

# PAYDAY LENDERS – OUR REPORT CARD



Throughout 2013, CAS has asked borrowers to complete our survey and to let us know whether their lender had stuck to the voluntary Code of Conduct pledges.

## THE GOOD NEWS

### The Pledges in the Code of Conduct

### Did they do it?



We will make clear how much it would cost in total to repay the loan.



We will tell you how the repayment would work.



We will make it easy for you to contact us if you have problems re-paying the loan.



## THE BAD NEWS

### The Pledges in the Code of Conduct

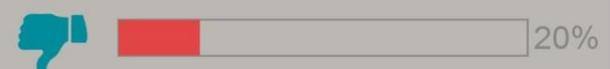
### Did they do it?



We will check your personal finances before giving you a loan, to make sure you can afford it.



We will ask you to provide documents to help us make sure you can afford the loan.



We will tell you that a Payday Loan should not be used for long-term borrowing or to cope with financial problems.



We will tell you what to do if you had a complaint.



We will deal with you sympathetically and positively.



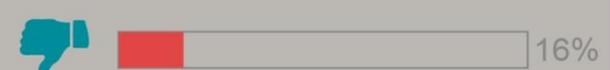
We will offer to freeze interest charges for you if you offer to make repayments under a reasonable repayments plan.



We will tell you about free and independent debt counsellors.



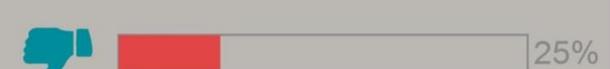
We will let you make a decision about extending the loan without pressuring you.



We will tell you about the risks of extending the loan.



We will make it clear how much it would cost you to extend the loan.



We will check your personal finances to see if you would be able to pay back an extended loan.





## Citizens Advice Scotland Briefing

### Payday Loans Debates: 12 December 2013

Scottish Association  
of Citizens Advice Bureaux

The Scottish CAB Service forms the country's largest independent advice network. Citizen advice bureaux (CAB) are the key frontline service that hundreds of thousands of people turn to and in doing so they deal with over half a million new issues every year.

Across the Scottish Citizens Advice Bureaux network every week

Over 100 payday loan problems are now dealt with every week across the Scottish Citizens Advice Bureaux network. That's an increase of 30% on the figures for the same time last year. Many of these cases relate to practices and policies that 90% of the payday loan industry promised to stamp out a year ago with their voluntary Good Practice Customer Charter.

This short briefing covers the ten recommendations CAS believe will deal with poor practice in the industry alongside findings of a survey CAS carried out over the last year with borrowers of payday loans and which were published in November, a year after the Charter was introduced. As you can see from our report card on the front page, you can see that according to our survey of how well lenders kept to the charter, they have received a fail. And behind the statistics there is the impact on individuals and on the final page you will find a selection of CAB case studies.

Our recent public survey, run over the past year, found that:

- **Over 50% of borrowers of a payday loan were using it for essentials including food, energy, and rent**
- **The average amount borrowed was between £100 and £400; however 14% of respondents had borrowed over £1,000**
- **The majority of respondents were in full time work meaning many Scots are struggling with finances for basic needs even when working full time**

### **Recommendation for the Scottish Government**

- ***All high-school first years to receive a starting deposit in a Credit Union account to encourage prudent saving and membership of local Credit Union.***

Our reasoning:

- The aim of this is to improve the knowledge of the credit union network as an alternative to payday lenders but coupled with encouraging saving.
- Rates of APR on a payday loan can reach 6,000% a similar product from a credit union will attract a rate of 30%, that's 200 times less.
- Based on September 2012 pupil census figures there were 53,000 pupils in S1 in Scottish schools. A £10 per pupil commitment would mean a direct cost of £530,000 per year.
- There would be additional set up costs for this in terms of helping credit unions manage the additional workload and we hope to work with credit unions and others to take forward this plan.
- A similar scheme is carried out by Glasgow City Council.

### **Recommendation for Scottish Local Authorities**

- ***Ban access to payday loan websites on council computers in libraries and community centres.***

Our reasoning:

- Our survey found that 65% of payday loan applications were made online.
- A number of local authorities have done this already and we would like to see everyone encourage councils to take this step. CAS has written to all local authorities on this issue.
- There is an obvious benefit to this change in limiting the access to them for the most vulnerable in society especially those who rely on libraries for internet access.

### **Recommendation for the UK Government**

- ***An independent total cost of credit investigation gathering economic experts to consider how much is too much with regard to how much is charged per £1 borrowed and with the ability to make recommendations to the UK Government based on powers in the Financial Services Act.***

Our reasoning:

- The Chancellor of the Exchequer revealed on 25/11/2013 that he expects the FCA to cap interest rates. This would follow similar practice in Australia and states in Canada and the USA.
- We want any cap on interest rates to consider extra charges that can be added on as well as interest.
- We see gathering a panel of economic experts working with the FCA as the best approach to developing a workable cap.
- Any cap must be reviewed every three years to ensure its effectiveness.

## **Recommendations for Payday Lenders**

- ***Introduce a real-time credit recording or data sharing system to ensure multiple loans cannot be taken out from lenders before credit reports updated.***

Our reasoning:

- Our survey found that 65% of borrowers did not have basic checks made on their personal finances before being given a payday loans.
- A real time recording system would mean a stop to people being able to take out multiple loans in a short period of time.
- Payday lenders would not be in the position that the client did not inform them of other debts as they would have a full picture of their finances before making a decision.

- ***Agree to attend a CAS round-table in 2014 where case studies highlighting breaches of the Good Practice Customer Charter will be made available to lenders.***

Our reasoning:

- Our survey revealed over 82% of borrowers did not know how to complain to their payday lender, 59% said they were not dealt with sympathetically by their lender and 64% were not informed of free and independent debt advice.
- CAS will share with the lenders information regarding their own companies' practices that we have evidence for.
- This will allow lenders the opportunity to use our information and make changes in their own practices.

## **Recommendation to Banks operating in the UK**

- ***To provide training for all staff on the rights of consumers to cancel a CPA on their account.***

Our reasoning:

- CAB report cases of where banks are refusing to cancel CPA's despite it being the right of the customer to do so.
- We want all banks to assure that they will make sure all staff knows about this as they have previously said they would but frontline staff are still refusing cancellations.

## **Recommendations for the Financial Conduct Authority**

- ***Automatically fine Payday Lenders, with compensation for borrower, for each and every breach of FCA consumer credit rules on Continuous Payment Authorities.***

Our reasoning:

○ An automatic fine would act as an immediate deterrent for payday lenders in breaching rules rather than a long investigation taking months to conclude.

- ***Limit the number of attempts a payday lender can attempt to use a CPA on a customer's bank account to two attempts per loan.***

Our reasoning:

○ The FCA has proposed this in their recent consultation and we are supporting that proposal. This will mean – in theory - that we should see a lot less cases where people are left without anything to live on because of CPA deductions.

- ***Limit the number of times a payday loan can be 'rolled over' to once.***

Our reasoning:

- Rolling over a debt extends a loan and adds more interest, the OFT said that after two roll-overs an average payday debt will be double the amount borrowed.
- It is refusing to admit that someone is in financial difficulty.
- There may be a rare occasion where one roll-over would be needed (depending on their circumstances).
- Two rollovers would suggest serious financial stress and should be ended as a norm.

## **Recommendation to the Glasgow 2014 Managing Authority**

- ***A public commitment to no payday loan advertising at the Commonwealth Games***

Our reasoning:

- Advertising legitimises the use of these products and an event that is being billed as of major significance and national pride should have no place for high cost lending marketing.
- Lenders have already used football as a way to engage new customers and this is successful due to peoples close relationship with their football club.

## Case studies from Scottish Citizens Advice Bureaux in 2013

An East of Scotland CAB reports of a client who had previously taken a payday loan in order to make ends meet in paying for food shopping. The loan repayment Continuous Payment Authority has now taken the remaining amount of money in her account this month and she is now facing the prospect of either borrowing again to pay for food or seeking help from the local food bank.

A West of Scotland CAB reports of a single pensioner who is dependent on state pension and welfare income alone. He is caught in a cycle of payday lending as he takes a new loan to pay off the previous one for three months running. What started as a loan of £100 for a repair has now reached over £350 with no way for the client to afford paying it off.

A West of Scotland CAB reports of a client who is a full time law student at a local university. He has a number of debts including payday loans. The client has taken out four payday loans using them to pay off his previous debt when he was desperate for money. The client says it was an easy option online. As the client is taking Law at university he does not wish to consider bankruptcy as this would have an effect on his course of study and future career.

A South of Scotland CAB reports of a 16 year old client who had taken out a payday loan from a high street lender. She reports that she was never asked for proof of her age; this is despite the lender's policy to not lend to under 18's. The client has run out of money as the Continuous Payment Authority to collect this loan has deducted all the money in her bank account.