

HOME CREDIT

Proposed remedies

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Summary

1. On 26 April 2006, the Competition Commission (CC) issued a Notice of Possible Remedies (the Notice), which invited comments on the actions that might be taken by the CC, or recommended for implementation by others, to remedy, mitigate or prevent the adverse effect on competition (AEC), or resulting detrimental effects on customers, as identified in its provisional findings of the same date.
2. This paper presents the results of the CC consideration of the remedies options it presented in the Notice, and other options that have been suggested to it, in the light of responses to the Notice, further submissions from parties and further CC analysis. In addition, the paper considers the framework for decisions on remedies, the AEC to be addressed, and certain general issues before considering in detail each remedy option outlined in the notice, relevant customer benefits and implementation. Thus the paper sets out the CC's provisional view as to the package of remedies it considers would be effective and proportionate.
3. The CC requests that the parties to this inquiry, and other interested persons, should provide any views in writing on the following analysis by 5pm on **8 September 2006**.
4. The CC considers that the following package of remedies would represent a comprehensive, reasonable and practicable set of remedies to address those features of the home credit market it has provisionally identified as having an AEC and the resulting detrimental effects:
 - (a) data sharing;
 - (b) price information;
 - (c) statements;
 - (d) early settlement rebates; and
 - (e) canvassing.

5. The CC has considered other remedy options, including the Comparable Products option in the Notice and options put forward by the parties. The CC considers that, from the point of view of effect on competition, these alternative options would not add to the effectiveness of the proposed remedies either on their own or as part of a wider remedy package. The CC is still considering the use of a price cap in the event that significant obstacles arise in the effective implementation of the remedy package as outlined above having taken account of the points put to the CC in response to the Notice (see paragraphs 123 to 127).
6. The CC expects that its remedies will include a transition period of no more than six to twelve months, from the date of the order or acceptance of undertakings. The CC considers that six to twelve months would allow home credit lenders enough time to implement all the proposed remedies.

Introduction

7. The Notice published on 26 April 2006 set out various options that the CC considered might be effective, alone or in combination, in addressing the features of the market for home credit that it identified in its provisional findings as creating an AEC, or in addressing the customer detriment resulting from the AEC.
8. Following comments from parties requesting more specific details of the remedy proposals, the CC shared a paper providing further details in advance of remedies hearings and with the purpose of further facilitating discussion (see Annex 1).
9. In addition to the remedies hearings with main parties to the inquiry, the CC held a series of meetings with the Credit Reference Agencies (CRAs), consumer bodies, the Office of Fair Trading (OFT) and with government departments, and received evidence from a number of mainstream lenders (see Annex 2 for a complete list of

parties that responded to the Notice). These meetings and further evidence helped the CC's thinking to evolve and where relevant have been referred to in this paper.

10. Having undertaken considerable work on remedies, the CC has now come to a provisional view as to the package of remedies it considers would be effective and proportionate for addressing those features of the home credit market it has identified as having an AEC in its provisional findings and addressing the customer detriment. This paper sets out this proposed package and provides reasons as to why the CC considers that the package and the individual options will be effective. These proposals should all be regarded as provisional and will be reviewed following further representations.

The provisional findings

11. In its provisional findings, published on 26 April 2006, the CC concluded that features of the market, either alone or in combination with each other, prevented, restricted or distorted competition in the supply of home credit in the UK, and hence that these gave rise to an AEC within the meaning of section 134(2) of the Enterprise Act 2002 (the Act). The features were identified in Section 8 (in paragraph 8.5 et seq) of the provisional findings where the CC concluded that there were seven features within the meaning of the Act, and are as follows:
 - (a) Two features inhibited price competition and were found to be mutually reinforcing:
 - (i) the insensitivity of customers to measures of price, other than the level of weekly repayment, which was exacerbated by the difficulties of comparing products; and
 - (ii) the failure of lenders to compete in any significant way using price as a competitive weapon, including the failure to compete on rebates.

(b) Two structural features were found collectively to contribute substantially to incumbency advantage by creating information shortfalls:

- (i) the inability of customers to convey information (on which lenders could confidently rely) about their creditworthiness to lenders with whom they did not currently have a relationship; and
- (ii) the asymmetry of information about customers' creditworthiness between lenders who had a relationship with the customer and lenders who did not.

(c) Three structural features were found to contribute to the continued existence of information shortfalls and thus to the preservation of incumbency advantage:

- (i) the lack of data sharing;
- (ii) the inability of agents not already known to a customer to convey their reliability to that customer (this was significant because of the importance which customers attached to a relationship of trust with an agent); and
- (iii) the regulatory prohibition on door-to-door canvassing of cash loans.

12. Section 7 of the provisional findings also identified (in paragraph 7.33) the detrimental effects on customers which resulted from, or might be expected to result from, the AEC, namely, the CC considered that prices were higher than it would expect to find in a competitive market.

13. The CC has not, at this stage, made a final decision regarding the existence and form of an AEC and resulting customer detriment. However, for the purposes of this document, the CC has maintained the working assumption that the features and resulting AEC and customer detriment are unchanged from that outlined in the provisional findings. The CC's final decisions on any AEC, and appropriate remedies, will take into account responses to its provisional findings and to this remedies working paper.

Framework for the assessment of remedies

14. Having identified in its provisional findings a set of features of the markets for the supply of home credit in the UK that give rise to an AEC, the CC has a duty to consider what, if any, action should be taken to remedy that adverse effect and resulting customer detriment. As well as taking action itself, the CC may recommend that action be taken by others.

15. The CC is required by the Act¹ 'in particular to have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition and any detrimental effects on customers so far as resulting from the adverse effect on competition'. Such detrimental effects may affect existing or future customers and must be in the form of higher prices, lower quality, less choice or less innovation in relation to goods or services in any UK market (whether or not in the market to which the feature or features concerned relate).² As noted in its Guidance CC3 (paragraph 4.9): 'when deciding what is an appropriate remedy, the Commission will consider the effectiveness of different remedies and their associated costs and will have regard to the principle of proportionality'.

16. CC3 makes several general observations about factors relevant to its consideration of effectiveness (CC3, paragraph 4.13 et seq):
 - (a) first, the CC will 'consider whether it is possible to devise a remedy that is both clear and not overly intrusive in its regulation of a firm's behaviour';
 - (b) secondly, in considering its effectiveness, the CC will consider the prospects of a particular remedy being implemented and complied with; and

¹Section 134(6).

²Section 134(5).

(c) a third relevant consideration is the timescale within which the effects of any remedial action will occur.³

The CC will take full account of the OFT's functions in terms of monitoring remedies and regulating the consumer credit market (CC3, paragraph 4.15). Other factors may also be relevant to the CC's consideration of effectiveness, depending on the facts of the case.

17. The Guidance also makes the following points regarding proportionality. In considering whether a remedy is reasonable and practicable, the CC will consider the cost associated with implementing the remedy (CC3, paragraph 4.10). The CC will endeavour to minimize any ongoing compliance costs to the parties, subject to the effectiveness of the remedy not being reduced (CC3, paragraph 4.12). However, the CC will balance those costs against the benefit to the UK economy and to customers in particular. In 'choosing between two remedies which it considers would be equally effective, it will choose the remedy that imposes the least cost or that is the least restrictive' (CC3, paragraph 4.10).
18. Other relevant points in the Guidance outline what remedies can address, and the likelihood of remedial action in a market in which the CC finds an AEC. The CC 'will seek to implement (or recommend) remedies that address the cause of the problem, it may also choose to address the detrimental effect on customers in addition or as an alternative' (CC3, paragraph 4.6). However, the CC is prevented from taking action to address future (rather than existing) detrimental effects on customers if it is not also remedying the adverse effect on competition (section 138(6) of the Act). Although it remains an option, 'it is unlikely that the Commission, having decided that there is an AEC, will decide that there is no case for remedial action, at least before it

³The Guidance says (CC3, paragraph 4.23) that 'if the remedy is not likely to have speedy results, the Commission may choose an alternative remedy or implement additional remedies such as those to remedy the detrimental effects on customers during the interim period. Otherwise, not only might there be uncertainty as to whether the effects would ever materialise, but in the meantime customers would continue to suffer from the consequences of the adverse effects on competition.'

has given attention to any relevant customer benefits that may accrue from the market features’.

19. The CC may have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134(8) of the Act arising from the adverse feature or features of the market concerned. To qualify as such a benefit, the benefit must be in the form of lower prices, higher quality or greater choice of goods or services or greater innovation in relation to such goods and services. To qualify within the meaning of section 134(8), the CC should consider that the benefit would be unlikely to accrue without the relevant feature or features (the assessment of the relevant customer benefits is detailed in paragraphs 146 to 153 of this paper).

Consideration of specific proposed remedies

20. This section of the paper discusses the different remedy options set out in the remedies notice published on 26 April 2006 and those that have subsequently been put to the CC by either the home credit lenders or other interested parties. For each option the CC outlines: the initial proposal as per the Notice; the responses to the Notice; and a revised proposal. In addition, for each option there is a consideration of the design and effectiveness of the proposed option.

Data sharing

Initial proposal

21. In the Notice, the CC proposed a requirement that home credit lenders supply data regarding their current customers to one or more of the Credit Reference Agencies (CRAs) which are members of the Standing Committee of Reciprocity (SCOR) in the UK. Further, the CC questioned:
 - (a) which home credit suppliers should be required to supply data;

- (b) the nature and extent of data to be supplied, in particular whether full data should be supplied as defined by the Principles of Reciprocity (POR) agreement (2005);⁴
- (c) whether past and current home credit repayment data is predictive of future repayment such that a lender can make practical use of such payment data;
- (d) whether all home credit data should be defined as a separate product under the POR agreement (2005); or whether the data should be combined with data held by the CRA relating to another current product such as credit cards;
- (e) the nature of the financial relationship between the home credit lenders and the CRAs and the cost of the various data-sharing alternatives;
- (f) how best to ensure the integrity of the data supplied by home credit lenders, for example whether the data should be audited periodically;
- (g) the extent to which any home credit suppliers which were not required to supply data may wish to participate in the data-sharing scheme;
- (h) how the agreement of customers to the sharing of data by home credit lenders with CRAs might be secured (whether as a condition of granting a home credit loan, as is normal under current arrangements, or otherwise);
- (i) how credit searches as defined by the POR agreement (2005) for home credit should be recorded by the CRA;
- (j) any other measures that might be necessary in order to ensure the usefulness of the data to other credit suppliers and to customers; and
- (k) how quickly such a requirement could be implemented and the timeliness and extent of any effect on the AEC or customer detriment of such a requirement.

22. The CC provisionally found that (a) the inability of customers to convey information (on which lenders can confidently rely) about their creditworthiness to lenders with whom they do not currently have a relationship; and (b) the asymmetry of information about customers' creditworthiness between lenders who have a relationship with the

⁴Appendix 2.1 of the provisional findings report.

customer, and lenders who do not, result in information shortfalls. The effect of these information shortfalls is that once a customer has a loan with one lender, the customer will be more likely to borrow from that lender than to switch to another, even if the other offers better prices. The CC further found that the absence of data sharing among most home credit lenders contributes to the preservation of these information shortfalls and thus to incumbency advantages enjoyed by incumbent lenders. In particular, the CC reached the view in the provisional findings that these information shortfalls are structural features which result in an AEC.

Responses to the notice/hearings

23. Nearly all parties who responded to the Notice are in favour of data sharing as a way of increasing competition in the market. Third parties said that data sharing was an effective way of overcoming information shortfalls and hence an effective way of addressing the AEC. Capital One said, 'the lack of availability—in usable form—of positive credit data on home credit customers is one of the major factors restricting their access to mainstream credit offerings, and thereby stopping competition that would otherwise lead to such customers securing more favourable lending terms'. Home credit lenders said that they believed that data sharing would help to address the AEC as defined in the provisional findings as long as the remedy was implemented in such a manner to take account of the specific features of the home credit product.

24. Opinions on which home credit lenders should be required to share data divided between those that believed all home credit lenders should share and those that believed only those lenders of a certain size should share. Many third parties said that all home credit lenders should share data because if fewer shared, this would limit the effectiveness of the remedy and customers of smaller providers would not be able to build a credit record. The Financing and Leasing Association (FLA) also said

that there was a practical difficulty that turnover (if a threshold was based on this) inevitably fluctuated from year to year, creating the possibility that a company would be required to share data during one year but not during the subsequent year. The NCC suggested that smaller companies could be given more time to implement data sharing. Two mainstream lenders said that home credit lenders should be required to share data only if they were over a certain size based on customer base/turnover. Among home credit lenders, opinion as to who should share data was also divided. The majority of home credit lenders said that data sharing should only be required for lenders over a certain size as this would shorten the possible implementation time and ensure a higher degree of data quality⁵. However, a few lenders said that they believed all lenders should share, as this would make the remedy comprehensive, and they did not believe that the costs would be disproportionate even for smaller lenders. The CRAs told the CC that smaller, less automated, suppliers were much more likely to have data quality issues, take more time to set up and cost more to audit.

25. Nearly all parties, including all the home credit lenders, said that full data as defined by the POR agreement (2005),⁶ wherever possible, should be shared, as default only data would only allow for adverse decisions. The OFT and Citizens Advice expressed concerns regarding the treatment of the data and suggested that if missed weekly payments were given an equal weight to monthly arrears (or to arrears on a different type of loan), then home credit customers might be treated unfairly. Others also suggested that home credit data would need to be treated with caution.⁷ Cattles said that only data on loans over a certain size should be shared but this was not supported by any of the other home credit lenders who said that such a split would add cost to the remedy and that data on all loans had some predictive benefit.

⁵CLC said that it believed all lenders with suitable IT systems could share.

⁶Full data is 'positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio'—POR agreement (2005).

⁷These concerns are explored in the relevant customer benefits section in paragraphs 146 to 153.

26. Provident said that credit decisions were based on the character of the applicant, the capacity to make repayments and the consistency of repayments. If full data were shared then this would provide direct information on capacity and consistency and indirect information on character, hence such information was likely to be useful when deciding on whom to lend to. Cattles said that previous payment history was informative and could be of practical use to lenders in assessing new customers. Many home credit lenders also told us that once such data was available they would be able to lend more to customers up-front than they did currently when they used small loans to test a customer's creditworthiness. However, the CC was told by many home credit lenders that repayment records would only be one way of assessing applicants and, given the nature of the agent relationship, it was unlikely that repayment data would be used in isolation, particularly if the company had an existing relationship with a customer. Most mainstream providers who responded to the Notice, even the two⁸ who felt that home credit data was of less use to them, believed that historical payment information was a good (some said the best) indicator of future payment behaviour. Some mainstream providers additionally indicated that anyone responsible for credit scoring models would welcome more data. This was also reflected in the Community Development Finance Association (CDFA) response regarding Community Development Finance Institutions (CDFIs).
27. Most home credit lenders said that more recent data, particularly that from the last 13 weeks, was the best indicator of future performance and hence would be given the greatest weight by lenders (this mirrors the evidence previously given to the CC regarding many mainstream lenders who also regarded the last three months as the most important). However, some said that default data was important for longer periods, particularly if defaults were seasonal or had taken place in the last couple of years. Others, including the CRAs, mainstream lenders and home credit lenders,

⁸Note that one of these mainstream lenders only lends mortgages in the UK.

said that lenders might look at the entirety of the data in a more holistic manner as this data would help the lender assess the character of the applicant and the consistency of repayments. For example, Provident put to the CC that if someone had been paying well over the last few years but in the last 13 weeks had had some specific temporary problem, then the last 13 weeks payment data taken in isolation, without understanding the reason for the problem, might not be such a good indicator of that customer's future repayments.

28. Many of the home credit lenders, in particular the CCA and Cattles, have put to the CC that in order to make home credit data as relevant as possible to home credit lenders, and thus induce as many as possible to input data into a CRA, the repayment data should be entered in a different form, namely a 13-week rolling average of payment performance (PP13). However, other lenders disagreed, and Provident said that 'the LSB method (based on cumulative monthly arrears) can be used to generate much the same data for lending decisions as PP13, and has the benefit of being established, understood and standard in the credit industry'. See Annex 3 for a description of PP13 and the other protocol that is currently used by LSB for its home credit loans.

29. The majority of parties who responded to the Notice believed that home credit loans should be flagged as a separate product within the CRA so that the data could be analysed appropriately. Provident said that the flagging of home credit data would allow the CRAs and others to produce sub-prime score cards, which could be used by all lenders who were interested in sub-prime lending. However, CLC and Debt on our Doorstep (DOOD) were concerned that some mainstream lenders would disregard such data, given the different product characteristics, or at the extreme some mainstream lenders might exclude all home credit customers if they believed having a home credit loan was a negative indicator. The CRAs also said that if home

credit data had different characteristics to other credit products, then it should be described differently so that lenders would be aware that it was different.

30. Professor Elaine Kempson and Redcats said that a home credit 'credit search' should be flagged as such so that the correct weighting could be put on it. Home credit lenders also said that home credit credit searches should be flagged as home credit so that customers were not unfairly assessed as 'credit hungry' by taking out shorter, smaller loans. One CRA [REDACTED] told the CC that currently a credit search was flagged with the account type, so if home credit had a separate account type it would be flagged automatically.
31. CRAs said that they had data testing processes for logic and consistency. These took place at the initial take-on stage and on an ongoing basis. In addition, a lender could be liable under the Data Protection Act 1998 if it sent inaccurate data to the CRA. No one suggested that any more was needed from home credit lenders in terms of auditing the data than from other CRA subscribers.
32. The CC was given no evidence as to the extent to which any home credit lenders which were not required to supply data may wish to participate in the data-sharing scheme, and the CCA was unable to tell the CC exactly how many of its members would be interested, though it stressed that for smaller traders the time and cost of submitting data could be highly problematic. However, one medium home credit lender ([REDACTED]) said that it would input data, in addition some lenders already input default data into Experian through the CCA. The five largest home credit lenders and the CCA could see no problem with other home credit lenders joining as long as they abided by the POR and fulfilled the conditions of the CRAs in relation to the inputting of data.

33. The CC was told by mainstream providers and by the majority of home credit lenders that the agreement of customers to the sharing of data by home credit lenders with CRAs was not an issue. LSB told the CC that none of its customers had raised this as an issue, while other home credit lenders told the CC that their current agreements allowed for this data to be sent to a CRA. A few lenders said that some of their customers might dislike sharing their data, though their customers generally signed agreements that enabled the company to do this.
34. Most home credit providers told the CC that they would be able to enter data within the next 12 months, and many said that they could do it in a considerably shorter time frame. Capital One also suggested that 12 months was a reasonable time frame. However, other third parties said that implementation should be as quick as possible to allow the benefits to reach the customers as soon as practicable.

Revised proposal

35. In response to the points above, the CC has developed the data-sharing remedy into the measures outlined below (see paragraphs 43 to 47). These measures aim to ensure the remedy's effectiveness in addressing the information shortfalls which result in an AEC.
36. The CC considers that full data rather than default-only data should be required in order to allow any non-incumbent provider a more extensive view of the credit-worthiness of a potential customer. If default-only data were provided, then suppliers would be unable to assess the customer's current level of debt or the level of current repayments, and customers would be unable to communicate a good repayment record to other lenders. Hence, though the CC considers that default data would enable other lenders to make better lending decisions and thereby reduce some of the risk associated with new entry, full data would provide a much more extensive

view of the customer's creditworthiness. Cattles suggested that only data on longer, larger loans should be required; however, the CC considers that the incumbency advantage would be better addressed if all loans were entered, as customers could better demonstrate their creditworthiness to other lenders.

37. The CC considers that flagging home credit as a different account type would allow the CRAs and other subscribers of the data to weight home credit data appropriately in their credit-scoring systems and would thus make the remedy more effective. Using a different account type would also allow home credit to have a different protocol for default if a different definition was required. The CC has had no evidence from mainstream lenders, or anyone else, that they would exclude any customer just because they had used or currently used a home credit product. The CC has been told by the CRAs that they would not allow a subscriber to exclude customers from a marketing list on the basis of their having a particular product (in line with POR). The CC also does not consider that having a home credit loan could be in itself a negative characteristic. Hence the CC does not believe that a flag indicating home credit would be exclusionary. The CC has also been told that flagging (ie defining home credit as a new account type) might add some time and additional cost to implementation, both from the point of view of the CRA and from the point a view of other lenders wanting to analyse the data. However, [REDACTED] told the CC that a temporary solution might be to use a weekly payment status field, and thus allow lenders the ability to assess home credit differently, until such a specific account type was developed.
38. Identifying an appropriate cut-off point for providers to be required to share data depends on a number of practical factors, including: the quality of the data, quantity of data and the cost (to both the provider and the CRA). The CRAs told the CC that smaller, less automated suppliers were much more likely to have data quality issues,

take more time to set up, and were likely to cost more to audit (which is currently paid for by the CRAs). If the largest home credit lenders supplied data (the large home credit lenders as defined in paragraph 43), this would cover over 90 per cent of the weekly collection value (and of customers) in the market. The CCA and others told the CC that smaller companies might find the cost of entering data disproportionate, as the IT systems costs would be higher per customer than for the larger firms. One CRA [redacted] and others suggested that a third party processor could sit between the CRA and the smaller companies, but this would result in a processing charge for the lender.⁹ CC guidance states that ‘the Commission will endeavour to minimise any ongoing compliance costs to the parties, subject to the effectiveness of the remedy not being reduced’.¹⁰ The CC currently considers that the remedy will be effective provided that all large home credit providers are included.

39. The CC is currently minded to require that home credit lenders should have agreements with two CRAs. The CC has been told by mainstream lenders and the CRAs that lenders commonly have access to two CRAs when assessing the credit history of a potential lender as this allows them to make sure that they have not missed a piece of information. The CC has also been told that the additional cost of supplying two CRAs with information, as opposed to one, was minimal as each CRA would accept the other’s format and CRAs do not charge when lenders provide information to them. The CC considers that supplying two CRAs will make the remedy effective, but that requiring the provision of data to all three would not increase the effectiveness substantially.
40. The CC does not consider that additional home credit ‘data auditing’ is required, as CRAs have ongoing data testing both for logic and consistency as well as initial

⁹[redacted] said that this charge would be [redacted] while [redacted] said that it could be [redacted]. However, we note that these costs do not include the charges for having an IT system to record the data which would include the cost for a computer.

¹⁰CC3, paragraph 4.12.

hurdles for any data inputs. In addition, a lender could be required to pay compensation to the customer under the Data Protection Act 1998 if it sent inaccurate information to a CRA and failed to prove that it had taken such care as in all the circumstances was reasonably required to ensure accuracy.

41. A common, single protocol for data entry and credit searches will have to be devised to make sure that data is consistent between different home credit lenders and thus can be assessed more easily. The CC currently expects that the CC will sign off any such protocol or any other agreements relating to how the home credit product data will be entered, and at a minimum the CC expects that any such protocol will be used by all home credit lenders who are required to enter data, be recognizable as home credit by other subscribers, be inputted at least on a monthly basis, reflect the payment history of the borrower and be meaningful to mainstream and home credit lenders alike. There is an existing standard on data input used by LSB (see paragraph 28 and Annex 3), although currently this data is not flagged as home credit data. The CC does not consider, based on current evidence, that the monthly arrears-based approach used by credit unions and LSB is significantly less reflective of recent customer behaviour than the alternative approach suggested (PP13), and considers that PP13 as currently proposed may be less attractive to mainstream lenders and hence might make data sharing less effective as a remedy.
42. The CC notes that evidence currently suggests that there is no intrinsic reason why home credit data could not be entered into a CRA in a meaningful manner.

Summary of the proposal

43. The CC currently considers that any 'large home credit lender' (the CC currently considers that the definition for a large home credit lender would be any company with over 50 agents) will be required to do the following:

- (a) provide full data¹¹ on all¹² of their customers' new home credit loans (both cash and vouchers), and on all existing loans on which it has consent to share data, to at least two out of the three CRAs mentioned in the POR agreement (2005);
- (b) provide data using a single protocol approved by the CC; such a protocol would have to be acceptable to all the CRAs, SCOR, and the Information Commissioner. The CC notes that one such protocol has been agreed by those organizations and is currently used by a number of credit unions and LSB for their weekly repaid loans; however, this protocol does not define the home credit product as a different account type; and
- (c) the CC considers that all large home credit lenders should get consent to enter such data into a CRA from all customers for all home credit loan agreements from the time of the CC order or acceptance of the undertaking in order to make this remedy effective in the shortest possible time frame.

44. Home credit would be defined as a different account type by the CRA, and as such would be recognizably different from other account types such as personal loans or credit cards. However, companies inputting data would be able to access data on other products in line with the POR. The CC does not consider that home credit lenders will require data audits additional to those of other CRA subscribers.

45. Though there would be no requirement relating to the use of credit searches,¹³ any search made by a home credit company would be flagged with the account type and thus could be interpreted differently by a user of the data from other types of shared credit application searches as defined by the POR agreement (2005).

¹¹As defined by the POR agreement (2005), ie 'positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio'.

¹²In practice, this would mean that no home credit loan could be provided to a customer unless the customer signed a consent to supply such information to a CRA.

¹³The DTI told us that it 'could see no reason why a home credit company would be obliged to do a credit check before providing credit simply because it had inputted data.

46. The CC believes that it would be desirable for other providers to share data but considers that this would be voluntary as smaller home credit lenders would not be required to share data. However, we note that if they did so it would be necessary for them to use the agreed protocol and they would be bound by the general POR as they would become a CRA subscriber; hence if a lender only provided default data, it would only have access to default data.
47. Home credit lenders would be expected to agree a protocol that would relate to all home credit lenders within a specified time frame. If no such protocol was agreed, then at a minimum, the data as defined by the current protocol used by LSB, but where the data was recognizable as home credit, should be adopted.

CC consideration of design and effectiveness

48. This remedy would work by reducing the information advantage enjoyed by incumbent lenders over other actual or potential lenders (home credit or otherwise) arising from preferential knowledge of their customers' loan repayment history with them. Such incumbency advantages were identified in the provisional findings as a factor reducing competition from mainstream credit (paragraph 4.71); contributing to barriers to entry and expansion (paragraphs 5.25 to 5.31); and reducing competitive intensity between home credit suppliers (paragraphs 6.102 to 6.113).
49. Requiring lenders to share repayment information will mean that customers should find it easier to demonstrate their creditworthiness to new lenders, and this should thereby increase competitive pressure on home credit from other forms of credit, from new entry and between credit providers. Each of these processes could be expected to lead to customers with good payment records having access to a greater number of credit sources and paying a lower price for credit (see paragraphs 146 to 153 for the discussion regarding relevant customer benefits).

50. The effectiveness of this remedy is likely to be greatest:

- (a) If information on the majority of home credit loans is shared. The value of data sharing is likely to be greatest if a complete picture of customers' credit commitments is available. However, the structure of the market means that a large proportion of all loan records are accounted for by a small number of suppliers. As noted above, practical considerations also come into play, in determining which companies should be obliged to share data.
- (b) For a significant number of customers, sharing of repayment history makes it more likely that other lenders will provide them with credit. The evidence that the CC has seen suggests that most home credit customers who settle a loan would be perceived by other home credit lenders—and by some mainstream lenders—as having repaid the loan successfully and approximately to time. This suggests that wider access to their home credit repayment history would increase such customers' chances of being perceived as a good credit risk¹⁴ and thus increase their choice of credit products. [redacted] of Provident's home credit customers do not appear on CRAs. Such customers are very unlikely to be provided with credit by mainstream lenders or by some other home credit lenders, such as S&U and Mutual. However, while the average collection performance of this cohort [redacted] (with customers on average making [redacted] per cent of repayments), it represents a good payment performance by home credit standards.
- (c) Data sharing facilitates new entry and competition from outside the home credit sector. Park told us that entry would have been considerably easier, had information about customers' home credit repayment history been available. This remedy is most likely to be effective if it increases external competitive pressure on current home credit players as well as increasing rivalry between them. While some non-home-credit lenders show limited appetite for taking on more home

¹⁴See Annex 6. Many aspects of home credit lenders' behaviour indicate that they regard repayment history as a valuable indicator of customers' likely creditworthiness. Such aspects include: step-up loans, the effectiveness of the [redacted] scoring model for [redacted] and the widespread collection and use of payment data in lending decisions.

credit customers, others [✂] would be interested in increasing their sub-prime lending activities, particularly if better lending decisions could be made as a result of better information.¹⁵ The development of mainstream products targeted at sub-prime customers has been largely driven by the analysis of shared repayment data, suggesting a positive link between data availability and suppliers' willingness to extend credit towards higher-risk customers given the ability of lenders to price the relevant risks with the aid of such data.

(d) Increased rivalry, between home credit lenders, is focused on price. The CC found that, in the absence of data sharing (among other factors), competition between home credit lenders was more likely to focus on availability than on price, and that incumbent lenders had substantial advantages where this was the case. Reducing incumbency advantages should make it easier for other lenders to make similar amounts of credit available to customers with good repayment records. This should increase the focus on price as a competitive variable, both within home credit and with other forms of lending. However, other direct measures to stimulate price competition would complement data-sharing.

51. It is likely that the remedy will take at least six months to implement following a CC order, as the interfaces will have to be built that can transport data between home credit companies and the CRAs in a format that agrees with whichever protocol is accepted. Provident suggested that three months of data could be enough for making initial predictions. Clearly it is likely to take a longer period for usage of the data and its predictive value to build up to maximum effect.

¹⁵The potential impact of data sharing on the efficiency of lending decisions was expressed by one non-home-credit lender as follows:

We assess applicants by credit scoring—statistically derived weights based on historical analysis. We use all the information that we have available. Where applicants have no credit account data there are other factors in our models such as age, geodemographic data, credit searches, electoral roll info etc that discriminate between them. Home credit data will provide additional discrimination and this means that we should be able to create more efficient models. We would improve our ability to discriminate between good and bad customers (e.g. what is the difference in risk between a customer with no data, a customer with a performing home credit loan and a customer with a delinquent home credit loan?) allowing us to accept additional customers.

Source: Response of Redcats (UK) Plc to provisional findings.

Price information

Initial proposal

52. In the Notice the CC proposed a requirement that home credit lenders publish indicative prices for some or all of their products. Further, the CC questioned:
- (a) whether indicative prices should be shown for all cash products;
 - (b) whether all home credit lenders should be required to provide indicative prices;
 - (c) how best to publicize indicative prices to make them accessible for the customer (possible 'points of publication' might include Citizens Advice Bureaux, teletext, a central telephone service and a central website);
 - (d) what should be disclosed in the indicative price in order that customers have relevant comparators, for example the term of the loan, weekly payment, APR, rebate terms and TCC;
 - (e) whether the points of publication should be mentioned in all advertising or marketing material produced by the companies;
 - (f) who would be responsible for monitoring and compiling any such points of publication, the likely costs involved and who would be responsible for the cost;
 - (g) whether lenders should additionally be obliged to remotely provide indicative prices to customers on request (over the telephone, by post or online); and
 - (h) whether any point of publication would also provide details of the home credit lenders active in particular areas.
53. The CC provisionally found that home credit customers appeared to pay more attention to the availability of credit than to the level of the weekly payment, or to measures of value (the price) such as the annual percentage rate (APR) or the total cost of credit (TCC), and that customers' observed insensitivity to price was reinforced by their difficulty in assessing and comparing prices. The CC also found that price competition among lenders was weak. As set out in the Notice, the price information remedy would endeavour to ensure that home credit customers are

better placed to make informed decisions regarding their use of home credit and home credit lenders have a stronger incentive to price competitively. The remedy addresses the lack of price sensitivity and the lack of price competition that result in an AEC.

Responses to the notice/hearings

54. There was general support for clearer price information and for a price database both from third parties and from home credit lenders. Third parties said that better price information would be beneficial to customers, particularly if that information could get to the customers at the right time and in the right form. Some home credit lenders also expressed interest in using information from a price database for comparative advertising, and said that such a database would make it easier for them to market on price.
55. The five largest home credit lenders and the NCC said that all home credit companies should have to provide information on all their cash loans. Regarding a website, the CCA said that 'every member should participate in this and geographical areas would be one of those inclusions ... We think that, if all members participated, it would be a comprehensive record of all geographical areas and would be available for everyone to see'. Other lenders said that if customers and lenders were able to search a database by area, then it would be unlikely that there would be so much information as to make it unworkable.
56. Many third parties and most home credit lenders said that information relating to the TCC, weekly payments, the term, location and any additional charges should be included on the database. Money Advice Trust/National Debtline (MAT/NDL) and some home credit lenders also said that the APR should be published as it could be used to compare loans, and if the database was to be used for marketing, APRs

would have to be quoted, so that the inclusion of an APR increased the utility of a database for lenders who wished to compete on price. Others, including the CCA and S&U, said that the APR should be excluded as it was of little help to the customer when comparing home credit loans, it did not accurately reflect the true cost of a home credit loan compared with other types of credit and it could confuse and mislead the customer.

57. All parties said that a database should be given in a local context so that customers, third parties (such as Citizens Advice and TSOs) and lenders could search for relevant and accessible alternatives. There was, however, some disagreement as to the local extent of data, with some suggesting that the database should be searchable down to the postal district and some to the postal area (see Table 1). The former said that the increased granularity would make the data more relevant, while the latter said that it was difficult to say without a potential customer or customers in mind whether they would or would not serve those in an adjoining postal district, hence a postal area would be better, particularly for those lenders who wanted to expand their operations.

TABLE 1 **Postcodes**

<i>Name</i>	<i>Location</i>	<i>Component format</i>	<i>Number (as at May 2005)</i>
Postal area	Out code	WC1B 4AD	124
Postal district	Out code	WC1B 4AD	3,064
Sector	In code	WC1B 4AD	11,598
Unit	In code	WC1B 4AD	1.78 million approx

Source: ONS.

58. The CCA said that any database should also note that the information contained related to home-collected credit and that the cost included the collection charge. The CDFA suggested that other local but non-home-collected lenders of weekly-paid, cash loans such as credit unions and CDFIs should also be able to add information to the database.

59. DOOD and Which? said that the database could be put on to a website that customers and third parties could access to get up-to-date information regarding their particular area. Other third parties pointed out that home credit customers mostly relied on word of mouth, and many did not have access to the Internet or did not use their access due to cost constraints. Provident said that [X] per cent of its current customers had Internet access at home and that [X] per cent of all direct applications (ie applications by telephone, coupon and the website) were applications via the website and it believed that Internet use was likely to increase in the future.
60. The OFT put to us that a better approach than a website would be for each home credit lender to produce a leaflet showing price information for its products, in a comparable format. The leaflet could be promoted via advertising material, and made available to consumers on request and prior to any sales visit (a relevant time). Others, including DOOD, believed that leaflets could be used in addition to a website. Home credit lenders said that, given the overlapping nature of home credit loans and the fact that customers could have up to ten concurrent loans [X] with one company and often renewed loans before the ending date, they were unsure as to when the relevant time for making the leaflet available would be. The CC was also told that the point of sale was too late for such information to be presented to the customer. Home credit lenders were also concerned that any leaflets might quickly become outdated, and that ensuring that their agents delivered them would be difficult,¹⁶ and suggested that any leaflets provided by an agent regarding comparative prices would not be viewed by customers as impartial.
61. Which? runs some comparative websites and pointed to the high correlation between publicity spend and amount of customers using the websites. Both Which? and the

¹⁶If you were asking all the agents to distribute leaflets on competitive products at the point of sale and we were to agree to that, our job in trying to make sure our agents were complying would not be a straightforward one' — Provident Financial.

FSA suggested that there was a type of customer who was more likely to use such comparative information. This type of customer tended to be more price sensitive.

62. All parties said that prices should be quoted by home credit lenders over the phone in addition to any information being provided on a website. Many home credit lenders said that they already provided this service, for example Provident said: 'if somebody phones up and asks our prices we tell them. If someone asks us to send out a written quotation, we do. Again, all our materials will say, full written quotation available on request so, from our point of view, that provision of that information is what we do'. However, we found in the provisional findings that it is not always easy for customers to find out the prices of competing products (provisional findings paragraph 6.76).
63. Citizens Advice, MAT/NDL, Mutual and the OFT suggested that Citizens Advice Bureaux and the TSOs would not be a good place to give out such information, as they were not set up to do so and they would not be used by customers looking for pricing information pre-purchase. In addition, the provision of such information might be seen as a recommendation by them to customers, and hence would not fit with their stated aim of giving free, impartial and independent advice.
64. The NCC and DOOD and many of the home credit lenders stated that the OFT was best placed to monitor and collect any information. Cattles suggested that the CCA could also be in a position to be able to host a website; however, the CCA and Provident considered that the OFT would be the best body to host a price comparison website. Furthermore Mutual said that it would be very keen that the price comparison website was run by an independent body—certainly not the CCA—and monitored by the OFT which would increase the level of customer confidence.

65. The CC was told by the OFT that websites can be expensive to operate and to keep up to date. However, the CCA and others told the CC that the cost of a website would be small. Provident said:

The creation of a website in itself is not expensive. The costs that we incur as we move forward are not that expensive in terms of hosting and having it available. The major costs if you want to have a website which drives a lot of traffic to it is how it works within the search engines and everything else. They are your key variable costs. Creation of the website should not be expensive.

Mutual suggested that any such website could be paid for by the parties with contributions based on the volume of entries. NCC also told us that it believed that the industry should fund such a system.

66. There was a range of views from the home credit lenders as to which advertisements and marketing material should contain references to a website. Provident said that any advertisements which showed a price should include a reference to a website, whereas Mutual said that a brief reference could be included in any marketing material.

Revised proposal

67. In response to the points above, the CC has developed the price information remedy into the following proposed measures (see paragraphs 70 to 76). These measures aim to optimize the remedy's effectiveness in enabling home credit customers to be better placed to make informed decisions regarding their use of home credit, and giving home credit lenders a stronger incentive to price competitively, thus responding to the concerns put to the CC.

68. The CC has considered a number of factors relating to the best provision of information. In particular, the CC has considered *what* information should be communicated to the customer; *when* this information would be helpful; *how* the information should be conveyed; and by *whom* (see Table 2). The CC also notes that any information provided as a result of the price information remedy would be one of a number of sources of information (eg some lenders' contact details may already be in classified directories etc), and that comparative information once collected may be 'recycled' by third parties, to highlight best value offers.

TABLE 2 **Issues in the design of price information remedy**

<i>What information is communicated to customer?</i>	<i>When is information helpful to customer?</i>	<i>How information communicated to customer</i>	<i>Who communicates with customer?</i>
Generic advice (eg how to choose a supplier)	When considering new loan	'Buyers Guide' by trusted agency	Websites. Leaflets. Advice centres.
Individual suppliers' prices	When considering a new loan	Quotes from suppliers Loan documentation Statements	Lender
Comparative prices	When considering a new loan	Comparative tables by trusted agency	Website Third parties using info
Credit providers in local area	When considering a new loan	Lists of local providers Classified directories	Website Third parties using info

Source: CC.

69. The CC considered the OFT suggestion that standard leaflets should be issued by home credit lenders and/or by TSOs and given to the customer at the point of sale or with a statement. The OFT felt that leaflets would be better than a website as a delivery mechanism for price information and/or lists of local lenders. However, the CC noted that a website has the following advantages for comparative price information:

- (a) All the information about all lenders would be in one place. This would make it cheaper to update, easier to monitor, and simpler for price comparisons to be made by customers or by third parties who may wish to republish the information. Mutual and other home credit lenders said that the website would be more useful to companies than to individuals as it would enable them to get local comparisons out very quickly.

- (b) A website could be interactive, so customers could search on the criteria that are most important to them (ie if they were most concerned about the weekly payment, then they could search using that criterion).
- (c) A website would be accessible to many customers from their own homes ([X] per cent of Provident's current customers have Internet access at home), and others might have access to a computer in the workplace, the library or an advice centre. Coverage may also be increased by third parties republishing website information.
- (d) By definition, it fits with the 'right time' as the customer could access information whenever a customer wished to look at it, not just at the point of sale which the CC has been told by lenders and third parties is both too late and not appropriate.
- (e) It would be easier to monitor and hence enforce than a leaflet, particularly if the remedy relied on agents delivering leaflets to customers at the point of sale.

Summary of the proposal

70. The CC proposes that all home credit companies should be required to publish, on a website, 'comparative information' to a centralized database for all their 'available home credit loans'.¹⁷ The CC currently considers that 'comparative information' should include, but may not be confined to, the following:
- (a) TCC per £100 advanced;
 - (b) the weekly payment;
 - (c) term in weeks;
 - (d) APR;
 - (e) postcode districts where the product is offered (ie the first three/four digits at the start of the postcode);
 - (f) minimum and maximum loan amounts;

¹⁷We are considering the definition for an available home credit loan but believe one definition could be any loan of a description that was taken out more than 100 times in the last year, or could reasonably be expected to be taken out 100 times in the following year.

- (g) any other essential product information such as: any restrictions on who the loan could be issued to (eg a loan which is only a refinance loan); if the loan is not home collected; or if a customer has to save before having access to the loan;
- (h) any additional charges for missed payments, home collection, compulsory insurance etc; and
- (i) the company's name and a contact telephone number.

- 71. The CC proposes that the website operator should be independent and unrelated to the home credit sector, should provide a trusted source for customers and should be able to provide other information relevant to the customer at the same time. Operation of the website may need to be monitored by an appropriate agency to ensure that the website information continues to be accurate and complete.
- 72. It is envisaged that only medium and large home credit lenders (as defined in paragraph 43) would be charged by the site operator but the amount it would charge would be sufficient to cover the cost of setting up and running the website, processing all the data, as well as ensuring that it was accessible and appropriately marketed. There would be a sliding scale of charges based on size. The CC currently considers that the definition for a medium home credit lender would be any company with over ten agents.
- 73. Home credit lenders would be able to enter data on any home-collected cash loan in addition to those required in paragraph 70 as long as the lender confirmed that the data entered was accurate and that the loans were available to customers. In addition, home credit lenders and other lenders (such as credit unions) would be able to publish on the site details of any cash loan that could be repaid in cash to a central collection point, such as an office. However, the fact that these loans were not home

collected would have to be stated alongside other loan details such as charges for missed payments.

74. At a minimum, the website would enable users to compare the prices of loans in a certain area, and would provide information regarding customer rights and issues to bear in mind when choosing a loan (see Annex 4 for a mock-up of a website).
75. The CC considers that any advertisement that was required by the Consumer Credit (Advertisements) Regulations 2004 to include the APR (broadly, if it contained any reference to price) would also have to contain a reference to the location of the website. The font of the reference to the location of the website should be no smaller than the largest font size of the price material. The CC is also considering any other appropriate cut-off points after which an advertisement would need to contain a reference to the website and considers that at a minimum all home credit company websites should contain a link to the website. In addition, all payment books (whenever these are given to customers), statements, flyers, and direct mail sent by home credit lenders to customers would be required to include a reference to the website on the first page.
76. All home credit lenders would have to provide their pricing information on all cash products on request (whether over the phone or in writing) and would have to provide a written quotation if requested within one week of a request.

CC consideration of design and effectiveness

77. The CC believes that this remedy would increase customers' awareness of differences in prices charged by home credit lenders, reduce search costs and increase lenders' incentives to compete on price, by making it more likely that offering lower prices would result in additional sales and by making it easier to

produce comparative price advertisements. It would not be necessary for all home credit customers to use the website for this remedy to be effective.

78. A price information website is most likely to be effective if:
- (a) customers are interested in obtaining credit on better terms. While customers' current observed lack of price sensitivity may suggest that this is not so, other evidence (eg that customers are generally cost-conscious and operate on tight budgets) suggests that some customers would be interested in borrowing more cheaply, if they were able to do so and had better information;
 - (b) customers and others are aware of how to find price information. This is essentially a matter of implementation and marketing the website. Pricing information is more likely to reach customers if it is 'recycled' by third parties and if they are made aware of how to find it (eg on statements). Enabling other local lenders—eg credit unions—to advertise their products may help encourage wider use of this information source;
 - (c) other home credit lenders use the information for marketing their products, for example lenders who have lower rates might want to bring this to the attention of potential customers; and
 - (d) once customers find the information, they find it useful in comparing prices of products. Again, this comes down to the detailed implementation and design of the remedy. The CC is aware of the dangers of information overload. The CC notes, however, that customer research conducted by Provident indicated that home credit customers made sensible choices between products when presented (in the course of a research study) with full information about different home

credit products.¹⁸ Providing information in a clearly comparable format would help customers to do that.

79. It seems likely that any website could be operational in three to six months depending on the amount of market research that would have to be undertaken, the time to design and set it up and the time required by home credit lenders to produce the relevant information.

Statements

Initial proposal

80. In the Notice, the CC proposed a requirement that statements should be provided to home credit customers in a form and at times that were most appropriate. The Notice suggested that these statements should be capable of conveying information regarding customers' creditworthiness to lenders with whom the customer did not currently have a relationship, and that they could provide details of the cost of loans in a form that would address the customer's lack of price sensitivity. The CC noted that home credit suppliers are required to comply with section 77 of the Consumer Credit Act 1974 (under which customers can request a statement for the price of £1) and will be required to provide a statement annually, for loans that are not settled within one year of the agreement, when the relevant provisions of the Consumer Credit Act 2006 come into force. The CC further asked whether statements should be provided more than once a year and whether customers should have to pay for any requested statement.
81. The Notice stated that statements may act as a conduit for price and other information to customers, a record of lender's data as sent to a CRA and a 'credit certificate' that could be used by customers when switching credit providers. As set

¹⁸See paragraph 6.69 of the provisional findings.

out in the Notice, the statements remedy would address two of the features contributing to the AEC and support the data-sharing remedy by giving the customer a record of the lender's information. Statements should reduce customers' insensitivity to prices, by making products easier to compare and by pointing customers to price comparison websites, therefore they would address a feature identified in the provisional findings. That statements could act as a 'credit certificate' would also help to address incumbency advantages arising from incumbent lenders' knowledge of their customers' repayment history.

Response to the Notice

82. All parties have stressed the need to make any such statements relevant and clear so that information is conveyed to the customer in the most effective manner.
83. Many third parties are in favour of more frequent statements for customers than required under the Consumer Credit Act 2006 and favour the free provision of requested statements. The OFT suggested that a statement should be provided every three months (to give a record after 12 payments), whereas the NCC, MAT/NDL and Citizens Advice have all suggested that statements should be given to customers every four to eight weeks. The OFT said that more regular statements would greatly improve the transparency of home credit. Citizens Advice said that statements should provide borrowers and prospective lenders with information on outstanding balances and that a number of their clients have been unable to establish basic information about their home credit loan such as the amount outstanding or the recent payment history.¹⁹ Some third parties, in particular Professor Elaine Kempson, and many home credit lenders have suggested that

¹⁹Citizens Advice said that where this had been the case, inadequacies with the payment book or the agents' record keeping had been at issue.

significant numbers of customers would not keep or read such statements which would imply that they would be of little benefit to such customers.

84. Both RBS and Capital One noted that a statement might be a more effective credit certificate than a payment book. However, they believed that statements were unlikely to lead to greater access to mainstream loans as decisions for those loans would continue to be based on CRA data.

85. All home credit lenders argued that, though they were content with the expected results of section 6 of the Consumer Credit Act 2006 (which required annual statements) and the regulations to be made under it, they believed that more frequent statements were not required for the following reasons:

(a) A statement would not be as effective as a credit record on a CRA as a means of conveying creditworthiness to other suppliers, hence to do both would be unnecessary.

(b) A statement would not provide any additional benefits over a payment book in terms of providing a credible, portable record for customers among home credit providers, further that the vast majority of customers had these payment books and that payment book were likely to be more up-to-date.

(c) More frequent statements would be costly for providers (adding about 35p per statement based on the CLC numbers) and hence are disproportionate.

The CC was told by home credit lenders that the £1 that could be charged for a requested statement was useful as it acted as a deterrent to customers requesting additional statements. However, home credit lenders also told us that it might cost more to collect the £1 for the additional statements than the £1 fee, and that it went against the view that the home credit product had no extra charges.

Revised proposal

86. In response to the points above, the CC has developed the statement remedy into the following measures, which aim to ensure the effectiveness of the remedy (ie a conduit for price and other information to customers, a record of provider's data (where relevant) and a 'credit certificate' that could be used by customers when switching credit providers) while responding to the concerns put to us by home credit lenders and others.

Summary of the proposal

87. The CC proposes that all statements provided under the current and new legislation on request and yearly would have to contain 'specified information'.²⁰ The CC expects that this specified information would increase transparency, make it easier to compare products and enable the customer to switch more easily. These statements would have a standard set of boxes providing the specified information which would be laid out in the same way on each statement for each loan. The FSA told the CC that in order to encourage comparisons, consumer research suggested that it was beneficial not only to stipulate the information that has to be given but that information should be set out in a similar way. The specified information would include but may not be confined to the following:

- (a) the customer's name, address and account number; the name and credit licence number of the provider;
- (b) TCC per £100 advanced and the APR for the loan;
- (c) term in weeks for the loan;
- (d) the contracted weekly payment for the loan;
- (e) notice of any additional charges for missed payments;
- (f) who to go to if the customer gets into trouble with the loan;

²⁰The CC is aware that the DTI is in the process of introducing new requirements for annual statements and issued a consultation paper, including draft regulations, on 2 August, which will apply to loans lasting a year or more. The CC will consider how the specified information listed above can reflect the requirements in the regulation and hence allow the two statements to be combined.

- (g) the website address for price information;
- (h) details of how to request additional statements;
- (i) the number of loans currently outstanding with that supplier;
- (j) the payment history (amount paid, any weeks an arrangement was come to, and the running total) for the loan; where relevant, this history should be consistent with any data that had been entered into a CRA; and
- (k) information on how to settle a loan early.

88. The CC believes that the statements as described above could be used as a conduit for information, as a record of the information that is sent to the CRA, and may in the form specified act as a better credit certificate than a payment book, particularly if the statement can be requested by a customer at the time that he or she is interested in switching lender. The CC also notes that the only information currently required on a requested statement is (a) the total sum already paid, (b) the total sum currently owing and (c) the total sum which is to become payable, and the various amounts comprised in that total with the dates they become due. In the CC's opinion, these statements do not currently address the AEC in the home credit market.

89. The CC also proposes that all home credit customers could request one free statement per quarter or one per loan (whichever allows for more requests). These requested statements would have to be posted to the customer within one week of the request being made (either to the agent, by email, to a central call number or in writing). The requested statement would include information on all home credit loans outstanding with the home credit lender at the time of the request; however, each loan would be presented separately and contain the specific information as defined in paragraph 87 (except the information on how to ask for additional statements). A statement could be requested at any point during a loan and up to 12 weeks following the date on which the loan is settled.

90. Information regarding the ability to request, and how to request, statements would be provided in all payment books (where these are given to customers) and at the point of taking out a loan. In addition, any direct mail sent by home credit lenders to customers would be required to include a reference to the ability to request statements.

CC consideration of design and effectiveness

91. The payment book is not mandatory, and according to the CC NOP survey a significant minority (18 per cent) of customers did not have an up-to-date record of all their payments in their possession. The CC considers that a payment book could be used to convey information to the customer, if it was mandatory to give payment books to customers and to keep them up to date. However, it would not be feasible to require a lender to keep payment books up to date as customers are not always able to produce them at short notice. Hence, the CC continues to consider that such a book is not sufficient for customers wanting to prove a credit history for the reasons set out in the provisional findings (paragraphs 4.71, 5.29 and 6.108).
92. Given the responses to the Notice, particularly from two mainstream lenders (Capital One and RBS), the CC considers that statements would not be sufficient for customers wanting to prove a credit history with mainstream suppliers, and notes that it is likely that only positive statements would be shown to any potential lenders. However, the CC continues to consider that statements would be a valuable information conduit and would be useful for customers who wish to change suppliers within home credit (or lenders who do not lend remotely), particularly if they were requested at a time when customers may wish to switch, and would act as a record of the provider's data as recorded with the CRA.

93. An advantage of the statement as an information conduit is that there is a reasonable degree of certainty that the customer will actually receive the information contained in a statement (otherwise the lender in question would be in breach). However, as noted, not all customers may pay attention to the content. Where statements are provided to customers whose current lenders are not sharing data, then they will be an additional record of credit performance.
94. In addition, the CC considers that a statement may make it easier for customers to challenge inaccurate information that has been provided to CRAs which could improve the effectiveness of the data-sharing remedy.
95. The CC considers that any statement remedy could be operational within nine months from the date of an order or acceptance of undertakings.

Early settlement rebates

Initial proposal

96. In the Notice the CC proposed a requirement that home credit lenders give a higher rebate to customers who settle early rather than the minimum rebate that they are required to give under the Consumer Credit (Early Settlement) Regulations 2004. Further the CC questioned:
- (a) whether home credit suppliers should be required to give a higher ESR to customers than that based on the actuarial formula outlined in the Consumer Credit (Early Settlement) Regulations 2004;
- (b) whether the higher ESR should be based on the actuarial formula or whether it should be based on a straight-line method of dividing the TCC into equal weekly amounts; and

(c) whether, if the ESR is to be based on the actuarial formula outlined in the 2004 regulations, home credit suppliers should be entitled to retain interest for any period after the actual settlement date.

97. The CC provisionally found, and stated in the Notice, that the price paid by customers when they repay loans early, including when they renew loans, is high, as a result of the low level of rebates paid when loans are settled early. Most customers have not received more than the statutory minimum rebate calculated using contractual repayments. Further, the CC found that most lenders failed to compete on the level of the rebate and that this was part of a wider failure to compete in any significant way using price as a competitive weapon (see paragraph 7.17).

Response to the Notice

98. All customer groups said that they would support giving more money back to the customer and most agreed with the CC analysis that suggested that the current rebate appeared to offer poor value. Citizens Advice and the NCC further said that any method to calculate the rebate should reflect the fair indemnity for early settlement and as a result neither create an incentive to settle loans early nor create a disincentive for firms to offer early settlement when it is beneficial to the consumer.
99. The OFT told the CC that a distinction should be drawn between the capital balance outstanding on early settlement, and redemption charges over and above this. The former should be based on an actuarial method and not a 'straight-line method', as the latter could lead to excessive cross-subsidization between groups of borrowers. Further, they said that though it was reasonable to allow some deferment of the settlement date, as a proxy for reasonable administrative costs on early settlement, 28 days seemed excessive for a short-life loan and was likely to over-compensate the lender.

100. As a result, the OFT had argued previously for a 13-day deferment in the case of loans repayable weekly,²¹ with no additional deferment for loans of more than one year. The OFT stated further that there should be no deferment where the borrower was refinancing with the same lender or where the borrower chose to settle immediately by sending the correct money or overpaying. In such cases, the relevant date for calculating the ESR should be the actual date on which settlement took place. The CC noted in the provisional findings over three-quarters of home credit loans that settle early were renewed.
101. The vast majority of home credit lenders and the CCA were opposed to any ESR remedy and believed that such a remedy was unwarranted, for the following reasons:
- (a) They disagreed with the CC's analysis of ESRs and with the conclusion that the rebate given to customers did not adequately reflect the costs avoided by lenders when customers settle early.
 - (b) They did not see why home credit should be treated any differently from the rest of the consumer credit industry. They also said that the current legislation had just changed after consultation between the DTI and industry with the aim of getting a fair balance between lender and consumer, and that the home credit sector had been considered extensively as part of that DTI consultation.
 - (c) They believed that any increases in the ESR would lead to an increase in the price for all customers, as there would be an increase in administrative costs and an increase in the rebate for some customers (see paragraphs 162 and 163 for a more detailed analysis of costs).
 - (d) They did not believe that the remedy would address an AEC, as they did not believe that lenders would ever compete on ESRs. They said that the CC's provisional findings did not identify any real evidence of an AEC.

²¹See section 2 of the OFT response to the DTI consultation on the Consumer Credit Act, March 2004.

102. The DTI told the CC that in framing the current regulations relating to early settlement of loans, the DTI had not examined, and had never claimed to examine, in depth the actual costs incurred by lenders by sector. If the cost structure in home credit now emerged as different from the generality of other sectors, it was appropriate and defensible to amend the regulations in respect of home credit alone. It would, however, be preferable for any amending order to take as its starting point the actuarial formula incorporated in the existing regulations and to provide a variant upon it, rather than to attempt to create an entirely fresh regime.

Revised proposal

103. In response to the points above, the CC has developed the ESR remedy which aims to preserve the remedy's effectiveness while responding to the concerns put to us.

104. In response to the points made by the home credit lenders, the CC notes the following. First, for the purposes of this document, the CC has maintained the working assumption that the AEC is unchanged from that outlined in the provisional findings (see paragraph 13). Second, the CC does not consider that there is an overwhelming case for home credit to be treated the same way as all other consumer credit products (see paragraph 156) given that there are clear differences which would justify different treatment, notably the nature of the product and the AEC that the CC has found in the market. Third, the CC notes that the recent increases in minimum statutory ESRs have not led to headline price increases. The CC further considers that even if such overall price increases were implemented to take into account the actual cost of the rebate, this would lead to more transparent and cost-reflective prices for home credit loans than is currently the case. Fourth, as the CC noted in the provisional findings lenders fail to compete in any significant way using price as a competitive weapon (see paragraph 7.17)—the CC considers that this encompasses failure to compete on rebates. Finally, while competition on rebates

between home credit lenders was limited, the CC notes that at least two home credit lenders said that they competed on rebates.

105. As noted earlier, the OFT proposed that there should be no deferment period for renewal loans or for loans that were settled on the settlement date (ie the customer paid the correct amount or more to settle at the point of request) but that there could be 13 days' deferment if the customer requested to settle early but did not pay at that point. This difference in treatment would seem to make the remedy more complex and difficult to monitor. Evidence in relation to the Republic of Ireland suggests that lenders could seek to exploit any distinction in treatment between renewals and other early settlements if these were treated differently. For example, the CC was told that lenders might refinance in the week following an early settlement or lend to another family member at the same time as settling with another. In provisional findings the CC did not distinguish between the impact of rebates on renewals compared with other forms of early settlement. The CC therefore proposes a common approach for all early settlements.

106. The CC considers that using the actuarial formula will mean that home credit remains broadly in line with the rest of the consumer credit legislation. Having considered the various views raised in response to the Notice and the CC's analysis of the relevant costs as outlined in the provisional findings, the CC believes that a deferment period of no more than 13 days is appropriate, in view of the costs of setting up a loan, the costs avoided by lenders when loans settle early and the administration costs incurred by lenders on early settlement. Using the actuarial formula with the above deferment is consistent with our analysis of costs presented in the working paper on Early Settlement Rebates. The CC proposal addresses the issue of over-generous deferment allowance for these short-life products.

107. Under the 2004 ESR regulations, lenders are permitted to choose whether to use actual or contractual repayments to calculate the ESR. Most home credit lenders currently use contractual repayments to calculate ESRs.²² The CC was told by the CCA, in comments on the working paper on ESRs, that if lenders were not allowed to delay the settlement date, a common commercial response might be to calculate ESRs on the basis of actual repayments.²³ It is difficult to assess the likelihood of this reaction by suppliers. If this were to happen, then there is a risk that the remedy would be ineffective, as many customers would not receive higher ESRs than at present (and some would receive less). It was also put to us that calculating ESRs using actual repayments was a fair approach, as customers who miss repayments impose a cost on lenders, which it is reasonable for them to recover by offering lower rebates. However, the impact of calculating rebates using actual repayments for loans with high APRs is that customers can face substantial reductions in rebates for missing a small number of repayments, particularly if these are missed early on during the loan. This does not appear to be consistent with the observation that occasional missed repayments are a common and accepted feature of home credit and do not have a charge associated with them. The reductions in rebate implied by the actuarial formula are much larger than the extra funding costs associated with a missed repayment. Therefore the CC considers that, in home credit, a minimum ESR calculation based on contractual repayments is more appropriate, and fairer to customers, than one based on actual repayments.²⁴

Summary of the proposal

108. All home credit lenders would be required to give an early settlement rebate at least as generous as one based on the actuarial formula set out in the Consumer Credit

²²We were told by some lenders that this was for the pragmatic reason that the calculation was easier to make on contractual repayments.

²³We were also told that some lenders who switched to using actual repayments would make less effort to collect repayments on time, in order to benefit at early settlement. It appears to us implausible that many lenders would increase their exposure to credit risk in this way, solely in order to benefit from a more favourable ESR.

²⁴CC working paper on Early settlement rebates, paragraphs 42 to 45.

(Early Settlement) Regulations 2004. In calculating a minimum rebate, lenders would not be allowed to defer the settlement date for more than 13 days or to use actual repayments.

CC consideration of design and effectiveness

109. The provisional findings indicate that overall price levels (encompassing both headline prices and the terms on which customers can settle early) are higher than those in an effectively functioning market. They also indicate that those customers who exercise the right of early settlement are not receiving adequate rebates. The CC considers that remedial action will secure that those customers who settle early are not exploited, in addition to the more general measures aimed at stimulating headline price competition and reducing incumbency advantages. The CC considers that price transparency overall would be increased by the combination of the ESR and price information remedies, and it is possible that incumbency advantages would also lessen, as more generous rebates at early settlement would reduce switching costs.

110. Though there may be some additional software adjustments and a change to the loan agreement form (to reflect the larger ESR) required, there currently appears to be no reason why implementation could not be within three months of an order.

Canvassing

Initial proposal

111. In the Notice, the CC said that it was considering the following in relation to the current 'permission to call' legislation:

- (a) whether there should be a removal of the requirement for a permission to call; or
- (b) whether the permission to call requirement should be waived under certain circumstances, such as if the customer has requested a visit over the phone—for

instance, in response to price information supplied under measures outlined in the price information remedy, and this request has been recorded by the company.

112. The CC provisionally found that home credit suppliers have an incumbency advantage, which is reinforced by the current regulatory restrictions on canvassing which inhibit lenders in competing directly for new customers.

Response to the Notice

113. Nearly all the third parties that responded to the Notice said that though changing the permission to call legislation might increase competition in home credit, it could adversely affect customer protection, and on balance any relaxation of the current legislation would not appear to be in the customer's interest. These parties were concerned that any loosening of the canvassing ban would lead to pressure selling and over-indebtedness. They also stressed the wider issues regarding doorstep selling. Professor Elaine Kempson was particularly concerned that predatory non-home-credit lenders (which secure the debt on equity, ie a house) would start 'pressure selling' door to door with 'disastrous consequences'. DOOD believed that all cold calling should be banned and that a request, such as a phone call, should be made before an agent could call regarding either cash or vouchers.
114. The CDFA said that the permission to call could be waived if the customer had requested a visit by calling the home credit lender, as this would enable some of the other proposed remedies to work better.
115. Nearly all home credit lenders, while recognizing the need for customer protection, welcomed the proposal to relax the current restrictions to allow a customer to request a call by phone or email, as long as it could be proved that the customer initiated the call. Provident and others said that such a relaxation in the permission-to-call

regulations might make the other remedies proposed by the CC more effective and would help them to compete for business. One company [redacted] said that it was concerned that the vouchers, that could be canvassed without a permission to call, were now only available through two sources, Provident and High Street Vouchers (owned by the Park Group), hence home credit lenders had very few options for purchasing these vouchers. However, no other home credit lenders were concerned and many said that vouchers were not hard to obtain.

116. Only one home credit lender, S&U, suggested that there should be a removal of the permission to call regulations in their entirety.

117. The OFT said that in its opinion cold calling was intrusive and could lead to pressure to buy, particularly if the consumer was vulnerable or the visit came at a difficult time. Any visit should be in response to a positive request by the consumer, at a time or time frame that suited them, and enabled them to prepare for the visit. [redacted]²⁵

118. The DTI told the CC that a proposal to remove the canvassing ban in home credit would go against the grain of Government policy generally. That policy had to take account of continuing and strong pressures to regulate doorstep selling more strictly across the board, of the perception of people on their doorstep as particularly vulnerable to sales pitches and of continuing accounts of doorstep malpractices. It could also raise complications with some local authority initiatives to control cold calling.

Summary of the proposal

119. Although the CC considers that from purely a theoretical perspective any restriction on canvassing could be considered to be a restriction on competition, the CC is

²⁵[redacted]

aware of the wider consumer welfare issues involved and therefore believes that only a limited revision of the restriction is justified. The CC is therefore minded to recommend that the DTI reviews the canvassing legislation with regard to home credit to allow permissions to call to be made over the phone (or in any other auditable way) as long as the company kept a verifiable record of the request, and that the call is not undertaken within 24 hours of the permission.

CC consideration of design and effectiveness

120. A modernization of the canvassing legislation, while of limited effectiveness in itself, could support the remedies on data sharing and customer information. If more home credit customers took a proactive approach to choosing a supplier—for example, by phoning suppliers and requesting price details—and if non-incumbent suppliers were in a better position to offer credit, as a result of data sharing, then the current rules on canvassing could create an unnecessary obstacle to switching. This could reduce the effectiveness of other remedy options, though the CC considers that these options would still have a positive effect on competition under current regulations.
121. The CC notes that, given that it would be proposing a relaxation in the current legislation, then the CC would only be able to recommend a course of action to the DTI. The CC also notes that the DTI would seek to give the CC a public response within 90 days of the CC report.²⁶ The CC is aware of public policy issues which go wider than home credit that the DTI would have to address in considering any recommendation that the CC made.

²⁶CC Guidance CC3, paragraph 4.21.

Price caps

Initial proposal

122. In the Notice, the CC said that it was minded to consider a price cap on home credit loans if it appeared likely that other less intrusive measures would not adequately address the AEC and resulting customer detriments in a timely and effective manner. Further, the Notice said that the CC would pursue such a measure with reluctance in view of the difficulties generally associated with price controls imposed for a lengthy period. The CC further questioned:

- (a) which loans should be covered by any cap;
- (b) the length of time that any cap should remain in force (for example, for a minimum of three years);
- (c) whether such a cap should be based on the TCC²⁷ but include some types of payment not included in the TCC such as late payment fees and charges;
- (d) what level(s) such a cap should be set at;
- (e) whether such a cap should be related to the term of the loan, so that longer loans have higher TCC caps;
- (f) whether, and to what extent, such a cap would reduce credit availability to certain customer segments;
- (g) whether, and to what extent, such a cap would impede the effectiveness of other remedy options;
- (h) whether such a cap would become a focal point for prices within the home credit industry; and
- (i) whether, and to what extent, such a cap would reduce the incentives for companies wishing to enter the home credit industry.

²⁷The relative use of TCC as opposed to APR is discussed in section 3 of the provisional findings.

Response to the Notice

123. The majority of responses the CC received in relation to price caps, from third parties such as the NCC and the home credit lenders, reinforced the CC's stated reluctance to introduce such caps. Some third parties stressed the effect that such caps could have on vulnerable customers given the likely credit rationing that would result. Some third parties acknowledged that the size of any adverse effect would depend on the level of the cap. Many parties also said that price caps would be counterproductive in that they would decrease rather than increase competition.
124. Parties that supported a cap, such as DOOD and the National Housing Federation, did not believe that the other remedies that had been proposed by the CC would address the AEC within a reasonable period, and did not share the CC's reluctance to recommend price caps in the home credit market.
125. One home credit lender, Mutual, and the OFT suggested that, rather than an absolute cap, the CC could introduce a threshold and lenders that charged in excess of this level would have to tell customers that they were charging above the level. The NCC suggested that a threshold could be set by the OFT and that lenders that charged in excess of this threshold would have to justify to the OFT why they were setting this rate and the OFT would be at liberty to publish this information. However, Provident and DOOD suggested that any such thresholds would in effect become an absolute cap, as any lender charging above the threshold might be open to the allegation that they had provided credit at an unfair rate and open to challenge under the new 'unfair relationships' provisions of the Consumer Credit Act 2006.
126. The home credit lenders said that any cap, whether absolute or a threshold, would result in a number of negative outcomes or could not be supported based on current evidence including:

- (a) credit rationing, so that less profitable customers would be less likely to be served;
- (b) a reduction in short-term loans, with an APR cap, or a reduction in long-term loans with a TCC cap. Lenders also said that either form of cap would result in fewer small loans being offered;
- (c) that prices would gravitate towards the cap, a view also expressed by a number of third parties, though for some third parties this was not considered to be an issue as they said that it would just be the effect of some lenders having to reduce their prices;
- (d) an increase in, or an introduction of, other charges such as a charge for a missed payment;
- (e) that many home credit lenders might have to leave the market, and or would be less likely to expand or enter the market, and thus the cap would decrease competition;
- (f) that the CC had not proved that the home credit industry was making excess profits and hence would have no robust basis for introducing a cap; and
- (g) finally Provident said that TCC caps had little intellectual rigour as they did not take into account the time value of money.

127. The DTI said that, while the thinking behind the particular proposal to keep price caps in reserve was understandable, any question of implementation would merit further and detailed discussion. The OFT said that price caps should not be ruled out at this stage as long as they could be achieved in such a way as not to have an adverse effect on competition, and that such a cap could be based on the TCC.

Revised proposal and consideration of effectiveness

128. The CC has provisionally found a customer detriment from the AEC and notes that it has a duty to remedy this in as far as it is reasonable and practical to do so in the

particular circumstances of the home credit industry. Though the CC accepts that a cap could be detrimental to some customers, it considers that some of this detriment could be minimized by the design of the cap. The CC is continuing to consider a TCC price cap as a backstop in the event that other remedies, particularly the data-sharing remedy, are not viable or timely. What follows is the CC's initial view of how a price cap could be constructed in the home credit market so as to address customer detriment and minimize adverse effects on particular customers.

129. There are two aspects to the design choice for a price cap. These relate to the structure of the price cap and the level at which the cap is set.

Structure of the price cap

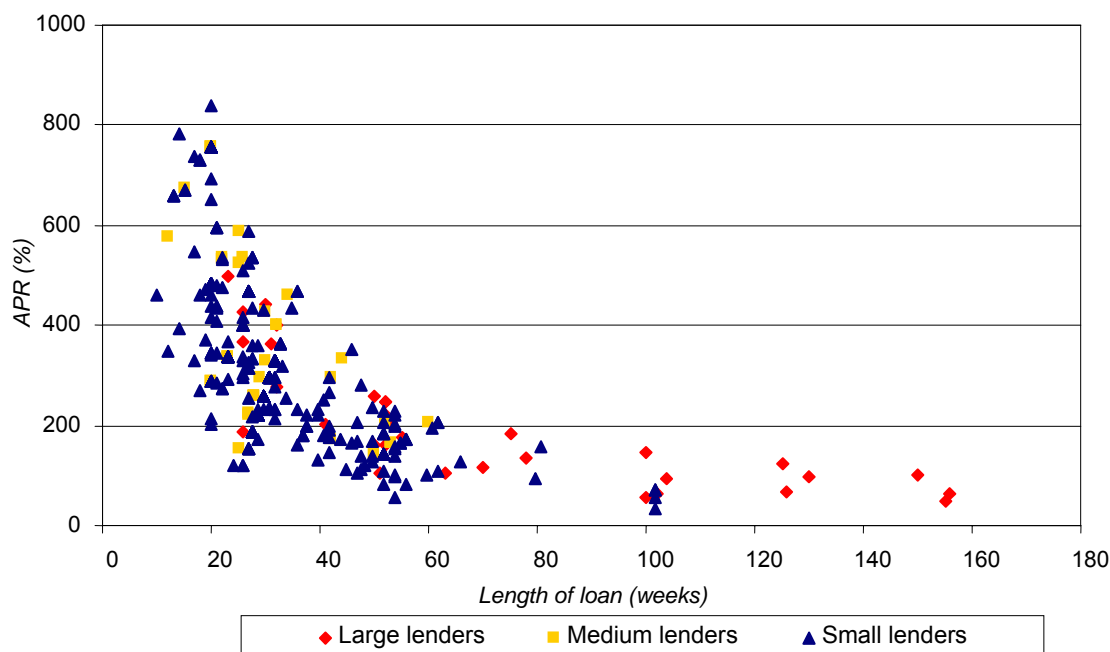
130. Price caps work by forcing down prices towards levels more consistent with expected prices in a competitive market. However, they may create a number of distortions to suppliers' incentives, compared with a situation in which suppliers are free to vary prices. Any price cap should be designed to reduce the impact of these distortions. Distortions to suppliers' incentives may be considered as falling into three main categories.
131. First, although the objective of a price cap is to reduce *average* price levels, it will also have the effect of reducing *marginal* prices (ie the prices charged to the customers who are most costly to serve). This can result in a situation in which suppliers whose prices are constrained by a price cap will have less incentive to supply customers who are currently only marginally profitable. In the case of home credit loans, this is most likely to impact on customers who are perceived as higher risk and on customers who take out smaller loans, which are generally less profitable. Customers in these groups are, in general, less likely to have access to a wide range of credit options, so there could be an unintended reduction in access to

credit. Such effects are likely to be relevant to caps on both APR and TCC, though the scale of the impact will vary.

132. Second, the price cap could distort suppliers' decisions about the type of products that they offer. An APR cap would be likely to reduce suppliers' incentives to offer *shorter-term* loans, as APRs for short-term loans are generally higher than for longer-term loans. There is evidence from the Republic of Ireland that the APR cap of 200 per cent led to a reduction in short-term loans and particularly of loans less than 20 weeks. This would tend to aggravate any impact on financial exclusion, as short-term loans would be most likely to be offered to customers with limited access to credit. By contrast, a TCC cap is more likely to reduce suppliers' incentives to offer *longer-term* loans, as TCC tends to increase with loan length. This would be less likely to impact on financial exclusion as longer-term loans are generally offered to customers with established credit performance who generally can borrow more easily elsewhere.
133. Third, companies subject to a price cap may adapt their charging structures towards charges that fall outside the scope of the price cap. For example, in Poland, Provident responded to an interest rate cap of 24 per cent by levying a number of other fees and charges.
134. The above analysis suggests that an APR cap is particularly likely to result in distortions and to reduce access to home credit. Home credit products with the highest APRs are short-term loans, often offered by smaller providers and for relatively small amounts (see Figure 1). Despite the high APRs, some such loans may still be only marginally profitable, while some products with longer terms and lower APRs may be more profitable than shorter-term loans with higher APRs.

FIGURE 1

Comparison of cash loans of different lengths—APR



Source: Responses to CC's questionnaires.

135. An APR cap that was 'low enough' to reduce the excessive prices on medium-term products of around one year could have a serious adverse effect on the viability of shorter-term loans. This would be likely to have its main impact on small suppliers and on customers with least access to credit.

136. A TCC cap would be likely to create fewer distortions and pose less of a risk in terms of financial exclusion than a cap on APR, and it would also be less likely to affect the loans used by home credit lenders when they are expanding as these tend to be smaller short-term loans. This would be because shorter-term loans tend to have a lower TCC than longer-term loans and because longer-term loans are less likely to be only marginally profitable. However, a TCC cap could reduce incentives to offer loans over longer periods. This particular distortion could be mitigated by having different TCC caps for short- and long-term loans or by exempting the longest-term loans from the scope of the price cap.

137. The risk of avoidance through levying additional charges may be a greater risk. Any price cap should relate to an 'all-inclusive' price, in keeping with the current charging structure where customers are not charged for missed payments. While this would make the price cap more complex to specify and potentially to enforce, it would be essential for its effectiveness.
138. The risk of market distortions is also greater the longer that a price cap is in place, particularly if the price cap is unable to reflect any changes in the market dynamics or is not monitored effectively.

Level of the price cap

139. In considering the level at which such a TCC cap could be set, the CC notes the following:
- (a) A price cap should be set at a rate (or rates) that would be broadly consistent with the analysis of excessive prices and the estimation of consumer detriment and that such a price cap would result in a reduction in average prices of a similar scale to any consumer detriment the CC found and would expect to continue.²⁸
 - (b) The more that the price cap bites on shorter-term loans, the greater the risk that it reduces access to credit in the same way as an APR cap.
 - (c) The CC has not assessed whether prices are excessive at a product level. However, to the extent that it has seen evidence on this issue, the CC considers that shorter-term loans are unlikely to be lenders' most profitable products.
 - (d) Distortions to suppliers' incentives (eg about what products to offer) are likely to be greatest at or near thresholds.
140. The CC continues to take the view that price caps would be implemented only if it appeared likely that other less intrusive measures would not adequately address the

²⁸Assuming that all loans which currently charge a TCC above the proposed cap reduce the TCC to the level of the cap.

AEC and resulting customer detriment in a timely and effective manner. In this event, the above considerations would be combined in further work to determine an appropriate level (or levels) of a price cap. The CC agrees with the DTI and the OFT that any such cap would be complicated to design and would require significant monitoring effort. However, the CC does not believe that, based on current evidence, it could consider that such a cap would not be effective in addressing the customer detriment or that the benefit to some customers of a continuing credit line is of such significance that the CC should decide that no remedy is required or that it should be restricted to relatively ineffective remedies. Hence the CC will continue to consider price caps at this stage.

Other remedies

141. During the course of the remedies process the CC has had a number of proposals for additional remedies. These either related to variants of the remedies proposed in the Notice or were entirely new. Variants of the proposed remedies in the Notice have been discussed in the appropriate remedy section (ie price thresholds have been discussed in the Price Cap section). Of the additional remedy suggestions, many related to the conduct of agents and the funding of financial education for customers. The CC does not consider that any of these would effectively address a feature, the AEC or customer detriment that the CC found in the provisional findings.

Framework for assessment of relevant customer benefits

142. In deciding the question of remedies, the CC may 'in particular have regard to the effect of any action on any relevant customer benefits of the feature or features of the market concerned'.²⁹

²⁹Enterprise Act 2002, section 134(7).

143. Relevant customer benefits are limited to benefits to relevant customers in the form of:
- '(i) lower prices, higher quality or greater choice of goods or services in any market in the United Kingdom (whether or not the market to which the feature or features concerned relate); or
 - (ii) greater innovation in relation to such goods or services.'³⁰
144. A benefit is only a relevant customer benefit if the CC believes that:
- '(i) the benefit has accrued as a result (whether wholly or partly) of the feature or features concerned or may be expected to accrue within a reasonable period as a result (whether wholly or partly) of that feature or those features; and
 - (ii) the benefit was, or is, unlikely to accrue without the feature or features concerned'.³¹
145. If the CC is satisfied that there are relevant customer benefits deriving from a market feature, the CC will consider whether to modify the remedy that it might otherwise have imposed or recommended. When deciding whether to modify a remedy, the CC will consider a number of factors including the size and nature of the expected benefit and how long the benefit is to be sustained (CC3, paragraph 4.39).

Assessment of relevant customer benefits

146. It was put to us by the OFT and Citizens Advice³² that the data-sharing remedy could result in a reduction in access to credit for some consumers, thus implying that the absence of data sharing would result in the benefit of greater availability or choice of credit for certain customers. Customers whose access to credit was reduced might be unable to borrow, have to pay more for credit or use less attractive forms of credit,

³⁰Enterprise Act 2002, section 134(8).

³¹Enterprise Act 2002, section 134(8).

³²Citizens Advice further said that if data on home credit was to be used by credit reference agencies at all, then this should be entered at a basic level of detail, such as whether loan repayments were (without reference to time) completed or not.

including illegal lending. The concerns expressed to us about data sharing fell into three main categories:

- (a) First, some home credit customers would have more adverse information on their files, as a result of data sharing. This applied both to default data and to positive data, where the frequency of missed repayments in home credit meant that information about repayment performance might convey adverse information about customers' creditworthiness. Thus, even if the data that was shared conveyed an accurate reflection of home credit customers' repayment performance, data sharing could reduce their ability to access all forms of credit and could make it impossible for some customers to break into the mainstream market.
- (b) Second, unless CRB data handling made proper allowance for the special features of home credit, then home credit customers could appear a much worse credit risk than was really the case. If data sharing was not to militate unfairly against home credit customers, the data needed to be sifted by CRAs and presented appropriately on the system.
- (c) Third, data sharing could make it easier for mainstream lenders to 'cherry pick' the best home credit customers. This could increase costs for home credit lenders and hence the price of home credit, since the remaining customers would tend to be higher-risk and poorer payers.

147. Annex 6 sets out our assessment of these arguments that the current lack of data sharing gives rise to relevant customer benefits that would be put at risk by our proposed remedy on data sharing. Set out below is the CC's response to these concerns.

148. On the first concern, the CC would expect data sharing, if properly implemented, to increase access to credit for most home credit customers. The CC expects data

sharing to reduce the risks associated with issuing loans, to reduce barriers to entry and expansion and enable customers with good repayment histories to communicate this to other lenders. Mainstream lenders with an interest in supplying the demographic groups currently supplied by home credit, such as Capital One, told us that data sharing would enable them to make more credit available to customers in these groups, as they would be able to form a more accurate assessment of credit risks.

149. However, the CC acknowledges that some customers could find their access to credit reduced by data sharing. Such customers fall into three categories:

(a) The first category comprises customers who have defaulted on a home credit loan. The CC estimates that more than 10 per cent of home credit customers have a loan written off each year. The CC would expect most lenders to interpret a recent default on a home credit loan as a negative factor in assessing their creditworthiness. Where customers have defaulted on a loan, the CC considers it to be in the interest of customers as a whole that other lenders are able to make lending decisions in the light of this information.

(b) For a second group, sharing of home credit data could reveal a higher degree of indebtedness than would otherwise be apparent. The extent to which such customers would have their access to credit reduced is unclear—the evidence that the CC has seen suggests that home credit plays a relatively minor role in over-indebtedness. The CC does not consider that withholding information from other lenders that would reveal to them that a particular customer is heavily indebted would constitute a benefit to that customer or to customers as a whole.

(c) A third category of customers has been the focus of most concerns—these are customers with a repayment record, which while acceptable to some home credit lenders, would be perceived as a poor record by other lenders. The data that the CC has seen indicates that if the cumulative monthly arrears ('LSB') method

were used to record home credit repayments, a clear majority of home credit loans that are eventually repaid would appear on a CRA record as having been paid back without falling more than one month in arrears. Only a small minority of customers would show up as having been two or more months in arrears at some stage during the loan. The CC does not consider that the existence of occasional missed home credit repayments on a shared credit record would be considered as 'adverse' information by either a home credit lender or a mainstream lender, particularly if the loan has been paid off. Home credit lenders can be expected to understand the nature of the home credit business and have demonstrated a tolerance for occasional missed repayments. While mainstream lenders are likely to have a lower tolerance of missed repayments, missed repayments on mainstream products are not uncommon, and the CC was told that mainstream lenders were likely to place at least as much weight on a customer's ability to successfully repay a loan than on a small number of missed repayments.

150. The second concern related essentially to the implementation of the data sharing remedy, to ensure that data sharing enables lenders to form an accurate judgement of home credit customers' creditworthiness. The CC agrees that this is important and this has been an important consideration in the design of the data sharing remedy, as set out in paragraphs 35 to 47.

151. On the third concern ('cherry-picking'), the CC agrees that increased competition from mainstream lenders, as now, is likely to impact most on those home credit customers who are perceived as representing lower credit risks. However, the CC considers that data sharing will also benefit other customers. The CC expects data sharing to increase competition between home credit lenders, to reduce barriers to entry and expansion in home credit and to enable home credit lenders to reduce bad

debt risk. All of these factors could be expected to benefit all home credit customers and not just those who are most attractive to mainstream lenders.

152. The CC has noted that other consumer-facing organizations and researchers took a more positive view of data sharing than did the OFT and Citizens Advice. For example, the NCC, DOOD, MAT/NDL, the National Housing Federation and Which? all said that they would support a remedy of this nature. Professor Elaine Kempson considered that 'data sharing, if done in a way that is appropriate to the rescheduling that is an integral part of home credit, would allow customers with a good repayment record to demonstrate this to other potential lenders'.
153. Having considered this issue carefully, the CC acknowledges that some customers could have their access to credit reduced by data sharing—in particular, those who have defaulted on home credit loans recently. However, the CC has sought to minimize any such adverse effects on customers through the design of the remedy, and it considers that overall the benefits to customers will substantially outweigh any detriments.

General issues

154. The CC considered the developments with respect to data sharing and discussed them with the relevant parties (see Annex 3). The CC welcomes movement towards data sharing but also believes that caution is appropriate in interpreting the significance of these recent developments. In particular, the CC considers that following the conclusion of this inquiry, this stimulus may be far less prominent and the impetus to further change subdued in the absence of remedies.
155. Several parties have commented that the CC should not consider the impact of its proposed remedies in isolation from changes in the broader regulatory framework

applying to this market such as the impact of the Consumer Credit Act 2006. The CC is aware of the nature of these changes and has taken these into account in considering proposed remedies.

156. Certain parties expressed the view that remedial action, such as the requirement for statements and the increased rebate requirements at early settlement, should not be implemented beyond that which was current practice in comparable sectors, such as personal loans; otherwise there was a risk of creating market distortions. The CC notes that it is under an obligation to remedy the AEC arising in the market that has been referred to it and therefore should not be constrained to conforming to practices in other markets. The CC also notes that it has provisionally found that the home credit product is different from other financial products in many respects and considers that it is reasonable to have different treatment if products are different. However, the CC will seek to minimize potential distortions and will take account of any resulting costs that are likely to arise, as it will any other relevant costs, in considering remedial action.
157. The view has been expressed to the CC that the remedies currently proposed might result in less profitable home credit lenders exiting the market with the result that competitive constraints in home credit might be reduced. The CC recognizes that where remedies are implemented, such as those contemplated in this case, which seek to enhance transparency and competitive forces, then there is a possibility that marginally profitable providers might choose to exit if they are unable to adapt to more competitive market conditions and lower prices. However, it does not follow that this will reduce competitive constraints in the provision of home credit. The home credit loans of exiting lenders may be taken over by other home credit lenders or other entrants with more competitive business models and the competitive constraints provided from outside the home credit market (by, for example, the credit

card market) are likely to increase given greater transparency and information as a result of the remedial measures.

The cost of the CC's package of remedies

158. The CC has undertaken a preliminary assessment of the cost of the remedies but is still awaiting further information from the parties on the cost of implementation and ongoing costs and may revise our current assessment in the light of these. However, the evidence the CC has so far received does not indicate that the proposed package would add disproportionate costs to providers. The following paragraphs detail the costs by remedy.
159. There are four areas of cost that are associated with supplying data and using the services of a CRA: data collection; data formatting (setting up the interfaces); the costs of maintaining data quality; and the cost of credit searches. The CC considers that the cost of data collection is a necessary part of the home credit business and notes that there is no requirement as regards credit searches. The costs associated with inputting data such as auditing and testing are generally paid for by the CRAs, though the CRAs may request that smaller subscribers use a third party processor. Current estimates of the additional administration costs of the proposed requirement are primarily related to setting up and running IT systems. The CC has been told by the CCA that the provision of data would be an expensive item for a sole trader, if it had to buy computers and invest in IT. However, the CC has been told by others [redacted] that the additional cost, if IT systems are in place, will not be significant [redacted]. In addition, the CC has been told by [redacted], among others, that the price of these systems is unlikely to be prohibitive. Capital One and RBS said that there could also be cost savings for the companies that shared data, as bad debts would be likely to decrease.

160. The CC does not consider that the cost of setting up a website or the ongoing running and monitoring costs of such a site would be very substantial. However, the CC is continuing to gather evidence regarding the costs of the price information remedy.
161. The CC understands that the additional cost of sending a statement is around 35p per statement, based on an estimate from one medium-sized home credit lender [X]. The CC notes, however, that it is likely that larger lenders would be able to produce statements at a considerably lower cost than this, whereas smaller lenders might have higher costs.
162. There are both ongoing and set-up costs associated with the ESR remedy. Costs would only apply to companies that currently retain the four or eight week deferment. Companies such as CLC, which already offer more generous rebates than the minimum proposed in the ESR remedy, would not face any additional costs from this remedy. The CC estimates that additional ongoing administrative costs associated with this remedy would be in the region of £200,000 to £300,000 a year for the industry. The set-up costs are likely to be lower than the cost of implementing the 2005 regulation, as the software for calculating the actuarial formula is now in place. Hence, transitional costs are likely to be lower than those due to the last change in ESRs, as the formula for calculating the rebate would not change only the lenders' ability to retain extra weeks.
163. Most of the ongoing impact of the ESR remedy on lenders is the financial cost associated with redressing the customer detriment that the CC has provisionally

found (ie the costs to lenders translate directly into benefits for customers). The CC estimates that this cost could be in the region of £10 million to £15 million a year.³³

164. The CC does not consider that any changes it has proposed to the canvassing regulations have any associated costs for lenders, as any cost is purely voluntary.
165. The administrative costs of the price cap remedy may be relatively low, by comparison with its overall impact. Those suppliers whose prices are currently higher than the price cap would need to develop new products with lower prices, and to train their agents to be able to offer these products. The main impact on lenders would be through reduced revenues for those suppliers with prices above the price cap. As is the case of the ESR remedy above, this cost is a redistribution of financial benefit that addresses the identified detriment.

The CC's package of remedies

166. There is no single remedy that the CC considers would address the AEC and the customer detriment comprehensively and in a timely manner. Hence the CC is proposing a remedies package that will address the AEC by changing the nature of competition from one in which customers' choice of supplier is driven primarily by credit availability and past credit choices to a situation in which price and value for money play a much larger role in customer decisions. In addition, the CC has been told by the OFT and others that changing the behaviour of consumers is likely to be difficult, so the package considered emphasizes both direct and supply-side changes in order to increase its effectiveness.

³³This financial impact is estimated by multiplying the average benefit to suppliers of retaining more than two weeks' deferment by the number of loans that are affected by the remedy. We estimate the latter figure to be in the region of £5 to £7.50 for each loan that settles ahead of term. We estimate that around 2 million loans settle early each year on average. However, some of these loans will be unaffected as their lenders already provide customers with a more generous rebate than the minimum proposed in the ESR remedy.

167. The CC currently considers that data sharing would be at the heart of any potential remedy package that the CC implemented. This is likely to have the greatest impact of any proposed remedy on reducing incumbency advantages but may take time to have an effect. The CC also considers that the customer-facing informational remedies (a price information website and statements) are likely to increase price awareness and encourage switching for some customers and, as such, are likely to increase the effectiveness of the remedy package. The CC notes that all customers could be expected actually to receive the information contained in a statement (otherwise the lender in question would be in breach of the remedy) and that customers using a website or being in receipt of that information from other home credit lenders or third parties will have an increased awareness of the prices of non-incumbent lenders. These two remedies, statements and price information, are thus complementary in role.
168. Increasing the ESR will support these remedies, by increasing the overall transparency of home credit pricing and by enabling customers to get a better deal at early settlement, when refinancing a loan and when switching an existing balance to a new supplier. In addition, increasing the ESR will directly address the detriment of high prices, as set out in section 8 of the provisional findings. Finally, the CC notes that this remedy will be effective in a relatively short time frame.
169. A modernization of the canvassing legislation could support the package of remedies. If more home credit customers take a proactive approach to choosing a supplier—for example, by phoning lenders and requesting price details—and if non-incumbent lenders are in a better position to offer credit, as a result of data sharing, then the current rules on canvassing could create an unnecessary obstacle to switching. This could reduce the effectiveness of other measures, though the CC considers that these actions would still have a positive effect on competition under

current canvassing regulations. The CC recognizes that any relaxation in the canvassing rules could lead to significant adverse effects on consumers in a wider context than home credit and notes that the DTI would have to address these factors in considering any recommendation that the CC makes.

170. The CC expects that its chosen package—including all the elements above but with particular reference to data sharing, statements and a website—will increase the additional competitive pressure for marginal customers from mainstream and home credit lenders. The CC also expects that the package will facilitate price competition within home credit by making it easier for those who wish to switch providers to do so, and by enabling customers and home credit lenders to be more price aware and thus more price sensitive.
171. The CC is continuing to consider a TCC price cap as a backstop in the event that other remedies, particularly the data-sharing remedy, are not viable or timely. It has been put to the CC that the data-sharing remedy is complicated to set up, will take a substantial amount of time to introduce, and that the cooperation of the CRAs—who are not bound to any order that the CC makes—would be required to make the remedy work.

Implementation of remedies

172. The CC considers that remedies which relate to the entire industry, such as the price information remedy, are likely to be implemented by means of an order, while those that relate to only a few parties such as data sharing may be implemented by order or undertakings based on what the CC considers will be most effective. While undertakings must be offered by specific named companies, a single order or set of orders can be used to implement remedies across an industry.

173. In addition, the CC is likely to recommend that measures which relate to the modernization or the relaxation of current legislation, such as the canvassing remedy, be revised by the relevant part of Government, as the CC recognizes that there are issues involved that go beyond the scope of this investigation.
174. In relation to the data-sharing remedy, the CC is proposing to implement the remedy by prohibiting, after a specified date, the making of further home credit agreements unless the lender has agreements in place with at least two CRAs in a form that meets specified requirements. The prohibition would apply only to the large lenders and there would be power to grant temporary exemptions.

Further consideration of possible remedies as sent to interested parties in June 2006

Introduction

1. The Notice of Possible Remedies (the Notice) published by the CC on 26 April 2006 set out various options that the Group considered might be effective, alone or in combination, in remedying, mitigating or preventing the adverse effect on competition (AEC) or any resulting detrimental effect on customers that the CC identified in its provisional findings as having an AEC.
2. Since 26 April we have received both responses to the Notice and requests from parties for details of individual possible remedies and indications of possible combinations. The remedies note below sets out the CC's current thinking on combinations of remedies and on the content of each remedy.
3. The purpose of this note is to facilitate a more focused discussion on remedies at forthcoming hearings. We will also welcome any comments on the note both at the hearings and afterwards.
4. The CC reserves the right to modify the package or suggest other packages as its thinking evolves and in the light of any further evidence put to it.

General

5. We do not currently consider that any single remedy proposed in the Notice alone is likely to address the AEC and/or the resulting customer detriment that the CC has identified in its provisional findings in a comprehensive and timely manner.

6. However, we consider that a package of remedies with data sharing at its centre is likely to have greatest impact on addressing the AEC through encouraging price competition and reducing incumbency advantages, even though its impact may not be immediate. We consider that informational remedies such as the publishing of prices (whether that information is assessed directly by the customer or assessed by a third party who then passes the information on to the customer) are likely substantially to increase the effectiveness of any remedy package, by increasing price awareness and facilitating switching for some customers. We consider that statements may have value both as an information conduit that goes directly to the customer and as record of the lender's data which may be used by a customer as a 'credit certificate'.
7. We consider that customer detriment could be effectively addressed through changes to the minimum Early Settlement Rebate. While we recognize that there are strong consumer protection arguments for the continuation of restrictions on door-to-door canvassing, we are still considering changes to the way in which this regime currently operates.
8. We do not, however, currently consider that a standardization of product terms would add significant value either on its own or as part of a wider remedy package. We consider that publishing of prices, for example through a price comparisons website in which customers were able to compare the price of home credit products of similar lengths, may be a more effective means of facilitating price comparison.
9. Finally, in general we prefer remedies that promote competition to those which impose regulations. On this basis, while we remain reluctant to introduce price caps, we are still considering them as an option in the event of any inability to implement other remedies in a timely manner; or of our concluding that other remedies would not adequately address the AEC and/or the resulting customer detriment.

Descriptions of proposed requirements for each remedy option

Data sharing

10. Any home credit supplier with a specified number (or more) of agents would be required to provide full data³⁴ (using a protocol³⁵ that is acceptable to all the Credit Reference Agencies (CRAs), the Standing Committee on Reciprocity (SCOR), the Competition Commission (CC) and the Information Commissioners Office (ICO)) on all their customers' home credit loans (both cash and vouchers) to at least two out of the three CRAs mentioned in the POR agreement (2005). The specified number might appropriately be set at 100 agents, though a different number is not ruled out.
11. Home credit would be defined as a separate product on the CRA, and as such would not be combined with personal loans or credit cards. However, companies inputting data would be able to access data on other products in line with the POR.
12. Though there would be no requirement relating to the use or not of credit searches,³⁶ any search made by a home credit company would be flagged as a 'home credit search' (and thus could be treated differently from a shared credit application search as defined by the POR agreement (2005)).
13. Though home credit suppliers (with fewer than the specified number of agents) would not be required to share data, if they did so it would be using the agreed protocol and would be bound by the general POR, hence if a supplier provided only default data it would have access only to default data.

³⁴As defined by the POR agreement (2005), ie 'positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio'.

³⁵Such a protocol might, for example, be based on the PP13 protocol as defined in the CCA's response to the provisional findings or one of the existing approaches used with other credit providers who enter weekly repayments (eg credit unions).

³⁶The DTI told us that it 'could see no reason why a home credit company that inputted data would be obliged to do a credit check before providing credit'.

14. Suppliers would be expected to have reached an agreed protocol (in requirement 1) within three months of the order and home credit suppliers with the specified number (or more) agents to have complied with the other requirements within six months of the order.

Price information

15. Any home credit supplier with 11 or more agents would be required to provide the following information on any cash loan product that had been taken out by more than 100 customers³⁷ in the last six months to the OFT (or another suitable body) every 12 months or when there is a product change which would then be put on to a website ('the price comparison' website):
- (a) TCC per £100 advanced;
 - (b) term in weeks;
 - (c) APR;
 - (d) postcode areas where the product is offered (ie the first one to two letters at the start of the postcode);
 - (e) minimum and maximum loan amounts;
 - (f) weekly payment per £100 advanced;
 - (g) any restrictions on who the loan could be issued to (eg a loan which is only a refinance loan);
 - (h) any additional costs for missed payments or collection; and
 - (i) the company's name and a contact telephone number.
16. Any home credit supplier with 11 or more agents would also pay a fee for running and setting up the website based on annual company turnover.

³⁷Any home credit supplier with more than 11 agents would be able to enter data on as many cash products as it wanted to at no extra cost as long as it confirmed that the data entered was accurate and that the products were currently available to customers.

17. Any material that referred to price (eg on statements or advertisements) would have to contain a reference as to the location of the website where customers could view price information. The font of the reference to the location of the website should be no smaller than the largest font size of the price material.
18. Any home other home credit lenders (ie those with ten or fewer agents) would be able to enter data on as many cash products as they wanted to at no cost as long as the lender confirmed that the data entered was accurate and that the products were available to customers.
19. The website would be designed to be user friendly. At a minimum the website would enable users to compare the prices of loans in bands and by area, for example there could be three 'bands' of loan terms (0 to 24 weeks; 25 to 35 weeks and 36+ weeks) in one area.
20. All home credit companies would have to provide pricing information on all cash products on request (whether over the phone or in writing).

Statements

21. Any home credit supplier³⁸ would be required to provide the following information on a statement on all home credit loans to customers every three months and on request (but with no additional charge):
 - (a) the customer's name, address and account number;
 - (b) TCC per £100 advanced and APR;
 - (c) weekly payment (amount);
 - (d) term in weeks, the payment history (amount paid, any weeks an arrangement was come to, and the running total);

³⁸Alternatively the CC is considering restricting this requirement to suppliers with 11 or more agents.

- (e) any additional costs for missed payments;
- (f) the name and credit licence number of the provider;
- (g) the total amount outstanding to the provider on all loans; and
- (h) the total cost of settling the loan as of the statement date/how to settle early.

22. All statements would have a standard set of boxes providing the information above which would be laid out in the same way on each statement, for each loan. However, the overall statement design would be up to each company, as would the provision of any additional information.

Early settlement rebates

23. All home credit suppliers would be required to give an early settlement rebate at least as generous as one based on the actuarial formula set out in the Consumer Credit (Early Settlement) Regulations 2004. In calculating a minimum rebate, lenders would not be allowed to defer the settlement date or to use actual repayments.

24. Any material that displayed the early settlement rebate under the Consumer Credit Act will be changed to reflect the new ESR.

Canvassing

25. The CC is considering whether to recommend that the DTI revise the canvassing rules with regard to home credit to allow permissions to call to be made over the phone (or in any other auditable way) as long as the company kept a verifiable record of the request.

Price caps

26. The CC would require that any home credit loan under 80 weeks would have a maximum TCC and that any home credit loan under 40 weeks would have a (lower)

maximum TCC. In addition, no separate charge for these loans could be made for missed payments, collection or insurance.

27. The levels at which the maximum TCCs are set will reflect the level of customer detriment that the CC finds in the home credit market in its final report.

June 2006

Parties that gave evidence regarding the notice*Main parties*

A & N Vause
Cattles plc
CLC Finance
London Scottish Bank
Mutual Clothing Supply Company Ltd
Park Direct Credit Ltd
P & S L Sykes Ltd
Provident Financial plc
S&U plc

Third parties

Association of British Credit Unions Limited
Bank of Ireland
Barclays
CallCredit
Capital One
Consumer Credit Association
Community Development Finance Association
Citizens Advice
Debt on our Doorstep
Department of Trade and Industry
Professor Elaine Kempson
Equifax
Experian
Finance and Leasing Association
Financial Services Authority
Fred Counsel
Her Majesty's Court Services
HM Treasury
HSBC
Information Commissioner
MBNA Europe Bank Ltd
Money Advice Trust/National Debtline
National Consumer Council
National Housing Federation
Office of Fair Trading
Policis
Redcats UK
Royal Bank of Scotland
Value CU
Which?

Data sharing protocols

1. Many home credit lenders, in particular the CCA and Cattles, put to us that in order to make home credit data as relevant as possible to home credit lenders, and thus induce as many as possible to input data into a CRA, a different protocol for data entry should be used, namely a 13-week rolling percentage of repayments (PP13). The CRA protocol that is currently used by both credit unions and LSB¹ registers the monthly arrears each month based on the accumulated arrears of that customer and that loan (monthly arrears protocol).
2. We have been told that PP13 is preferable as it is based on a system that many home credit lenders use to calculate write-offs. It is based on data from the last 13 weeks and hence most accurately reflects the current performance of the customer. We have also been told that it would be easier to input as this data is currently on the home credit lenders systems.
3. A number of home credit lenders also told us that the monthly arrears data was not reflective of home credit performance as a customer could miss a number of weekly payments but have a '0' on their file indicating that they had not missed a payment. However, we note that the '0' on the customer's file does not indicate that they have not missed a payment; it indicates that they are not one month in arrears (ie that they have not missed 4.33 weeks of payments) and hence is reflective of their current position.
4. We have had differing views from home credit lenders as to whether PP13 would be added monthly, weekly or even quarterly and as to whether the data should be

¹As referred to in the credit scoring working paper on the CC website (paragraph 6).

provided by individual loan or by overall account performance. We note that CRAs do not currently have systems that would enable them to add weekly data or to consolidate loans and that to add such systems would be both costly and time-consuming. Hence we assume that PP13 data would be added monthly and be based on one loan, at least initially, and have based the following scenarios below on a monthly input.

Scenarios: based on a loan for £100, repaid over 31 weeks with a repayment of £5 a week*

	<i>Month</i>	<i>Jan</i>	<i>Feb</i>	<i>March</i>	<i>April</i>	<i>May</i>	<i>June</i>	<i>July</i>	<i>Aug</i>	<i>Sept</i>
A customer who pays 90% of repayments each month	Actual payments (£)	19.50	19.50	19.50	19.50	19.50	19.50	18.50		
	Accumulated arrears (£)	2.17	4.33	6.50	8.67	10.83	13.00	16.17		
	PP13 (%)	90	90	90	90	90	90	Paid up		
	Months in arrears (LSB)	0	0	0	0	0	0	0		
A customer who pays 75% of repayments each month	Actual payments (£)	16.25	16.25	16.25	16.25	16.25	16.25	16.25	16.25	8.75
	Accumulated arrears (£)	5.42	10.83	16.25	21.67	27.08	32.50	37.92	43.33	56.25
	PP13 (%)	75	75	75	75	75	75	75	75	Paid up
	Months in arrears (LSB)	0	0	0	1	1	1	1	2	0
A customer who pays two weeks every month	Actual payments (£)	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
	Accumulated arrears (£)	11.67	23.33	35.00	46.67	58.33	70.00	81.67	93.33	105.00
	PP13 (%)	46	46	46	46	46	46	46	46	46
	Months in arrears (LSB)	0	1	1	2	2	3	3	4	4
A customer who pays more erratically	Actual payments (£)	22.00	0.00	0.00	10.00	17.00	22.00	22.00	22.00	40.00
	Accumulated arrears (£)	-0.33	21.33	43.00	54.67	59.33	59.00	58.67	58.33	40.00
	PP13 (%)	102	51	34	15	42	75	94	102	Paid up
	Months in arrears (LSB)	0	1	2	2	2	2	2	2	0

*Each month contains 4.33 weeks so that 12 months adds up to one year, thus the amount payable each month is £21.67.

5. The scenarios above illustrate that just looking at the monthly arrears position may not be as informative about the last 13 weeks as looking at the PP13 position. However, lenders will have access to the stream of data, not just the monthly arrears position, and hence will be able to assess, depending on the stream of four numbers, how the customer has paid over the last 13 weeks (three months). In addition, we note that CRAs do not currently have the systems in place to add such percentages to their databases.

6. The CCA said that a new protocol such as PP13 would take 12 months to set up and agree. The CCA working party suggested that 12 months may be needed to go through the scope and architecture of the model, then obtain agreement with the

larger members before commencing operation. The inclusion of smaller CCA members may take considerably longer. Therefore the earliest such a system could be set up would be August next year, though the success of any alternative protocol would depend on the CRAs' appetite to do it, which in turn would depend on the use of such data by other subscribers.

7. Mutual and others told us that not all customers paid on a weekly basis. In fact, many paid either fortnightly or monthly, hence any protocol based on weekly payments was likely not to cover those customers.
8. It has been put to us that any new protocol may not be as useful for other lenders who work on a monthly arrears basis (ie borrowers categorized as a 1 when he or she is one month in arrears) as they will find it more difficult to process such data. For example, LSB told us that to process such data it would have to change all its score cards, and the CRAs told us that any system that was not compatible with the current monthly arrears data would be much more difficult for mainstream companies to use and analyse.
9. Finally it has been put to us by Provident that 'the LSB method can be used to generate much the same data for lending decisions as PP13, and has the benefit of being established, understood and standard in the credit industry'. An analysis of [X] Provident loans also suggests that the PP13 protocol broadly equates to the LSB protocol. Looking at the worst position of customers during a loan indicates that a PP13 score of over 70 per cent would equate to a '0' in the LSB and a '2' or '3' would equate to a PP13 score of less than 30 per cent.

Website

A HOST WEB-PAGE

Home page information

- What HC lenders are
- What your customer rights are
- How do you keep track of what you have borrowed
- What is an interest rate
- What if you can not afford your payments
- Who else might lend you money
- [Link to quotes](#) (note that quotes are not binding and will depend on the company's assessment)
- [Link to definitions](#)

A HOST WEB-PAGE

Quotes link page

- What is the first section of your post code?
Enter the first section of your post code
- How much do you need to borrow?
Enter amount in pounds £,
- How would you like to sort the quotes?
Weekly payment /TCC / APR
- Are you only interested in home collected loans?
Yes / No
- Would you only be interested in loans of certain length and if so please enter the maximum/ minimum length of loan you would be interested in?
Maximum number of weeks
Minimum number of weeks

A HOST WEB-PAGE

Quote based on weekly payment

- You have said you want to borrow **£100**, that you are **only interested in home collected loans** and that the first 3 digits of your post code are **NO1** and you chose to rank by **Weekly Payment** and you are interested in **all** lengths of loans.
- 15 Companies with the lowest weekly payment in your area - to get the next 15 [click here](#)

15 companies in your area	Weekly payment (£)	Number of weeks	TCC (£)	APR %	Additional Information
Cattles	1.50	100	50.00	56.7	Only available to current Cattles customers
Mutual	1.52	102	55.04	59.2	
LSB	1.56	150	134.00	101.0	
PPC	1.80	105	89.00	102.7	
LSB	2.12	100	112.00	145.0	
PPC	2.25	80	80.00	132.5	
LSB	2.61	75	95.75	185.0	
Mutual	2.75	51	40.25	104.9	
PPC	3.00	55	65.00	177.0	
S&U	3.09	50	54.50	160.0	
Cattles	3.40	52	76.80	246.5	
Company A	3.40	52	76.80	246.5	
S&U	3.70	41	51.85	204.0	
Company B	4.10	40	64.00	276.9	
S&U	4.63	32	48.16	276.0	

- You can choose to [print](#) this list or to down load the whole list into [excel](#). To get contact details for the companies click on the name.

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Quote based on TCC

- You have said you want to borrow **£100**, that you are **only interested in home collected loans** and that the first 3 digits of your post code are **NO1** and you chose to rank by **TCC** and you are interested in **all** lengths of loans.
- 15 Companies with the lowest weekly payment in your area - to get the next 15 [click here](#)

15 companies in your area	Weekly payment (£)	Number of weeks	TCC (£)	APR %	Additional Information
Mutual	5.00	26	30.00	187.2	Only available to current Cattles customers
Company C	5.00	27	35.00	222.7	
Company B	7.00	20	40.00	481.4	
Company D	10.00	14	40.00	1068.5	
Company E	10.00	14	40.00	1068.5	
Mutual	2.75	51	40.25	104.9	
Company F	8.65	17	47.05	971.2	
PPC	6.40	23	47.20	497.4	
S&U	4.63	32	48.16	276.0	
Cattles	1.50	100	50.00	56.7	
Company A	5.00	30	50.00	330.0	
S&U	3.70	41	51.85	204.0	
Company F	7.65	20	53.00	859.0	
Company B	5.50	28	54.00	430.2	
S&U	3.09	50	54.50	160.0	

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A HOST WEB-PAGE

Quote based on APR

- You have said you want to borrow **£100**, that you are **only interested in home collected loans** and that the first 3 digits of your post code are **NO1** and you chose to rank by **APR** and you are interested in **all** lengths of loans.
- 15 Companies with the lowest weekly payment in your area - to get the next 15 [click here](#)

15 companies in your area	Weekly payment (£)	Number of weeks	TCC (£)	APR %	Additional Information
Cattles	1.50	100	50.00	56.7	Only available to current Cattles customers
Mutual	1.52	102	55.04	59.2	
LSB	1.56	150	134.00	101.0	
PPC	1.80	105	89.00	102.7	
Mutual	2.75	51	40.25	104.9	
PPC	2.25	80	80.00	132.5	
LSB	2.12	100	112.00	145.0	
S&U	3.09	50	54.50	160.0	
PPC	3.00	55	65.00	177.0	
LSB	2.61	75	95.75	185.0	
Mutual	5.00	26	30.00	187.2	
S&U	3.70	41	51.85	204.0	
Company C	5.00	27	35.00	222.7	
Cattles	3.40	52	76.80	246.5	
Company A	3.40	52	76.80	246.5	

- You can choose to [print](#) this list or to down load the whole list into [excel](#). To get contact details for the companies click on the name.

Illustrative example of a statement format

FRONT OF STATEMENT

Supplier Name
Credit licence number

Statement Date: 12 June 2005

Customer Details:	Loan Details:												
Mrs Smith Customer's address XXXXX XXX Account number: CC123	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">The start date of the loan</td> <td style="text-align: right; padding: 2px;">12 March 2005</td> </tr> <tr> <td style="padding: 2px;">Loan amount</td> <td style="text-align: right; padding: 2px;">£200.00</td> </tr> <tr> <td style="padding: 2px;">Term</td> <td style="text-align: right; padding: 2px;">28 weeks</td> </tr> <tr> <td style="padding: 2px;">Weekly payment</td> <td style="text-align: right; padding: 2px;">£10</td> </tr> <tr> <td style="padding: 2px;">Total Charge for Credit per £100 (TCC per £100)</td> <td style="text-align: right; padding: 2px;">£40</td> </tr> <tr> <td style="padding: 2px;">Annual Percentage rate (APR)</td> <td style="text-align: right; padding: 2px;">[xxx.xx%]</td> </tr> </table>	The start date of the loan	12 March 2005	Loan amount	£200.00	Term	28 weeks	Weekly payment	£10	Total Charge for Credit per £100 (TCC per £100)	£40	Annual Percentage rate (APR)	[xxx.xx%]
The start date of the loan	12 March 2005												
Loan amount	£200.00												
Term	28 weeks												
Weekly payment	£10												
Total Charge for Credit per £100 (TCC per £100)	£40												
Annual Percentage rate (APR)	[xxx.xx%]												

Payment Schedule [13 weeks] NOTE THIS MAY BE FOR 26 WEEKS				Early repayment terms:
Payment Date	Amount paid	Running total		
19 March 2005	£10	£270		£XX.XX (The amount you would pay to settle this loan today)
26 March 2005	£10	£260		
1 April 2005	£10	£250		
8 April 2005	£0 (A)	£250		
15 April 2005	£10	£240		
22 April 2005	£10	£230		
29 April 2005	£5	£225		
6 May 2005	£15	£210		
13 May 2005	£20	£190		
20 May 2005	£0 (M)	£190		
27 May 2005	£10	£180		
3 June 2005	£10	£170		
10 June 2005	£10	£160		

Total loans outstanding with this supplier			
Total number of loans	3	Total amount outstanding	£560

Space for supplier marketing

The prices and terms of alternative credit providers in your area can be found at the following website [www.alternative credit providers.com](http://www.alternativecreditproviders.com) which can be accessed from your computer or from the following organisations: the Citizens Advice Bureau, your local library, etc

What the terms mean

Loan details:

Date of issue: The date that you took out the loan

Loan paid: The amount of the loan you took out on the date of issue

Term: The length of time before the loan must be repaid. The shorter the term, the higher the weekly payments and vice versa

Weekly payment: The amount you agreed to pay per week

TCC per £100: The total charge for credit, or the amount you are paying back per £100 on top of the £100 you borrowed. For example if the TCC is £60 and you borrowed £100 then the amount you would pay back would be £160

APR: The APR is a standardised way of stating the total cost of a loan. It helps you compare products because it takes into account not only the interest rate but also any compulsory charges, and when and how often the interest and charges must be paid

Early repayment terms: This is the capital amount outstanding and hence is the amount you would pay to settle this loan as of the date on the statement.

Payment Schedule:

Amount received: The amount the agent received in the week up to the payment date.

Running total: The total amount you need to pay back including the amount borrowed at the payment date

(A): A payment holiday that you have agreed with your agent in advance.

(M): A missed payment that you have not agreed with your agent in advance. Please note four missed payments may result in a missed payment mark on your credit file and 12 might result in default mark which might affect your credit rating.

If you are have difficulty keeping up with your payments talk to your agent or contact one of the following organisations that can help you in the strictest confidence and will not charge.

- Your local trading standards office or Citizens Advice Bureau (you'll find their number in the phone book)
- Independent advice agencies through the adviceUK on 020 7407 4070
- National Debtline has a 24-hour answering service on 0808 808 4000
- Consumer Credit Counselling Service on 0800 1381111
- Direct Debt Line on 01323 481111

IF YOU HAVE ANY QUESTIONS REGARDING THE TERMS OR THE REPAYMENT SCHEDULE THEN PHONE THE CUSTOMER HELPLINE BELOW.

ACCOUNT ENQUIRY
Customer Helpline

Data sharing and access to credit

Introduction

1. In this annex, we consider the possibility that the proposed data-sharing remedy could reduce some home credit customers' ability to access credit.

2. Access to credit is a difficult concept to define in an absolute sense—everybody, other than the extremely rich, faces some constraints on their ability to borrow. However, the concept of an increase or a reduction in access to credit is more straightforward: customers have greater access to credit, if they are able to borrow larger amounts or borrow from more credit sources; customers' access to credit is reduced if they have fewer credit sources, or are only able to borrow smaller amounts.

3. A further definitional issue relates to the type of credit to which access may be increased or restricted. It is worth keeping the following concepts in mind, as the implications of particular remedies for access to different forms of credit may vary:
 - (a) *Access to home credit.* This would be reduced if home credit customers found it harder to take out a home credit loan from their existing supplier or from other home credit lenders.
 - (b) *Access to legal credit.* For some home credit customers, home credit is the only legal form of credit that they are able to access. If their access to home credit were reduced, they may no longer have access to legal credit.
 - (c) *Access to mainstream credit* would be reduced if customers found it harder to obtain mainstream credit products, such as credit cards, overdrafts or personal loans.

4. In the rest of this annex, we consider the issue of access to credit in the light of the evidence that we have collected about this market. We start by summarizing the current extent of access to credit. We then consider the possible impact of data sharing on access to credit.

The current situation

Access to home credit

5. Home credit is not a 'universal service'. Home credit lenders are under no obligation to lend to particular individuals or groups and may only be expected to lend to a particular customer, when it appears profitable to do so.
6. While home credit lenders told us that they did not 'red-line' particular areas, they also told us that there were particular areas (for example, tower blocks) in which they did not lend for health and safety reasons. In these areas, which are generally among the most deprived parts of the UK, there is no access to home credit. Research by Policis and the Personal Finance Research Centre at Bristol University, based on data provided by home credit lenders, estimates that around 3 per cent of UK households (around 850,000) live in postcodes not served by home credit lenders.
7. In areas where home credit lenders are currently active, there will be some customers who are not able to access home credit or who would like to borrow more.¹ This may be because they have defaulted on previous loans with home credit lenders or because lenders assess their credit risk to be relatively high. According to the CCA, the number of home credit refusals can be 'very high'. The CCA stated that smaller members can turn down eight of every ten new applicants.² To give another example, Provident analysed responses to its *Yellow Pages* advertisement for the

¹For example, NOP found that 11 per cent of customers said that their last home credit loan was less than they actually needed.

²Source: CCA

year to August 2000. [X] customers made calls enquiring about a loan. [X] of these said that they did not wish to proceed when the service was explained to them. Provident turned down another [X]. Credit was only issued to [X]. These findings in respect of customer applications are broadly consistent with the CCA's statement.

8. Generally, customers with an existing relationship and a history of repaying loans with a particular home credit lender are likely to have access to more credit from that lender than customers who are new to that lender.

Access to legal credit

9. Most home credit customers have access to other legal credit options. For example, around 70 per cent of Provident customers use another legal form of credit.³ The NOP survey found that 0.3 per cent of home credit customers (2 out of 713) said that they were currently borrowing from an unlicensed money lender. When asked what other ways of raising money the respondent considered when he/she took out their last home credit loan, 0.1 per cent (1 out of 713) said (unprompted) that they considered borrowing from unlicensed money lenders. When prompted, 3 per cent of respondents said that they considered unlicensed money lenders. 87 per cent of respondents stated that they would certainly NOT use unlicensed lenders if they needed money now.
10. In research with residents of five highly deprived urban communities, Policis and PFRC found that around 3 per cent of respondents said that they had used an illegal lender 'loan shark' in the past year and that 6 per cent said that someone in their household used an illegal lender. Two further nationally representative surveys found that 3 per cent of people in the lowest quintile of household incomes said that

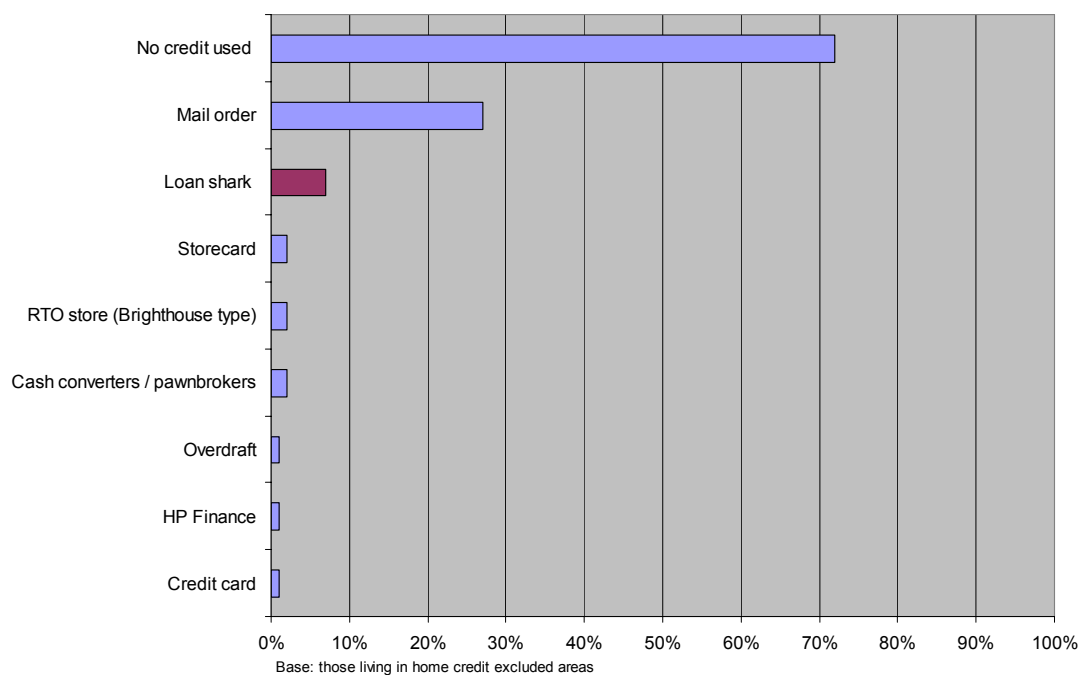
³Source: Provident customer tracker, cited in provisional findings paragraph 2.112. The credit options used to calculate this figure are personal loans, credit cards, overdraft, store cards, mail order catalogue, interest-free credit, HP, credit union and the social fund. The various types of credit potentially available to home credit customers are discussed in detail in Section 4 of the provisional findings.

someone in their household was using an illegal lender. Policis and PFRC intend to use the research undertaken in the most deprived communities and the two nationally representative surveys of low income households to estimate the overall scale of illegal lending in the UK.

11. Policis and PFRC also found that in areas where no home credit lenders call, most residents do not use any form of credit (see Figure 1). Other than AMO, few residents in these areas use any other legal credit source. Levels of illegal lending are higher than in other deprived areas (around 8 per cent of residents), and illegal lending is the second most widely used form of credit and the main source of cash credit—in areas where no home credit lenders call.

FIGURE 1

Credit used in last 12 months for those living in home-credit-excluded areas



Source: Policis/PFRC.

12. It is possible that both the NOP and the Policis/PFRC surveys underestimate the extent of illegal lending, if respondents are unwilling to disclose their use of illegal

lenders. Perceived awareness of illegal lending in customer research is typically higher than the reports of personal use.⁴

Access to mainstream credit

13. Access to and use of mainstream credit options by home credit customers was considered in some detail in the provisional findings.⁵ Just under half of Provident's current customers have one or more of a credit card, a personal loan or overdraft facilities.

14. However, for a significant proportion of home credit customers, access to mainstream credit remains limited. For example: while bank account penetration has increased among home credit customers, substantially fewer home credit customers have a full-service bank account compared with the Great Britain population;⁶ only half of Provident's current customers agree with the statement that 'my application for a credit card would be accepted if I wanted one';⁷ Provident's bureau-based churn analysis showed that [] of Provident's customers do not feature on the Experian database.⁸

Extent of data sharing by home credit providers

15. At present, London Scottish enters full data with two credit rating agencies (CRAs). 39 (out of around 500) CCA members enter default data to Experian in an arrangement that is facilitated by the CCA.⁹ Some lenders (including Cattles, Mutual and S&U) carry out some searches on public data with CRAs (eg for larger loans or for new customers) but do not enter their own data and hence cannot access data on

⁴It may be difficult for a customer to know whether or not a money lender has a credit licence, which could lead to over-estimates of illegal lending, if customers wrongly perceive legal lenders to be illegal.

⁵See, for example, paragraphs 4.60 to 4.65 of the provisional findings.

⁶Provisional findings paragraph 4.67.

⁷Provisional findings paragraph 2.113.

⁸Provisional findings paragraph 4.81.

⁹For these purposes default is based on the customer missing more than 50 per cent of weekly payments.

repayment of other credit products. All lenders carry out some form of credit scoring with greater or lesser degrees of sophistication.

How might data sharing affect access to credit?

16. Data sharing could directly affect access to credit—either positively or negatively—by altering lenders’ perceptions of the risks of lending to individual customers.¹⁰

17. Some customers may be granted *additional credit* by particular lenders, as a result of data sharing, if the lender carries out a credit search and the credit search identifies information about that customer which makes them more attractive to the lender. The fact of being registered with a CRA, in itself, is likely to increase a customer’s chances of getting credit.¹¹ The beneficial aspects of data sharing on access to credit are likely to be most substantial for customers who have a positive record of repaying home credit loans but about whom CRAs currently hold limited information. For these customers, data sharing would be likely to increase access both to home credit and to mainstream credit. To the extent that data sharing generally reduces the uncertainty associated with lending and facilitates entry and expansion, we would expect it to have a positive effect on access to home credit.

18. However, some customers may be refused credit by particular lenders, as a result of data sharing, if:
 - (a) the lender carries out a credit search;
 - (b) the credit search identifies information about that customer’s home credit loans which makes them *less* attractive to the lender; and

¹⁰To the extent that data sharing increases competition between lenders to attract some home credit customers, it is possible that current lenders may respond by tightening or loosening their lending criteria. This could indirectly affect access to credit. However, it is difficult to anticipate whether there would be such a response by existing suppliers or even what the direction of such a response would be. There is no particular reason to anticipate that any such indirect effects would be substantial.

¹¹For example, we found that out of the companies that carry out public searches, two (Mutual and S&U) would be less likely to lend to a potential customer if that customer has no record with a CRB. S&U told us that such customers are unacceptable risk because they are likely to be (a) transient (b) working illicitly (c) fraudulently claiming benefit or (d) non-householders. Mutual told us that it would be ‘wary’ of such customers and that it was ‘not a good sign’.

(c) other information collected by the lender (eg through an agent visit or provided by the customer regarding his/her income) does not counteract the negative information contained in the credit search.

19. The extent to which particular customers' access to home credit would be limited will depend, in part, on whether and when home credit lenders choose to conduct searches. The DTI told us that there was no regulatory reason why credit searches would have to be made for all loans. We consider it more likely that home credit lenders will only conduct credit searches for some loans (eg new customers and larger loans, as currently happens for searches on public data). Mainstream lenders, as now, can be expected to conduct credit searches as a matter of course.

20. Customers for whom sharing of home credit repayment data may convey negative information can be considered as falling into three main categories:

- Customers who have defaulted on home credit loans in the recent past.
- Customers who are already heavily indebted to a large number of lenders.
- Customers with bad repayment records on home credit loans.

Customers who have defaulted

21. Table 1 shows data from large/medium-sized suppliers about the number of customers whose loans are written off each year as a proportion of the customers at the start of the year.

TABLE 1 **Write-offs as percentage of customers at start of year**

	<i>per cent</i>				
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>Average 2001–2004</i>
Average (unweighted)	12	11	12	10	11

Source: CC estimates based on data provided by suppliers.

22. This suggests that more than 10 per cent of home credit customers have a loan written off each year. We have been told that defaults are more likely to occur on customers' initial loans with home credit lenders than when a borrowing relationship has become established.

23. If home credit data were shared, these customers would be shown by CRAs as having defaulted on a home credit loan. This is likely to be perceived as a negative factor by both home credit and mainstream lenders (or any other lender who conducts a credit search). For example, Provident will not pass on to an agent any customer from the call centre, who has defaulted on a Provident loan in certain circumstances defined by its lending criteria ([X]). If other home credit lenders had this information, they might be expected to take a similar view about these customers.

Customers with multiple borrowing requirements

24. A credit search might also highlight some customers with a large number of borrowing commitments. The number of such customers is hard to pin down. The NOP survey found that 14 per cent of customers normally have three or more home credit loans at any one time. NOP found that these customers may be heavier borrowers and are more likely to report missing payments than other home credit customers.¹²

25. Evidence of multiple debts is less likely than a recent default to change a potential lender's perception of the risk of lending to a particular customer, particularly if the customer is managing to make repayments reasonably frequently. The evidence that we have seen is that home credit loans tend to represent a small proportion of the credit obligations of the highly indebted, so that serious over-indebtedness would often be apparent from other information held by CRAs. However, in some cases,

¹²Customer turnover, switching and multi-sourcing working paper, paragraphs 31 to 38.

information about home credit loans might adversely affect potential lenders' view of a customer's overall indebtedness.

26. In the case of customers with serious debt problems, access to further credit may not be in their interest or the wider public interest and other measures (eg debt advice, non-commercial credit) may be necessary.

Customers who have poor repayment records

27. The third group of home credit customers who may have access to credit reduced by data sharing are those with a poor repayment history.

28. Lenders are likely to vary in their view of what constitutes a good or bad repayment record:

(a) We have been told by some *home credit lenders* that they would view a customer who makes around two out of every three payments on time (or better) as being a 'good payer'. A home credit lender observing a customer's repayment record with another lender might be more conservative than this.

(b) It is harder to judge how *mainstream credit lenders* will regard missed payments on home credit loans. Mainstream lenders told us, in effect, that they would need to understand home credit repayment data before using it to assist lending decisions. The appetite for risk will vary considerably across mainstream lenders. It is also worth noting that it is fairly common for credit card customers to miss occasional repayments (for example, MBNA¹³ told us that in 2005, [30] per cent of its credit card customers incurred one or more late payment fees).¹⁴

¹³Source: MBNA.

¹⁴Customers who incur a missed payment fee will not necessarily appear as a miss on CRA records (if payment is made within two weeks of notification of the missed payment, then this will not be recorded as a missed payment).

Incidence of missed repayments on home credit loans

29. The evidence summarized in paragraph 2.22 of the provisional findings makes it clear that missed repayments are a common occurrence in home credit loans. Our customer survey found that around one-third of customers recall missing at least one payment in the last two months. Data from three suppliers indicates that between 2 and 9 per cent of customers always pay in full on time (depending on supplier), while between 35 and 45 per cent of customers miss more than half of payments or never pay.
30. Both sources clearly indicate that missed repayments are a characteristic of home credit. Neither is ideal for assessing the impact of data sharing. Customers are likely to understate the extent to which they miss repayments. The data from suppliers, while likely to be more accurate, includes both customers who ultimately default on the loan—who may be expected to miss more than half of repayments—and those who eventually pay back the loan. In addition, customers may miss payments but subsequently catch up, either during the course of the loan (for example, if they have informal arrangements with their agent) or at the end of the loan, either through early settlement or refinancing. Data presented to us by Provident indicated that around [X] of all loans issued in 2002 were paid off to term or ahead of schedule and just over [X] per cent of loans that had settled at all, had done so to term or early.¹⁵
31. We collected some further data from Provident in order to obtain a better understanding of how missed repayments on a home credit loan might appear if shared with other lenders through a CRA. The data used for this analysis was a sample of 40,280 PPC 31 and 55-week loans issued in 2002, covering all months of the year. The analysis tracked the payment performance of these loans up to 2005.

¹⁵Source: Provident.

32. Table 2 summarizes the default performance of these loans. This shows that [X] per cent of the 31-week loans and [X] per cent of the 55-week loans were written off by 2005. This is consistent with other data that we have seen on customer defaults.

TABLE 2 Default performance of PPC loans issued in 2002

	31-week loan	55-week loan
Written off	[X]	[X]
Paid off	[X]	[X]

Source: Provident.

33. For those loans which eventually settled, Provident assessed the credit status of each loan throughout its lifetime.¹⁶ Provident used both a monthly arrears (LSB) and PP13 approaches, assuming that:

- The monthly arrears measure is the sum of all payments due from the start of the loan less the sum of all payments received expressed in terms of the monthly payments due calculated at a particular point in time. Each loan was then given a 'monthly arrears status' as follows:
 - 0: Any loan less than 1 month in arrears or with no arrears or ahead of the contractual payments.
 - 1: Any loan that is one month or more behind but less than two months behind.
 - 2: Any loan that is two months or more behind but less than three months behind.
 - 3: Any loan that is three months or more behind.
- The PP13 measure is the sum of the last 13 weeks' actual payments as a percentage of the last 13 weeks' contractual payments calculated at a particular point in time.

¹⁶All statistics were calculated in weeks and then converted to monthly statistics by dividing by 4.333.

34. Tables 3 and 4 summarize the *least favourable credit status* achieved for each of the loans that were eventually repaid, using the monthly arrears and PP13 methods respectively. This represents a ‘worst case’, in terms of how the customer would appear to other lenders using a CRA. We have been told that lenders will look at repayment data in the context of all available information and their own risk models. We were also told by one mainstream lender that ‘it is the ability to have started and finished a lending transaction that is the most beneficial’ to a customer’s credit record rather than having a spotless repayment history.¹⁷

35. Table 3 shows that, if the monthly arrears method were used, the majority (between [X] and [X] per cent) of loans that eventually repay would appear on a CRA as not having been more than one month in arrears at any stage during the loan. A minority (between [X] and [X] per cent) of loans would show up as having been one month in arrears at some stage and a small minority (between [X] and [X] per cent) loans would show up as having been two or more months in arrears at some stage.

TABLE 3 **Least favourable credit status using LSB method**

	31-week loan	55-week loan
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]

Source: Provident.

36. Table 4 shows that, if the PP13 method were used, a small minority (between [X] and [X] per cent) of loans that repay would appear as having a perfect repayment history throughout the course of the loan. In a further group of loans (representing the majority (between [X] and [X] per cent) of loans that repaid), customers would appear as having achieved seven out of ten repayments at all stages during the loan. A minority (between [X] and [X] per cent) of loans, would have a repayment record

¹⁷Source: Summary of hearings with providers of mainstream credit products, page 4.

that has dropped to between 30 and 70 per cent during the lifetime of the loan. A very small minority (less than [X] per cent) of customers who eventually repay, drop below a 30 per cent payment performance on the PP13 measure.

TABLE 4 Least favourable credit status using PP13 method

	31-week loan	55-week loan
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]
[X]	[X]	[X]

Source: Provident.

Summary of impact of data sharing on access to credit

37. Overall, we expect data sharing to increase access to credit for most home credit customers. Data sharing is likely to reduce the risks associated with issuing loans, to reduce barriers to entry and expansion and enable customers with good repayment histories to communicate this to other lenders.
38. However, some home credit customers may have their access to credit reduced by data sharing. These possible exceptions fall into three categories.
39. The first category comprises customers who have defaulted on a home credit loan. We estimate that more than 10 per cent of home credit customers default on a loan each year. Data sharing may reduce the ability of these customers to access credit from those lenders who conduct a credit search. However, we can see no consumer-welfare or public policy justification for concealing home credit defaults from other lenders.
40. For a second group, sharing of home credit data could reveal a higher degree of indebtedness than would otherwise be apparent. The extent to which such customers would have their access to credit reduced as a result of sharing of home credit loan

data is unclear. Moreover, in the case of customers with serious debt problems, access to further credit may not be in their interest or the wider public interest and other measures (eg debt advice, non-commercial credit) may be necessary.

41. A third category of customers has been the main focus of concerns articulated to us—these are customers with a repayment record, which while acceptable to their incumbent home credit lenders, would be perceived as a poor record by other lenders.
42. Data sharing is unlikely to lead to a reduction in access to home credit for these customers: home credit lenders are prepared to tolerate a certain number of missed repayments and are likely to interpret in a positive light a repayment history that shows a reliable payment performance with occasional missed repayment.
43. Moreover, from the data that we have collected on this matter, the proportion of customers likely to fall into this third category appears small. For example, if the monthly arrears method were used, a clear majority of home credit loans that are eventually repaid would appear on a CRA record as having been paid back without falling more than one month in arrears. Only a small minority of customers (between [X] and [X] per cent of loans) would show up as having been two or more months in arrears at some stage.