limitations; unemployed lone parent in receipt of benefits; and university student.

**Key findings**

G.8 Overall the information given upfront about payday loans was inadequate to enable consumers to shop around or to assess whether loans were suitable for their needs.

G.9 High-street lenders generally provided a slightly better service than online lenders. Online lenders contacted via telephone tended to direct shoppers towards generic information on their website rather than taking the time to answer the shopper’s questions. Shoppers found it difficult to keep sales staff interested for long, and staff seemed keen to end the conversation once it became clear that they were not going to make a sale.

G.10 Lenders did not generally promote payday loans as a longer-term borrowing option, and the opportunity to roll over an unpaid loan was not actively promoted to shoppers.

G.11 In most cases, however, the level of information that lenders were willing to give lacked transparency, and shoppers had to continually prompt to obtain the information they required:

- Lenders were generally unwilling to provide information on the APR applicable to the loan amount suggested

- Information on total cost was not always forthcoming, and some lenders provided the total cost repayable on a fixed amount rather than the specific amount requested

- Lenders did not generally explain how continuous payment authority (CPA) worked or its potential impact on borrowers

- Most lenders did not give information regarding the right to withdraw, and one lender was reported to have told the shopper that if a borrower exercised this right, it would be unlikely to lend to that person again.
G.12 In eight cases, lenders were prepared to offer a loan immediately and two lenders offered a larger loan than the amount sought.

**Detailed findings**

G.13 Most lenders did not, or were reluctant to, give the shopper information upfront about the costs and risks of taking out a payday loan. Most pressed for additional personal information about the borrower first, plus copies of bank statements or getting the borrower to agree to a credit check.

G.14 These difficulties were most pronounced where shoppers contacted online lenders by telephone. Lenders would often terminate a call once they realised they were not going to make a sale. Typical methods of closing the call included directing shoppers to the website or the sales person stating they could not provide further information without first obtaining additional personal information about the borrower.

G.15 Some shoppers who contacted online lenders by telephone also experienced difficulty making initial contact. Lenders frequently provided the option to speak to a member of staff only for existing customers, whilst new customers were directed to the website. In most cases the websites required personal details to be entered before information could be provided.

G.16 An overview of the results of the survey is set out below. Due to the general unwillingness of the lenders to provide information unprompted to a shopper who was not the prospective borrower, there are variations in both the number of lenders and the number of assessments that could be achieved for each section.

**Pre-contractual information and explanations**

G.17 In 42 per cent of 126 assessments, shoppers were not informed that payday loans were only suitable for short-term borrowing. In six per cent of 118 assessments (seven cases), payday loans were promoted as being suitable for longer-term borrowing.
G.18 In 79 per cent of 117 assessments, the lender did not inform the shopper of the APR applicable to the loan amount cited. One lender stated that APRs did not apply to payday loans. Shoppers reported that lenders were only willing to provide the APR once they received more personal details about the borrower.

G.19 In 86 per cent of 117 assessments, the lender did not state the annual rate of interest (which may differ from the APR if there are non-interest charges). Most shoppers who were informed of the rate of interest were told it was calculated daily or monthly.

G.20 In 65 per cent of 117 assessments, the lender did not state the total amount of interest repayable, and in 60 per cent of 114 assessments the lender did not state the total charge for credit. Some lenders gave the total figure repayable on a fixed amount rather than the specific amount cited by the shopper.

G.21 Where information was given to shoppers on the total charge for credit, it was not always clear what charges applied. 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. Two shoppers were told that the loan was ‘free of charge’.

G.22 In 25 per cent of 108 assessments, the lender did not explain how long the borrower would have to repay the loan.

G.23 In 47 per cent of 105 assessments, shoppers were not informed that the loan should be repaid in a single amount.

G.24 In 69 per cent of 103 assessments, the lender did not mention whether fees or charges would be payable, and in 52 per cent of cases the lender did not mention default charges.

G.25 Lenders were assessed in 28 cases on whether they provided information on the consequences if borrowers missed a payment. Of these, 16 stated that default charges and interest would be applied, 12 mentioned the increased cost of the debt, 11 referred to possible legal proceedings and nine mentioned the potential damage to the borrower’s credit rating.
G.26 In 91 per cent of 90 assessments, the lender did not inform shoppers of the right to withdraw from a loan agreement.

G.27 In 63 per cent of 115 assessments, the lender did not ask whether shoppers had any questions about the information that had been provided. In 43 per cent of 110 assessments, the lender did not offer to answer any questions the shopper might have.

G.28 In 64 per cent of 133 assessments, the lender did not ask the shopper if they understood the explanations provided.

G.29 In 69 per cent of 108 assessments, the lender did not ask whether the shopper required further information or explanation, although in 68 per cent of assessments shoppers were told how to obtain further information.

G.30 The lender offered to provide pre-contract credit information or a copy agreement in only five per cent of 106 assessments (five cases). Information given to shoppers mainly took the form of glossy leaflets briefly outlining the services offered. Lenders often referred shoppers to their website for further information.

Affordability assessments

G.31 In six per cent of 139 assessments (eight cases), lenders offered the loan amount straight away once the scenario was explained. Two lenders offered a larger loan than was requested.

G.32 In a further eight cases, lenders suggested that a loan would be available regardless of the borrower’s financial circumstances. One lender mentioned that a loan was ‘guaranteed’ and another said there were no credit checks.

G.33 In 52 cases, the lender informed the shopper that an affordability check would need to be carried out. Of these, 28 lenders explained the criteria used:

- 25 of the 28 said they would need evidence of employment and income (such as a payslip or P60)
• 11 would need details of the borrower’s outgoings
• six would need evidence of disposable income
• four would need details of other payday loans the borrower had, and one would need details of other loans
• four would use a credit score and one a credit report
• two would need to know the total amount of the borrower’s outstanding debts
• none asked whether the borrower had a regular disposable income or any non-credit debts.

G.34 In 21 of the 52 assessments, lenders stated that affordability checks were carried out for new customers, and 12 stated that they were carried out for each new loan. Only one lender explained that checks would be carried out again the first time a loan was ‘rolled over’. In 26 of the 52 assessments, the lender did not indicate when the affordability check would be carried out.

G.35 In 73 per cent of 141 assessments, shoppers were asked whether the prospective borrower was employed, but only 49 per cent specifically asked whether they had a regular income and 43 per cent whether they had a bank account.

G.36 High-street lenders were more likely than online lenders to do so. 74 per cent of high-street assessments compared to 64 per cent of telephone assessments 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.

G.37 In 50 per cent of 139 assessments, lenders would not provide any further information without more personal details of the prospective borrower. This was more likely to be the case for online lenders contacted by telephone (72 per cent) than high-street lenders (36 per cent).
G.38 In 12 per cent of 110 assessments, the lender encouraged a loan application even after the shopper mentioned that the prospective borrower was in financial difficulty.

G.39 One large high-street lender faced with the scenario of a prospective borrower who was employed but had no disposable income offered a log book loan for £500, despite the shopper stating that only £200 was required.

G.40 Out of 82 lenders, six were willing to lend to the unemployed or those on benefits, five to students, three to consumers without bank accounts and two to those with no disposable income.

Rollovers

G.41 On the whole, shoppers found it difficult to obtain information from lenders about 'rolling over' or refinancing a payday loan.

G.42 In 45 per cent of 84 assessments, shoppers were told that it was possible to roll over or refinance a loan. This was particularly the case in the scenario where the prospective borrower was employed but with no disposable income.

G.43 Of the 38 assessments where rollover or refinancing was mentioned, the lender provided further information in 28 cases. Of these, three told shoppers that loans could be rolled over for one month, four said that a loan extension was guaranteed and a further four implied that multiple loans were easily available.

G.44 In terms of explaining the impact of rolling over a loan, six of the 28 said that the borrower would have to pay interest only, five said they would have to pay other fees or charges and three said the loan could be extended for up to three months. One lender said that the interest rate would increase.

G.45 In 12 of the 38 assessments where rollover or refinancing was mentioned, the lender provided information unprompted on the associated risks, with a further four doing so after prompting.
Only one lender explicitly told a shopper that rolling over should be avoided because it was expensive. Another said that rolling over loans might affect the borrower’s credit rating. One 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 repayable in monthly instalments.

**Default and arrears**

In seven per cent of 98 assessments (seven cases), the lender provided information unprompted to the shopper about their policy for dealing with customers in financial difficulty. After prompting, this figure rose to 54 per cent.

Of the 53 cases where the lender provided information on dealing with borrowers in financial difficulty, 21 stated that the loan could be rolled over or refinanced, nine said it could be split into easily repayable amounts and three mentioned forbearance.

Seven lenders stated that the interest rate would increase if the borrower did not repay on time, and one stated that the new rate would ‘go through the roof’.

**Continuous payment authority**

Shoppers reported that obtaining information on CPA was challenging, particularly where contact was by telephone.

An explanation of how CPAs work was given in only seven out of 45 assessments. In 42 of the assessments, lenders did not explain the difference between CPA and direct debit or the potential adverse consequences arising from the operation of CPA.

No lender informed shoppers that borrowers had the right to cancel a CPA, and in three cases the lender told the shopper that a CPA could be cancelled only by informing the payday lender.