

2. Description of the product

Introduction

- 2.1. In this section we describe the home credit product and the market for it, and some contextual factors influencing our consideration. The section is in four parts:
- In paragraphs 2.2 to 2.34 we set out some of the characteristics of home credit which bear on our analysis, notably the use of agents to collect loan repayments and sometimes to issue loans, and the approaches taken by lenders to assessing credit risk, to late and missed payments and to bad debt.
 - In paragraphs 2.35 to 2.56 we describe the regulatory environment governing home credit, in particular aspects which bear on competition.
 - In paragraphs 2.57 to 2.101 we describe the main home credit lenders and their shares of the supply of home credit.
 - In paragraphs 2.102 to 2.121 we describe the demographic and other characteristics of home credit customers.

Characteristics of home credit loans

- 2.2. Most home credit loans are for relatively small sums paid in cash. Some 70 per cent are for less than £500. Around 90 per cent are for less than £1,000. Most are repaid, over a period of around a year or less, in weekly instalments which are collected from the customer's home by the lender or an agent calling for the purpose, often at the same time each week. Although some lenders have told us that they issue some loans to customers who make repayments at the lender's business premises, we have been told that this is rare.¹ We regard the home collection as the defining feature of the home credit product.
- 2.3. Data from the four largest home credit lenders² indicated that the mean value of a home credit loan issued in 2004 and 2005 was around £325 and £335 respectively. The NOP survey found that the mean repayment term is around 43 weeks.³ These averages, however, mask a wide range of amounts loaned and repayment terms—see Table 2.1. In general, larger home credit lenders lend larger amounts and lend for longer terms than smaller home credit lenders.

¹Data from the Consumer Credit Association suggested that only around 40 lenders offered such loans.

²2005 data was only provided by Provident, Cattles, LSB and S&U. The 2004 figure has been recalculated only for these four lenders so as to present the results on a consistent basis. The mean figure for all lenders is likely to be lower.

³The NOP Survey estimated a higher figure for an average loan, but we consider the lenders' data on this to be more reliable.

TABLE 2.1 Length and amount of the most recent loan

<i>Amount of loan</i>	<i>Percentage of customers</i>	<i>Average term of loan (weeks)</i>
Up to £100	8	26
£101–£250	26	33
£251–£500	36	42
£501–£750	7	50
£751–£1,000	10	52
More than £1,000	8	75

Source: NOP survey.

2.4. Many home credit lenders also offer other products on similar terms to home credit loans with payment being collected at home. In particular, we found that all the large lenders and over 40 of the Consumer Credit Association's (CCA's) medium-sized or small members offer (on credit) vouchers redeemable in one or more stores. Others also have businesses offering goods on credit.

Agents

2.5. We estimate that at least three-quarters of home credit lenders are sole traders⁴ or partnerships, where the proprietor carries out unaided (or with limited assistance) a full range of tasks (assessment of customers' creditworthiness, lending decisions, collection of repayments). But most lending is accounted for by companies which engage agents to help carry out some or all of these tasks. There is some variation in the business models used by lenders, which is reflected in the terms on which these agents are engaged:

- Most large lenders have self-employed, mainly part-time agents working up to around 20 hours per week; a high proportion of part-time agents are women.⁵ Self-employed agents are generally responsible for their own costs (for example, of travel).
- We have seen other models; some lenders have full-time contracts with self-employed agents. In some (rarer) cases, agents are full-time or part-time employees.

2.6. Agents are generally recruited from the communities they serve; we were told that many were former customers. Some home credit companies told us that they liked to hire agents with experience of home credit; others that they preferred agents without working patterns formed by a period with another lender.

2.7. Agent remuneration is generally based on commission on the amount collected each week. The precise terms of agent remuneration vary from lender to lender, but not widely. We found that basic commission paid to agents varied from around 7 per cent to around 10 per cent of cash collections. In most cases, commission is paid as a fixed percentage per pound collected, though one lender has developed a more complex system based on an assessment of the quality of the agent which means that the commission rate paid to agents varies, though not by a significant degree. There is more variation in the treatment of collections resulting from the early settlement of loans. Some lenders pay no commission on these, some pay commission at

⁴See glossary for the specific meaning we give to this term in this context.

⁵Because the majority of home credit agents are female, we use 'her' rather than 'his or her' when referring to agents throughout this report.

less than the basic rate and some at the basic rate. Some (but not all) of the larger home credit companies provide additional financial support to some agents in their early weeks, when they may have a relatively small volume of loans and are building their skills in collections management, and their earning power is lower than that of an established agent. Some companies' agents can also earn additional income by introducing a new customer or new household, which generally earns a flat rate single payment.

- 2.8. Home credit companies told us that the system of payment by commission on collections served as a safeguard against irresponsible lending. An agent has no incentive to lend, or to recommend lending, where the customer is unlikely to be able to repay; rather it is in the agent's interests to lend only an amount that the customer is likely to be able to repay regularly and in full (as non-payment leads to unproductive calls).
- 2.9. Data on agent tenure suggests that many newly-recruited agents leave relatively quickly. The largest proportion of those who leave do so in the first year. Lenders told us that it was common for agents to discover that they were less well suited to the job than they had expected, and if they were unable to establish and maintain a reliable pattern of collections their income might not greatly exceed their costs. Although some of those who left (up to a fifth each year, though this figure varied from business to business) were dismissed, the rest left voluntarily. Home credit lenders told us that until new agents built their skills, their collections performance tended to be worse than that of experienced agents.
- 2.10. By contrast, a significant number of agents stay with home credit companies for many years. Over 40 per cent of large lenders' agents had been with their current lender for more than five years.
- 2.11. Agents' responsibilities for lending decisions vary by company. At one extreme, 'collectors' employed by one company are responsible solely for collection of repayments. The local branch office discharges all other functions. Others allow agents some discretion to lend, especially to known customers, up to defined limits. All the large home credit lenders (see paragraphs 2.57 to 2.86) have extensive branch networks. In most cases these are not solely for home credit—one runs its debt collection and other operations from the same branches, for example—but the need to support agents in the field is a significant driver of the need for a branch network.
- 2.12. The management structure of branches varies from company to company depending on the balance of responsibilities between managers and agents. Meetings—generally weekly—between managers and agents enable a shared understanding of customers' circumstances. They serve as an opportunity in many cases to take stock of marketing to new customers; to identify and encourage further lending opportunities where the customers' circumstances appear to justify it; and to assess opportunities for marketing to new, or former, customers.
- 2.13. When an agent leaves, the local manager is responsible for filling the post. If the post cannot be filled immediately the round would usually be collected by a local manager, alongside his or her other responsibilities. We were told that collections performance tended to decline in these circumstances, as the manager did not have the same relationship with customers as an experienced agent.

Loan origination

2.14. The regulatory constraints on offering credit are described in paragraphs 2.41 and 2.42. Lenders told us that they found new customers by a combination of word of mouth recommendation, direct marketing and canvassing using vouchers or goods on credit. In some cases the agents are responsible for canvassing; in others, contracted canvass teams visit areas offering goods or vouchers. Lenders told us consistently that word of mouth was the most reliable source of new customers, and canvassing the least.⁶ Agents interviewed by AIA endorsed this view. We were told that some small businesses only accepted customers based on personal recommendation.

2.15. In most credit markets, lenders try to assess the risk of lending to a new customer (and thus decide whether to lend at all and if so, how much) using any data about the customer which might help to predict the likelihood of the customer repaying the loan. For home credit, the data used will include everything the lender has gathered about the customer (for example, from an application form),⁷ often supplemented by public data sourced from a CRA (see paragraph 2.16). The processes of data sharing and credit scoring in relation to home credit in particular are outlined at Appendix 2.1. Lenders engage in different forms of assessment at two stages of the lending process:

- *Prospect assessment.* This refers to the process of identifying customers with features which make them more or less likely to be good credit risks before marketing to them. The Principles of Reciprocity (see Appendix 2.2), a set of rules agreed between the CRAs and their customers, govern the use to which data provided by lenders to CRAs can be put. They prohibit the use of data which is not an adverse risk indicator for identifying or marketing to individual customers.
- *Application scoring.* This refers to the process of deciding whether a potential customer who has asked for a loan should be granted one. The data used for this may be demographic (customer characteristics) or behavioural (the customer's record of payment on loans from the same or other lenders).

We were told by home credit lenders and by providers of mainstream credit products that more recent data and data relating to similar products to the one being sought are generally the most predictive of customers' creditworthiness. Inevitably, the data available to any lender on existing customers is likely to be better than that on new customers.

2.16. Most home credit companies told us that they made less use of CRA data than companies engaged in other forms of unsecured lending. CRAs hold four types of data:

- publicly available data (which covers, for example, whether the individual is on the electoral roll or has any county court judgment against him or her);
- 'negative' data (that is, data on accounts which are or have been at least three months in arrears, termed 'delinquent data', and on situations where the

⁶One lender told us that 'canvassers can bring in quite a lot, but they bring in an awful lot of stuff that we wish they would not ... a third never pay you, a third you just about manage to get the money out of, and a third you turn into customers. That is if you are doing well.'

⁷This would be likely to include data on household income, financial commitments etc.

relationship between the borrower and lender is deemed by the latter to have broken down, termed 'default data');

- 'positive' data (that is, all other data on credit performance); and
- 'search' data (which records searches conducted on a customer's records held by CRAs).

Most home credit companies do not input any data regarding their customers into CRAs and only one lender (London Scottish Bank plc (LSB)) inputs positive data relating to its customers. The Principles of Reciprocity (see Appendix 2.2) which govern data sharing means that lenders are able to access data only to the level that they input data. Most home credit companies are therefore able to access only publicly available data. Some smaller lenders submit (and search for) default data (see paragraph 2.91). Further detail on the use made of data sharing by home credit lenders is in Appendix 2.1.

- 2.17. Most of the default or positive data held by CRAs relates to other forms of credit. Home credit lenders told us that default or positive data drawn from customers' experience of credit products other than home credit were not generally a good predictor of the payment performance of their customers. Because of their circumstances, many home credit customers not only represented a generally worse credit risk than some other customer groups, but also a less predictable one. Some do not have CRA records at all. One company, which had experimented with the use of publicly available CRA data, told us that it had not proved to be a cost-effective predictor of payment performance on a home credit loan.
- 2.18. In the absence of CRA data, home credit companies limit their exposure to bad debt risk for new customers by lending relatively small amounts of money. Provident, for example, told us that new customers would usually receive smaller loans paid over shorter periods than existing customers; that the average length of loan for a new customer was [redacted] weeks; and that [redacted] per cent of loans to new customers were for £100 or less, while only [redacted] per cent were for more than £500. Only once the customer has demonstrated the ability to pay are larger sums likely to be offered. This process is known as 'step-up' lending. Home credit lenders told us that it was an important safeguard against irresponsible borrowing and helped to control bad debt.

Collections

- 2.19. In the course of a weekly visit, the agent collects the weekly repayment and updates both her own records and the customer's payment book which provides a record of payments made and sums outstanding on the loan. We were told that payment books were generally used, though customers did not have a right to one. There is no standard format for a payment book. For example, some are cards rather than books. Some companies enter all loans with the same customer in the same book; others have different books (or cards) for different loans. We were told that most customers had up-to-date payment books (though we saw some evidence in the AIA and NOP surveys that not all do).
- 2.20. In the course of the weekly visit, agents may also gather information on customers' circumstances (changes in family or employment circumstances, or in income or out-goings) which might influence the customer's demand for credit or creditworthiness.

Many lenders also suggest further loans when visiting to collect instalments and for a period after the settlement of the loan.⁸

2.21. Home credit lenders, unlike providers of many other credit products, impose no default charges or additional interest for customers who miss payments. With other credit products, however, responsibility for missed payments or defaults can be laid squarely at the door of the customer. In home credit there is the additional risk that missed payments may result from the agent not calling, or not calling at the agreed time, in which case the customer may not be at home or may not have the repayment ready.⁹ One lender told us that up to one in seven missed payments may be attributable to this.

2.22. Home credit lenders told us that most customers missed at least one payment in the life of a loan. Table 2.2 sets out lenders' evidence on the incidence of missed payments; Table 2.3 sets out customers' views from the NOP survey. A third of customers believed they had missed at least one payment in the last two months. We do not consider that these two figures are inconsistent and we have no reason to suppose that the lenders' figures are inaccurate.^{10,11}

TABLE 2.2 The proportion of loans fitting into each of the following categories

	<i>Customer always pays in full on time</i>	<i>Customer sometimes (<10%) misses a payment</i>	<i>Customer often (between 10% and 50%) misses a payment</i>	<i>Customer usually (>50%) misses a payment</i>	<i>per cent Customer never pays</i>
(☒)	2	20	34	44	<1
(☒)	9.0	7.6	48.3	29.6	5.5
(☒)	3.8	12.5	45.4	36.4	1.9

Source: [☒].

TABLE 2.3 Missed payments in the last two months

<i>Number of missed payments</i>	<i>Percentage of customers</i>
None	63
1	11
2	11
3	6
4	3
5	1
6	2
Don't know or refused to answer	4

Source: NOP CC survey.

2.23. The implications of missed payments for the price paid by customers in different circumstances are analysed in paragraphs 3.20 to 3.22.

2.24. Home credit lenders have told us that the circumstances of many of those to whom they lend mean that they are more vulnerable than most lenders to bad debt. Customers with uncertain or unpredictable sources of income (see paragraph 2.107 for details on the demographic profile and characteristics of home credit customers)

⁸Paragraph 2.41 discusses the regulatory implications, and paragraph 6.100 the competition implications of this.

⁹A customer could also miss a payment if away or on holiday at the usual time of collection.

¹⁰They can be expected to include payments missed as a result of the agent not calling.

¹¹We found that, despite the incidence of missed payments, few customers ever fell as much as a month into arrears.

might find that their ability to repay a loan varied, if not from week to week, certainly over the life of several loans.¹² Loss of a job or other change of domestic circumstances could cause a previously reliable customer to default on a loan. We were told that home credit customers' vulnerability to such changes in circumstances was such that many customers could not be described as good or bad; their payment performance varied with their financial circumstances.

- 2.25. The larger established home credit companies incur annual bad debt charges in their accounts of between 5 and 13 per cent of average receivables (stated gross of the bad debt provision but net of deferred income). These figures remain reasonably steady for each provider over the period 1999 to 2004. There is some variation between providers—companies that have chosen to target a less risky customer population not surprisingly show lower levels of bad debt charge than others. Some of the home credit companies' levels of bad debt are comparable to or higher than those experienced by other consumer credit lenders. However, the lowest (two large lenders' average charges over the period were below 8 per cent) are lower than rates experienced by lenders on some mainstream or sub-prime credit products.¹³ Some lenders told us that there was evidence that bad debt rates were increasing and that payment performance more generally was declining as a result of changes in attitudes among current customers.
- 2.26. Lenders told us that they seldom pursued bad debts through the courts; it is generally not cost-effective to do so where the sums involved are small and lenders judge that the customers in question are genuinely unable to pay.
- 2.27. Lenders told us that the principal means of controlling bad debt was through the weekly agent collection. This provides a weekly discipline on the customer, and may help to ensure that home credit repayments are prioritized among other calls on the weekly budget.
- 2.28. When the last repayments on a loan have been made, the agent generally takes the payment book into the branch office for checking and returns it to the customer. Where the customer settles the loan early (for whatever reason) a rebate may be payable (see paragraphs 3.49 to 3.53). Some customers settle new loans early by renewing them (that is to say, repaying the outstanding balance on one loan with some of a new one, taken out at least in part for that purpose). Renewals are discussed in more detail in Appendix 2.3.
- 2.29. Different customers hold different patterns of loans. Some borrowers have loans with several lenders. Data from lenders showed that around a third of customers have multiple loans from the same lender. (We term these parallel loans and discuss them further in Appendix 2.3.) Others prefer to consolidate all their loans with one lender into a single loan; this would be likely to be achieved by refinancing or renewal. A borrower with an outstanding loan who seeks more credit from her lender may not be offered a choice between taking out a parallel loan or a renewal loan. Lenders are likely to offer that choice only to those whom they assess as capable of carrying the short-term burden of additional weekly payments for a parallel loan. For borrowers not meeting this test, lenders may offer a renewal loan with unchanged weekly payments). We discuss the prices which customers pay for renewal and parallel

¹²We note that customers dependent on state benefits, for example, can be expected to have stable incomes, if not necessarily stable outgoings.

¹³For example, evidence published in the CC's store cards inquiry showed that most store card programmes had bad debt provisions of between 2 and 17 per cent of average net receivables, with most programmes having bad debt provisions of between 5 and 10 per cent of average net receivables. Source: Store cards market investigation report, Section 8, Figure 8.5.

loans in Appendix 2.3 and in paragraphs 3.46 to 3.57; and the competitive impact in paragraphs 6.167 to 6.179.

Customer turnover

- 2.30. We found that, on average, around a quarter to a third of the customers of any home credit lender are new to that lender, though this figure had fallen from over 35 to under 25 per cent between 2001 and 2004. Not surprisingly, Park Direct (Park), a new entrant expanding quickly during the period which we reviewed, had a higher proportion than most on this measure—three-quarters of its customers in any of its four years of operation were new to it. Other lenders' figures varied over the period from about a fifth to about two-fifths.
- 2.31. The proportion of customers lost in a year was more stable, though it too fell from 35 to 30 per cent over the period. Not all lenders were able to distinguish between those whose loans had been written off (in full or in part) and those who had paid up loans but not taken out another one. The data we were able to gather suggested that the majority probably fell into the latter category.
- 2.32. Overall, levels of customer turnover vary by firm and appear to be determined primarily by the company's strategy; those seeking to expand (or at least to replace lost customers) have more new customers, many of whom do not take out more than one loan with them.
- 2.33. The NOP survey found that less than 10 per cent of those interviewed had been a home credit customer for less than a year. By contrast, half had been a home credit customer for more than five years and 30 per cent for more than ten. The NOP survey found that first-time users were less likely to use home credit again than all current users. The MFS survey also found that paid-up customers say they are less likely to use home credit again than current ones; Provident data revealed a similar pattern (a higher proportion of paid-up than of current customers said that they would not use the company again¹⁴).
- 2.34. We consider that the pattern we have observed is consistent with a body of around three-quarters of established customers, changing relatively infrequently, and the remaining quarter of customers churning more often. In practice, the former group:
- accounts for a higher proportion of loans by number (because many have more than one loan with the same company) than its size would imply (our best estimate is that it accounts for over 80 per cent of loans by number);
 - accounts for a higher proportion of loans by value (because loans to established customers are generally larger) than its size would imply (our best estimate is that it accounts for nearly 90 per cent of loans by value); and
 - is likely to account for a higher percentage still of lenders' profitability (see paragraph 6.135 for a discussion of the relative profitability of smaller and larger loans).

¹⁴Over half of paid-up customers, and over three-quarters of current customers, said that they would.

The regulatory environment

Introduction

- 2.35. Home credit is governed by consumer credit law, which is primarily concerned with the protection of the individual who is granted credit or hire purchase facilities. The Consumer Credit Act 1974 (the 1974 Act) governs both the lending of money and sale credit. It seeks to apply a framework encompassing the whole spectrum of credit transactions, but inevitably has to make different provision for different types of transaction. The following paragraphs summarize the provisions of the 1974 Act which appear most relevant to the consideration of competition in home credit.
- 2.36. The Consumer Credit Act 2006 (the 2006 Act) received Royal Assent on 30 March 2006 and is being brought into force by commencement orders.¹⁵ It will amend the 1974 Act and some of the amendments are mentioned below.

Scope of the Act

- 2.37. All home credit transactions are regulated by the 1974 Act (though some credit transactions, for example credit union loans, are not).¹⁶

Licences

- 2.38. A person¹⁷ who wishes to carry on a consumer credit business needs a licence from the OFT.¹⁸ It is an offence for a person to carry on a consumer credit business without a licence.¹⁹ In order to obtain a licence, applicants have to satisfy the OFT that they are a fit and proper person. Among the matters which the 1974 Act requires the OFT to have regard to is any evidence that the applicant has engaged in business practices that appear to be deceitful or oppressive or otherwise unfair or improper.²⁰
- 2.39. A licence lasts for five years.²¹ The fee payable on an application for a licence or to renew a licence is £110 for a sole trader²² and £275 for a partnership, company or other organization.²³ The OFT has told us that, in practice, it aims to issue licences quickly (within 25 working days) where there are no fitness issues. Applications are checked to see whether there are declarations of convictions, county court judgments, bankruptcies or liquidations; or whether names applied for are in any way misleading or otherwise undesirable. Checks are made to see if there is any adverse information or previous licensing action recorded against the applicant or any person named on the application. Should adverse information exist, the case is subjected to a further fitness investigation.

¹⁵The DTI website states that the provisions concerning the new licensing regime and transparency will be brought into force in April 2008. However, an order bringing those provisions into force has not yet been made.

¹⁶This statement is made on the basis that no home credit loan is likely to exceed £25,000.

¹⁷A licence can be issued to any 'person'. 'Person' includes an individual, a company, a partnership or an unincorporated body. The word is used in the same sense throughout this report.

¹⁸See section 21 of the Act. There are exceptions that are not relevant for present purposes.

¹⁹Unless, of course, the person is not required to have a licence (see second footnote to paragraph 2.38).

²⁰See section 25 of the 1974 Act.

²¹SI 1975/2124 as amended by SI 1991/817. The 2006 Act makes provision for indefinite licences to be issued with charges being paid at specified intervals.

²²Sole trader is used here in its normal sense and not in the sense used elsewhere in this report as defined in the glossary.

²³OFT website. Power to charge fees of an amount specified by general notice is given by section 2(5) of the 1974 Act.

- 2.40. When the relevant provisions of the 2006 Act come into force (which we expect to be in April 2008²⁴) the current test for fitness to hold a licence will be strengthened so that the OFT will equally be able to look back at licence applicants' past conduct, and forward, to assess their preparedness for running their credit business. For example, the OFT, when considering an application for a licence, will be under a duty to have regard to: the applicant's skills, knowledge and experience; the skills, knowledge and experience of persons he proposes will participate in his business; and his proposed practices and procedures.²⁵

Seeking business

Canvassing

- 2.41. It is an offence to canvass 'debtor-creditor agreements' off trade premises. A person 'canvasses' if he or she solicits the entry of the customer into a consumer credit agreement by making oral representations during a visit by the canvasser carried out for the purpose of making such representations.²⁶ It is not canvassing if the visit takes place in response to a written signed request (known as the 'permission to call') made on a previous occasion. The larger lenders (other than LSB, whose agents merely act as collectors) regard their agents as free to suggest further loans when visiting to collect instalments, and their belief is mainly grounded on the wording of their loan documentation.
- 2.42. An agreement to purchase (on credit) a voucher enabling goods to be purchased at specified stores is not a debtor-creditor agreement and, accordingly, canvassing such an agreement is not an offence.

Advertising

- 2.43. A person carrying on a consumer credit business must comply with the Consumer Credit (Advertisements) Regulations 2004.²⁷ These lay down detailed requirements for advertisements.
- 2.44. An advertisement generally has to state the 'typical APR' if it says anything about the terms on which loans are made. It must do so, in particular, if it specifies any other rate of charge; or includes the frequency, number and amount of repayments or includes the total amount payable by the customer; or indicates that credit is available to persons who might otherwise consider their access to credit restricted; or indicates that any of the terms on which credit is available is more favourable than corresponding terms applied in any other case or by other creditors; or offers incentives.²⁸ A 'typical APR' is an APR at or below which the advertiser expects credit to be provided in at least 66 per cent of the transactions that the advertiser expects to enter into as a result of the advertisement.²⁹ We discuss the use of APRs more fully in paragraphs 3.6 to 3.15.

²⁴See footnote to paragraph 2.36.

²⁵The 2006 Act also introduces express reference to irresponsible lending, as being an example of business practices which may be deceitful or oppressive or otherwise unfair or improper (see paragraph 2.38).

²⁶Sections 48 and 49 of the 1974 Act.

²⁷SI 2004/1484 as amended by SI 2004/2619.

²⁸The OFT's view on what might trigger the need for a typical APR is set out in its Consumer Credit (Advertisements) Regulations 2004 Frequently Asked Questions, September 2005, OFT746.

²⁹The typical APR will be the headline APR in home credit, where prices do not vary between customers (see paragraphs 6.25 to 6.35).

Making an agreement

Pre-contract information

2.45. The Consumer Credit (Disclosure of Information) Regulations 2004³⁰ require a prospective lender to supply an information document to the proposed customer before entering into a consumer credit agreement. The document has to be self-contained, headed 'Pre-contract information', must contain the information stated in the Regulations and must not contain any other information.

Form and content of agreement

2.46. Consumer credit agreements³¹ have to comply with regulations as to form and content. The current regulations are the Consumer Credit (Agreements) Regulations 1983.³²

2.47. The regulations, among other things, specify the information that must be contained and this includes information relating to: term of the agreement; total charge for credit; the amount of each repayment; the APR; and any charge on default. They contain detailed requirements as to layout and presentation. They require agreements to be signed by both parties.

2.48. The agreement has to give examples showing the amount that would be payable if the customer exercised the right to discharge his indebtedness one-quarter, one-half and three-quarters of the way through the agreement. Rebates are explained below (see paragraphs 2.52 to 2.56) and in Appendix 3.4. The lender is required to supply a copy of the agreement to the borrower (and in some circumstances a second copy by post).

Matters arising during currency of agreements

2.49. When the relevant parts of the 2006 Act have been brought into force (expected to be April 2008³³) the following new requirements will be imposed on home credit lenders:

- Lenders will have to provide the customer with annual statements in a specified form. If they fail to do so, then for as long as the failure continues, the agreement will be unenforceable and the debtor will not be liable to pay interest in respect of the period of default.
- Lenders will have to give notice of sums in arrears in specified circumstances. Again, if they fail to do so then for as long as the failure continues, the agreement will be unenforceable and the debtor will not be liable to pay interest in respect of the period of default.

³⁰SI 2004/1481.

³¹The Act differentiates between 'consumer credit agreement' and 'regulated agreement', the latter being a consumer credit agreement that is regulated by the Act. As the distinction is not relevant for present purposes, we use 'consumer credit agreement' throughout.

³²SI 1983/1553 as amended. The most recent amendments were made by SI 2004/1482.

³³See footnote to paragraph 2.36.

Right to complete payments ahead of time

- 2.50. Customers are entitled at any time, upon notice and payment of the amounts payable under the agreement (less a rebate), to discharge their indebtedness.³⁴
- 2.51. If customers so request in writing, the lender must, within seven days, give them a statement setting out the amount required to discharge the debt and other particulars including the settlement date (ie the date by which the debtor has to pay that amount in order for the payment to discharge the debt).³⁵ The settlement date must be 28 days after the date that the lender receives the request unless a later date is requested by the customer.³⁶

Rebates

- 2.52. If customers discharge their debt early for any reason, they are entitled to a rebate calculated in accordance with the Consumer Credit (Early Settlement) Regulations 2004.³⁷ These regulations came into force on 31 May 2005. The new regulations do not apply to agreements made before 31 May 2005, until 31 May 2007 in some cases, and until 31 May 2010 in other cases.
- 2.53. The regulations broadly require the minimum rebate to be calculated on actuarial principles, using the APR as the interest rate, although there are some complicated provisions for assessing the periods involved (see Appendix 3.4). However, the settlement date for the purposes of the calculation is not always the actual date on which the debt is settled.
- 2.54. If the customer has given notice of early settlement, the settlement date is taken to be 28 days later (unless the customer has requested a later date or actually settles later). Thus if the customer has given notice and settles immediately, the lender will effectively be allowed to retain 28 days' unearned interest. If the customer settles after the 28-day period, the date to be used in the calculation is the actual date. If a loan is settled early other than pursuant to a notice, the settlement date is taken as the actual settlement date.
- 2.55. If the loan is for more than one year, the lender is entitled to defer the settlement date for calculation purposes by a month. If the customer has given notice of early settlement, the month would run from the end of the 28-day period, any later date requested by the customer or the actual date of settlement (whichever is the later). The lender can of course agree to give rebate terms that are more favourable than those provided under the legislation.
- 2.56. We consider the impact of the rebate arrangements on the price paid by customers who settle loans early in paragraphs 3.46 to 3.57 and the competitive impact of these arrangements in paragraphs 6.167 to 6.179.

Home credit lenders

- 2.57. At the outset of this investigation, we identified some 430 home credit lenders in the UK, most of them small enterprises, but including 22 whom we classified as either

³⁴Sections 94 and 95 of the 1974 Act.

³⁵Section 97 of the 1974 Act.

³⁶SI 1983/1564 as amended by SI 2004/1483.

³⁷SI 2004/1483.

large or medium—see the list in Appendix 2.4. Of the six largest lenders at that time, five were public companies listed on the London Stock Exchange.

- 2.58. In the following sections we briefly describe the six largest lenders (defined by us as those with 100 or more agents) which were actively trading throughout, or throughout most of, our investigation in descending order of market share. We also set out our calculations of market size, market trends and shares of supply.

Provident Financial plc

- 2.59. Provident, founded in 1880 as a check trader, is by far the largest home credit lender in the UK. It operates throughout the UK and the Republic of Ireland. It operated in 2004 from approximately 240 branches, with around 11,000 self-employed agents and almost 1.5 million customers. Its UK home credit business is carried on by two wholly-owned subsidiaries: Provident Personal Credit Limited (PPC), with around 180 branches, and Greenwood Personal Credit Limited (GPC), with around 60 branches.
- 2.60. PPC's principal product is a 55-week cash loan, while GPC's is a 32-week cash loan. PPC offers a wide range of cash loans and voucher products with different terms. GPC offers a more limited range of loans and voucher products, mostly short term.
- 2.61. Provident has diversified from its UK home credit business. Since 1997 it has set up home credit operations in Poland and elsewhere in Central Europe, in South Africa (subsequently withdrawn) and in Mexico. In 2002 it acquired the car finance business Yes Car Credit, which it subsequently closed in 2005. In 2003 it set up Vanquis Bank to test the market for credit cards for customers with modest incomes by the end of June 2005. Vanquis Bank had 113,000 customers. In Provident's interim results for the half year to June 2006, published in September 2006, it stated that the board expected that the proposed demerger of its international businesses (apart from the Republic of Ireland) was on course to take place in the spring of 2007.
- 2.62. Provident is encouraging those customers who could sustain longer, larger loans to take them out.
- 2.63. Provident is seeking new opportunities for home credit growth in overseas markets and sees the UK market, given continuing improvements in operating efficiencies and services to customers, as 'an excellent, cash generative business'.³⁸ In Provident's interim results statement in September 2006 it stated that:

the medium term outlook for UK home credit has improved during the last 12 months. Although growth in Central Europe is expected to be slower over the next 18 months as actions to improve the Polish business take effect, the opportunity for profitable growth in existing and new international markets remains excellent.

Cattles plc

- 2.64. Cattles was founded in 1927 as a low-value goods retailer. It extended first into check trading, then into home credit and expanded to the point where it is now the second largest UK provider. During 2004 it operated (trading as Shopacheck) from some 180 branches with over 2,000 self-employed agents and over 370,000 customers. As a result of branch closures, the number of branches and customers

³⁸Source: Preliminary announcement of the final results for the year ended 31 December 2005.

fell to around 110 and around 340,000 respectively by the end of 2004. Cattles operates in all regions of the UK except Northern Ireland.

- 2.65. Among a wide range of cash loans and voucher products with different terms, Cattles' principal products, accounting for around two-thirds of its home credit business, are a 30-week cash loan and a 52-week cash loan.
- 2.66. Cattles has other consumer credit businesses in addition to home credit. These are now much larger than the home credit business. They include sub-prime consumer credit primarily for monthly bank repayment and a direct distribution motor finance business. Other businesses include insurance, debt collection (including The Lewis Group) and corporate services (offering invoice finance).
- 2.67. Cattles pursued a growth strategy, mainly via acquisition, in its home credit business from 1999 until 2002, growing from 160 to 270 branches. This strategy was reversed in 2002 because of the high level of bad debt experienced among the new customers. 2003 and 2004 saw considerable retrenchment and a reduction to 110 branches by the end of 2004. Cattles' current overall strategy envisages future customer growth continuing to be generated by Welcome Financial Services.³⁹
- 2.68. In August 2006 Cattles announced that it had purchased £53.1 million of debt and around 80,000 customers from Park Group plc (see paragraphs 2.79 to 2.83) for a consideration of £8.0 million.

London Scottish Bank plc

- 2.69. LSB, unlike other large home credit providers which originated as check or goods traders, was a licensed deposit taker which moved into home-collected credit. By 2004 it was operating from approximately 100 branches across most regions of the UK, including one in Northern Ireland; and had approximately 110,000 customers. It is distinct from the other large lenders in that its business model relies on self-employed 'collectors' who do no more than collect payments due. Unlike agents of other large lenders, they are not authorized to offer, handle termination of, renew or advise on loans.⁴⁰
- 2.70. LSB has historically offered a range of mostly long-term cash loans with 75- to 150-week cash loans as its principal products. However, following its acquisition of Morse's Ltd in 2004 (see paragraph 2.73), it has continued to offer some shorter-term products to former Morse's customers.
- 2.71. LSB has consumer credit, consumer debt collection, factoring and reinsurance businesses. The Consumer Debt Collection division, Robinson, Way & Co, provides services to various third parties as well as to the Consumer Credit Division internally. It also purchases distressed consumer debt from third parties for collection.
- 2.72. LSB's home credit lending concentrates on customers with higher disposal income and greater financial stability than is typical for the sector. It has tended to lend larger sums over longer periods of time than is the norm in the sector and thus to differentiate itself from its home credit competitors.
- 2.73. LSB's overall strategy has increasingly moved towards catering for customers who can be assessed for loans at its branches and who can repay through their bank

³⁹Where repayments are collected through a bank rather than through a home collection service.

⁴⁰They nonetheless come within our definition of 'agent'.

accounts, rather than by home collection. Home credit represents a decreasing proportion of LSB's branch-based business. In 2004 LSB acquired the debts and goodwill of Morse's Ltd with a view to collecting out the outstanding debts; to retaining some of Morse's branch network; and to developing business with Morse's better customers. By October 2004 bank-paying balances were for the first time making up the majority of LSB's consumer credit book (52 per cent of gross receivables). In 2005 the Consumer Credit division suffered an increased level of bad debts and several branches became unprofitable. Following a review in mid-2005, 18 branches were closed. LSB expects that by the end of 2007 home credit will account for less than one-third of its total consumer credit receivables.

S&U plc

- 2.74. S&U was founded in 1938 as a company (Sports and Utilities) selling sports and leisure goods. By 2004 it was operating from 24 branches with over 450 agents and approximately 70,000 customers. Its business model relies on self-employed agents, known as representatives. Loan decisions, however, are not made by representatives but at branch level. S&U operates in all regions of the UK except Northern Ireland. As S&U plc, it is both the principal trading and parent company with 14 branches and over 150 agents. It also trades under the names of two acquired, independently managed and geographically discrete businesses: S D Taylor Ltd with five branches and approximately 130 agents, and Wilson Tupholme Ltd with five branches and approximately 170 agents.
- 2.75. The three S&U companies all offer the same four home credit products, with a duration varying from 32 to 70 weeks. The principal product for S&U and Wilson Tupholme is a 41-week cash loan. That for S D Taylor is a 32-week one.
- 2.76. Since 1998, S&U has had a motor finance business, Advantage Finance; and more recently has started second mortgage lending in the sub-prime sector.
- 2.77. S&U seeks to target the higher end of the home credit market and to avoid distressed lending.
- 2.78. S&U has been growing both organically and, when it identifies an opportunity, by acquisition (although the rate of its growth has declined since 2000/01). The business has recovered from significant losses occasioned by frauds in 2002/03 in its London office.

Park Group plc

- 2.79. Park was a home credit business operated by Park Direct Credit Ltd, one of three wholly-owned subsidiaries of Park Group plc. The group's founder, Peter Johnson, controlled a majority of the ordinary shares and is Executive Chairman.
- 2.80. Park opened its first home credit branch in 1998. After early setbacks (see Section 5) it increased both organically and by acquisition, to the point where it had, by 2004, 37 branches, 660 agents and approximately 115,000 customers. Park operated in Scotland, the North-West, the West Midlands, the North-East and Yorkshire. It had a single pricing structure. Its credit control rules were set on a national basis, but local managers had levels of authority to vary the terms according to the history of the applicant and the experience of the agent.
- 2.81. Park offered a range of cash loans and voucher products. Its principal product was a 26-week loan.

- 2.82. Park tended to lend smaller amounts and to lend frequently on a short-term basis. It told us that it expected to increase over time the proportion of longer-term loans.
- 2.83. On 12 July 2006 Park Group's Chairman commented that its cash lending business had continued to under-deliver in what had been an increasingly challenging market and that it had decided to exit the industry. On 11 August 2006 Park Group plc announced that it had completed the disposal of Park to CL Finance Ltd, a subsidiary of Cattles, for an estimated cash consideration of £8.0 million.

Mutual Clothing & Supply Co Ltd

- 2.84. Mutual was founded in 1898 as a check trader, switching to loans in the 1980s. It is the only unquoted company among the large providers. It is a family business, owned by Mr A C Keene (its Chairman and Managing Director) and another family member. It has grown to 16 branches with approximately 260 employed agents and over 50,000 customers, operating mostly in the East Midlands, but extending also to Oxford, Norwich, Doncaster and Grimsby.
- 2.85. Mutual has retail and insurance broking subsidiaries. Most of its sales are made to Mutual's home credit customers.
- 2.86. Mutual differs from the other large providers in that it has a relatively high share of supply within a restricted area of operation; has a higher proportion of its business (almost 30 per cent) represented by the sale of goods; and appears to price its cash loans at levels below those of most of its competitors (see paragraph 6.21).

Medium and small lenders

- 2.87. We identified 16 medium-sized lenders (which we defined as those with 10 to 99 agents). They are listed in Appendix 2.4.
- 2.88. It was more difficult to determine the number of small lenders (ten agents or fewer). We wrote to all the UK members of the CCA and to those few non-members who came to our attention. We received 239 replies, of which 225 were small lenders with ten agents or fewer. We found that:
- The medium-sized and small home credit lenders are more concentrated in some regions. They are most concentrated in the North-West and in Yorkshire and the Humber. If, however, account is taken of population density, penetration rates are also high in the North-East, Northern Ireland and Wales.
 - The average limited company is approximately five times the size of the average sole trader or partnership, as measured by a range of financial and personnel factors and numbers of loans.

Consumer Credit Association

- 2.89. Formed in 1978 in a merger of the Retail Credit Federation and the National Personal Finance Association, the CCA is the trade association for home credit lenders (including those in the Republic of Ireland). It has 13 regions and branches, which typically hold two meetings a year. The CCA has approximately 450 members in the UK and the Republic of Ireland, though numbers have declined slightly in recent years. We were unable to establish how many home credit lenders are not members of the CCA. Among the larger lenders, only Mutual is not a member. None of our

research led us to believe that there are significant numbers of licensed home credit lenders which are not members of the CCA.

- 2.90. The CCA represents the interests of its members in discussions with Governments on the proposed content of European or domestic legislation to the media, and in presenting evidence to this inquiry. It also provides services for its members, including induction training on regulatory requirements; ongoing training on compliance; provision of model contracts and other standard documentation for purchase; and sale of a range of gift vouchers bought in bulk at discounts passed on to members.
- 2.91. The CCA also coordinates an arrangement whereby about 10 per cent (50 members as of November 2006) of its members provide default data via the CCA to a CRA and can (for a fee) search default data; has a removed accounts service whereby a local member collects payments from customers who have moved from another member's area; advises on regulatory matters; and helps members where necessary with the calculation of rebates due on early settlements.

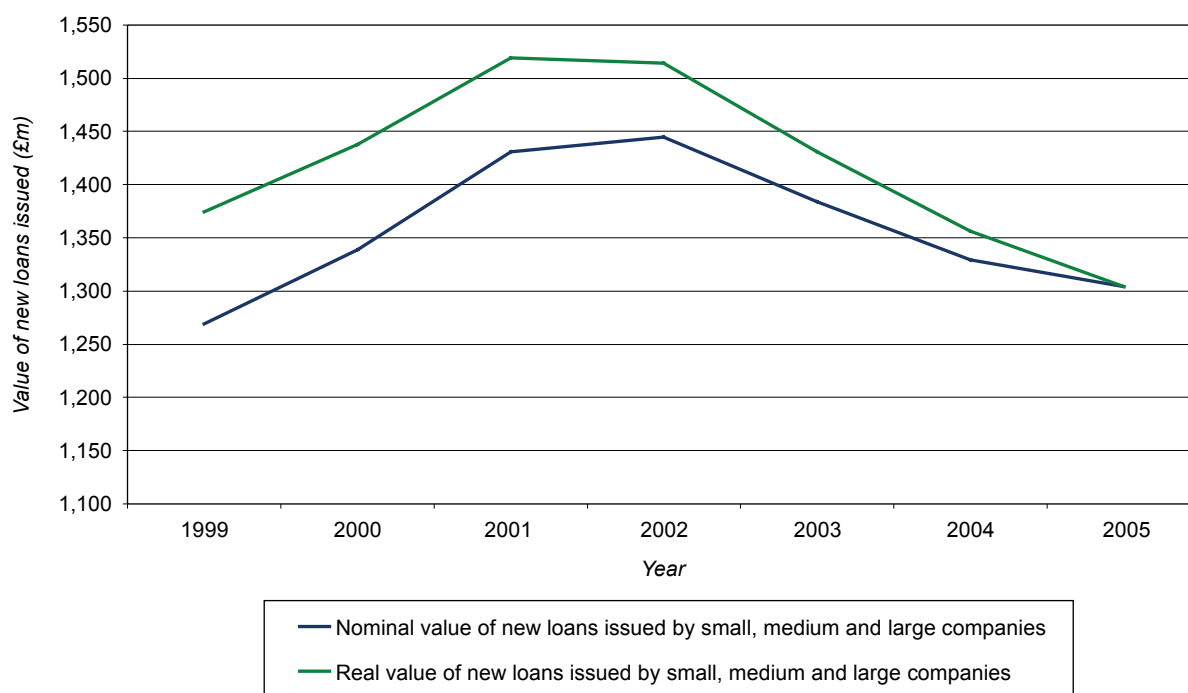
Market size and trends

- 2.92. Lenders of all sizes provided us with data in 2005 for their most recently completed financial year. All the large lenders (except Park) and many of the medium-sized lenders updated this data in 2006 for their subsequent financial year, relating principally to 2005. By extrapolating from this data, we estimate that, in 2005, home credit lenders advanced over £1.3 billion to over 2.3 million customers (on average, approximately £565 per customer), generating turnover of over £700 million and collecting over £1.8 billion (see Table 2.4).
- 2.93. The market research company Datamonitor found in an independent study in 2005 that the balances outstanding in the UK home credit market were £2.0 billion in 2003, and that the value of new loans issued was £3.3 billion in 2003. These figures are higher than our estimates, we suspect because of different assumptions about the size of the market and the market shares of the medium and small lenders. Datamonitor published a further report⁴¹ in June 2006 in which it reported figures for balances outstanding more in line with ours (and quoted the CC as one among several sources for its estimates) and described the market as 'sluggish'.
- 2.94. Figure 2.1 shows that since 1999 the real value of new loans issued rose and then fell back to below 1999 levels by 2005.

⁴¹UK Non-standard and Sub-prime Consumer Credit 2006.

FIGURE 2.1

Value of new loans issued



Source: CC, using data supplied by the analysed companies.

2.95. Datamonitor found in its 2006 report that loans issued had been relatively stable from 2001 to 2005, and forecast continued relative stability through to 2010. We consider this pattern to be broadly similar to the one we have identified, and have no basis for disagreeing with this forecast.

Shares of supply

2.96. Our analyses of UK market shares are based on responses to our questionnaires. These calculations assume that some 200 small providers (who were untraced, had not returned questionnaires, or sent in responses that could not be used) would have returned data of a similar profile to that received from those who responded. Although we cannot be certain that we have covered the entire market, those missing seem unlikely to make a material difference. Several providers, especially some of the small ones, were unable to give us all the data items requested. Where possible, we used estimates based on averages to fill in the missing data.

2.97. Table 2.4 estimates market shares of the six large lenders, the medium lenders as a group and the small lenders as a group. It relates to periods of the inquiry when Park was still trading as a home credit lender (see paragraph 2.83).

TABLE 2.4 Home credit: UK home credit and shares of supply

	During financial year 2005			At the end of financial year 2005			£ million
	Advances	Collections	Turnover	Gross receivables	Number of employees	Number of agents	Number of customers '000
Provident							
Cattles							
LSB				✂			
S&U							
Park							
Mutual							
Six large	1,189.4	1,638.4	677.2	1,486.4	4,574	15,095	2,090
Medium*	41.1	62.1	22.0	36.1	390	688	121.4
Small*	86.7	113.5	36.1	50.3	286	324	125
	<u>1,317.2</u>	<u>1,814.0</u>	<u>735.3</u>	<u>1,572.8</u>	<u>5,250</u>	<u>16,107</u>	<u>2,336</u>
			-				
Provident							per cent
Cattles							
LSB				✂			
S&U							
Park							
Mutual							
Six large	90.3	90.3	92.1	94.5	87.1	93.7	89.4
Medium	3.1	3.4	3.0	2.3	7.4	4.3	5.2
Small (2004)	6.6	6.3	4.9	3.2	5.4	2.0	5.4
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Home credit lenders and CC analysis.

*Total data for medium and small lenders has been calculated by scaling up the data we have received from some businesses for the total number of businesses in the market on a pro-rata basis.

Note: Data for large lenders is from 2005, except for Park which was unable to supply 2005/06 data so 2004/05 data is shown. Data for medium-sized lenders is from the most recent financial year which has been supplied, in some cases relating predominantly to 2006. Data for small lenders is predominantly from 2004 and has not been updated.

2.98. Provident is by far the largest lender (with over 60 per cent of supply on most measures) across the country. Cattles is in second place (around 15 per cent) despite its retrenchment programme described in paragraph 2.67. The four other largest lenders between them account for a further 10 to 15 per cent, depending on the measure chosen.

Regional shares of supply and differences in usage

2.99. Based on data from lenders, we estimated shares of supply in each of the 12 UK regions, as designated by the Government. These show that there are variations in the share of supply across regions but that Provident is the leading provider in all of them.⁴²

Trends in shares of supply

2.100. We analysed the evolution of shares of supply of home credit between 1999 and 2005, measured in terms of loans issued. The structure of the market showed little change over that period, despite the entry of Park and its subsequent exit in 2006. The six largest companies operating in this period together accounted for approximately 90 per cent of loans issued, with Provident representing approximately 60 per cent of the total. Cattles' share increased and then fell back, reflecting its expansion and then retrenchment, while Provident's share, conversely, declined and then

⁴²We were told, and we accept, that a Government region is not a meaningful unit of analysis of competition in home credit (see our analysis of the geographical nature of competition in Section 6).

increased again towards the end of the period. Though the sale of Park's home credit business to Cattles in 2006 may result in a transfer of market share, we do not consider either the changes in the share of the six largest lenders or the changes in the distribution of that share over recent years to be significant.

2.101. It seems that there has been little significant change in market structure for considerably longer than this. In our Emerging Thinking we observed that Provident's and Cattles' shares of the check trading market (which appears in some respects to have been a precursor of the home credit market) were not significantly different in 1981, when the Monopolies and Mergers Commission reported on that market, from their shares of supply of home credit today.

Home credit customers

2.102. This section summarizes evidence about the demographic and other characteristics of home credit customers. A more detailed account of the evidence is in Section 4.

Demographic profile

2.103. We used quantitative data to construct a demographic profile of home credit customers from five sources:

- two existing surveys: TGI⁴³ survey carried out by BMRB; and the MFS omnibus survey;⁴⁴
- two surveys which we specifically commissioned for the purpose of the inquiry: a survey of existing home credit customers conducted by NOP and a survey of paid-up customers by MFS;⁴⁵ and
- market research carried out by the largest supplier (Provident) into its own current and paid-up customers, known as its 'customer tracker'.⁴⁶

2.104. This data enabled us to build up profiles of current and former home credit users by gender, age, employment status, socio-economic grade, personal and household income and housing tenure. These were compared with profiles of:

- customers of forms of credit other than home credit;
- all credit customers, ie including home credit customers; and
- the UK population as a whole.

2.105. The resulting overall picture did not show home credit customers as a homogeneous group but nonetheless did show them to be significantly different in several respects from other credit customers and from the UK population as a whole.

⁴³The TGI survey is a regular large-scale survey conducted by BMRB. It has asked questions about home credit since 1996. During the course of this rolling survey, approximately 24,000 adults aged 15+ fill in a self-completion questionnaire each year. In 2005, the survey captured 745 current home credit users. An analysis of the TGI survey is published on the CC's website.

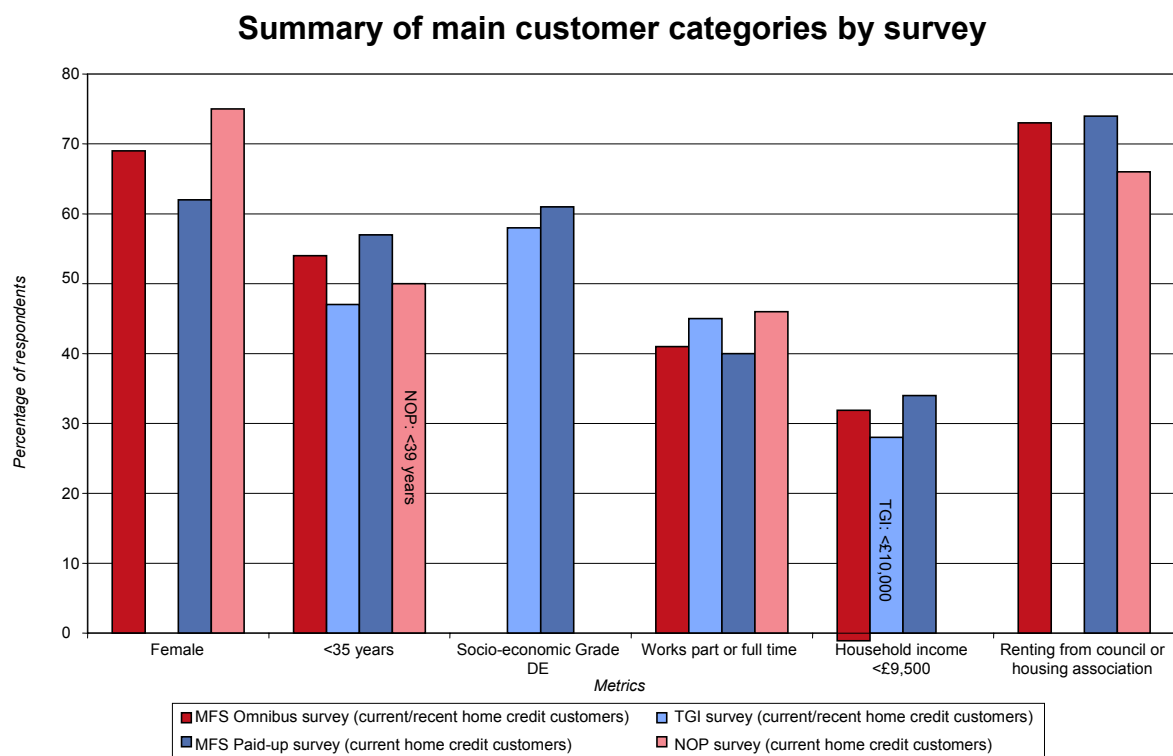
⁴⁴In 2004, the MFS omnibus survey had a sample size of 46,336 including 1,879 people who are currently using, or have used, home credit within the last 12 months (hereafter referred to 'current/recent home credit users').

⁴⁵The MFS paid-up customer survey asked additional questions to customers identified as currently using, or having used, home credit in the past. It has a sample size of 6,121 including 160 current and 272 paid-up home credit users. The results of this survey are published on the CC's website.

⁴⁶Provident's customer tracker is an annual telephone interview survey of around 3,000 of the current and recently paid-up customers of both PPC and GPC.

2.106. Figure 2.2 shows the results from each of the different surveys on some of the main categories we considered, and demonstrates that despite slight differences of outcome, the sources yield broadly similar findings.

FIGURE 2.2



Source: MFS Omnibus, MFS paid-up, NOP, TGI survey.

2.107. The surveys show that home credit customers are more likely than either credit customers as a whole or the overall UK population to:

- be female (MFS found that 69 per cent of current or recent home credit customers are women);
- be under 35 (TGI found that 47 per cent of current or recent home credit customers are under 35, compared with 27 per cent of the population) and to be bringing up young children (MFS found that 25 per cent of current or recent home credit customers have young families, compared with 10 per cent of all respondents);
- fall into socio-economic grades D and E (TGI found that 58 per cent of current or recent home credit customers fall into these grades, compared with 25 per cent of the population);
- have a low personal income or to live in a low-income household (TGI found that the annual household income of 44 per cent of current or recent home credit customers is below £13,000, compared with 22 per cent of the population);
- be unemployed and/or running a home full-time (according to the TGI survey, 45 per cent of current or recent home credit customers work part or full time); and
- live in social housing, ie rented from the local council or a housing association (MFS found that 74 per cent of current home credit customers live in accom-

modation rented from the local council or a housing association, compared with 18 per cent of people who do not use home credit).

Figures supplied by Provident suggested that its customer base broadly matched the pattern suggested by these figures.⁴⁷

2.108. While the home credit customer base which we identified has a distinctive profile overall, it includes a degree of diversity among customers, notably in relation to working status and housing tenure. Thus the NOP survey⁴⁸ also found that:

- around 30 per cent of home credit customers are in full-time employment; and
- 20 per cent either have a mortgage or own their home outright.

Trends over time

2.109. The Provident customer tracker and the BRMB survey have asked similar questions to home credit customers over a number of years. While there is some variation year-on-year in the proportion of customers falling into particular categories, as would be expected with any repeated survey, we found the demographic profile of home credit customers to be stable over time (see details in Appendix 2.5). In particular, we identified no clear indication that more home credit customers were falling into higher or lower income groups over time.

Comparison of current and former home credit customers

2.110. Our comparison of current and former home credit customers indicated that those who have stopped using home credit tend to be older and slightly better off on average than current customers (see Figure 2.3);⁴⁹ and are more likely to be employed and to own their own home (see Figure 2.4).⁵⁰ Former home credit customers, however, remain less well off and less likely to be employed or home owners than the population as a whole.

⁴⁷The key data was: in 2004, [%] per cent of customers were female, [%] per cent were under 35, [%] per cent were in grades D and E, [%] per cent worked full or part time, [%] per cent had a household income below £10,410 and [%] per cent were renting from the local council or a housing association.

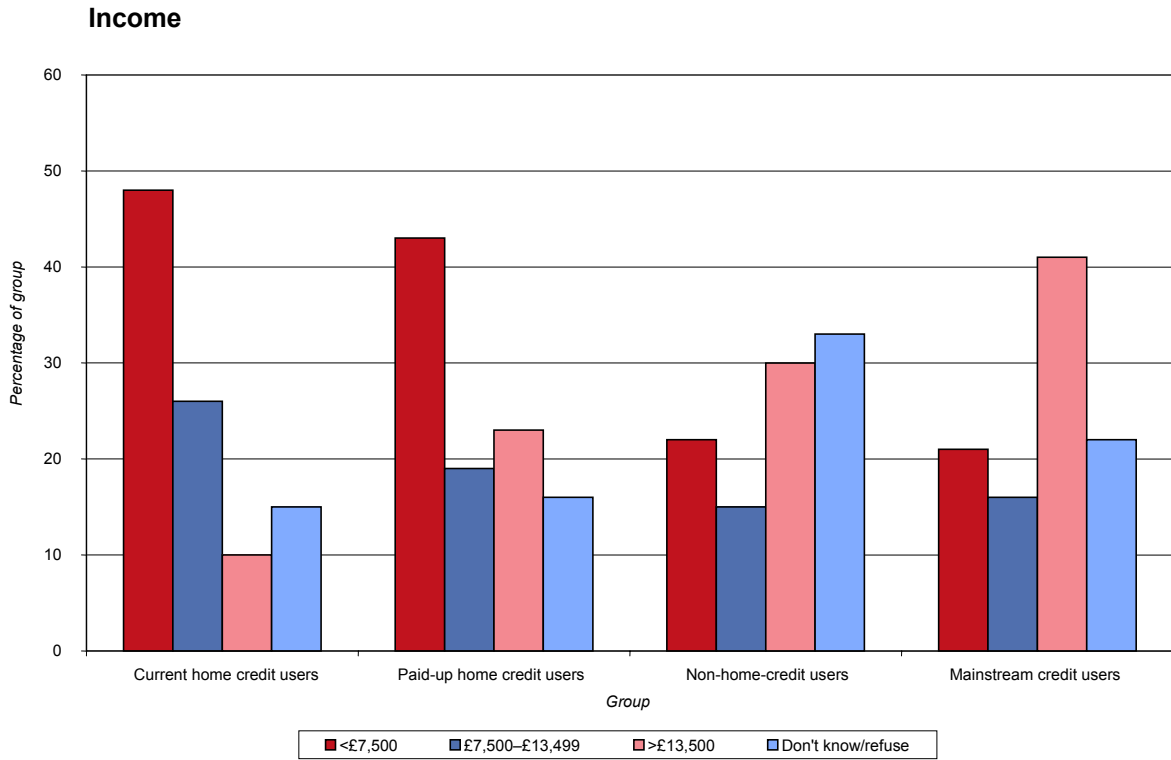
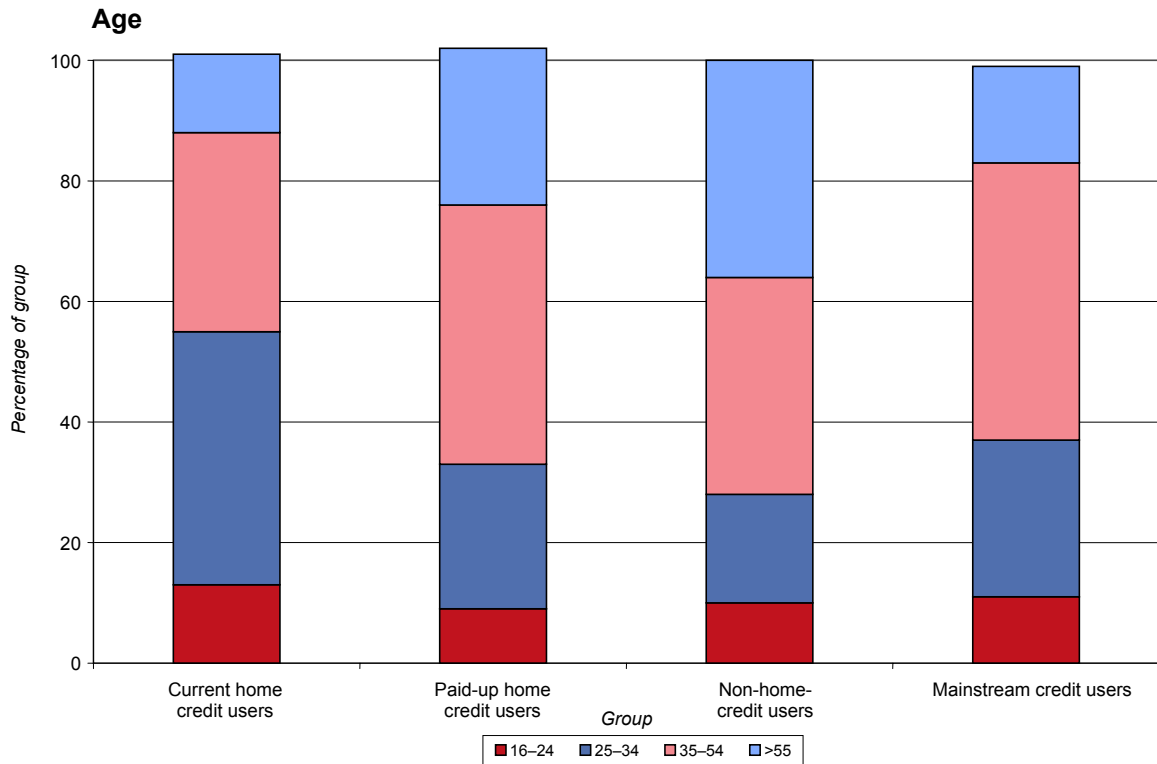
⁴⁸NOP survey, pp 5 and 6.

⁴⁹MFS paid-up customer survey.

⁵⁰MFS paid-up customer survey.

FIGURE 2.3

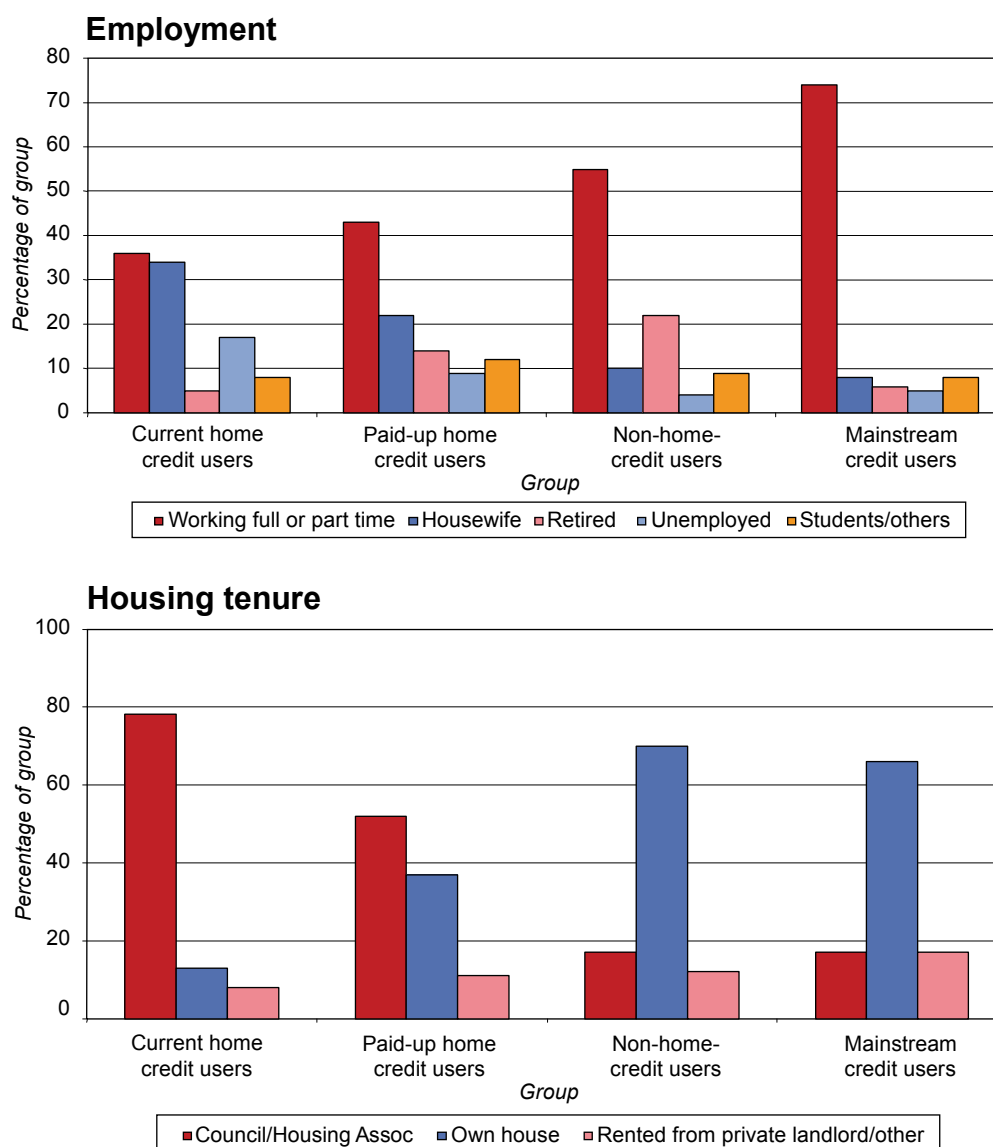
Age and income



Source: MFS survey.

FIGURE 2.4

Employment and housing tenure



Source: MFS survey.

Use of other financial service products and other forms of credit

2.111. According to the NOP research, 52 per cent of home credit customers stated that they had a basic bank account, 41 per cent a full service bank account, and 24 per cent a Post Office card account.⁵¹ Some respondents have more than one account type. The MFS questionnaire found that 70 per cent of current home credit users and 77 per cent of paid-up users have a current account, compared with 91 per cent of all respondents (which we have used as a proxy for the overall population). MFS also found that less than 20 per cent of home credit customers had a savings account and only 2 per cent had savings worth more than £1,000, compared with 34 per cent of

⁵¹NOP's Financial Research Survey (FRS) estimates these figures to be 11 per cent, 70 per cent and 1 per cent, respectively, for the Great Britain population as a whole.

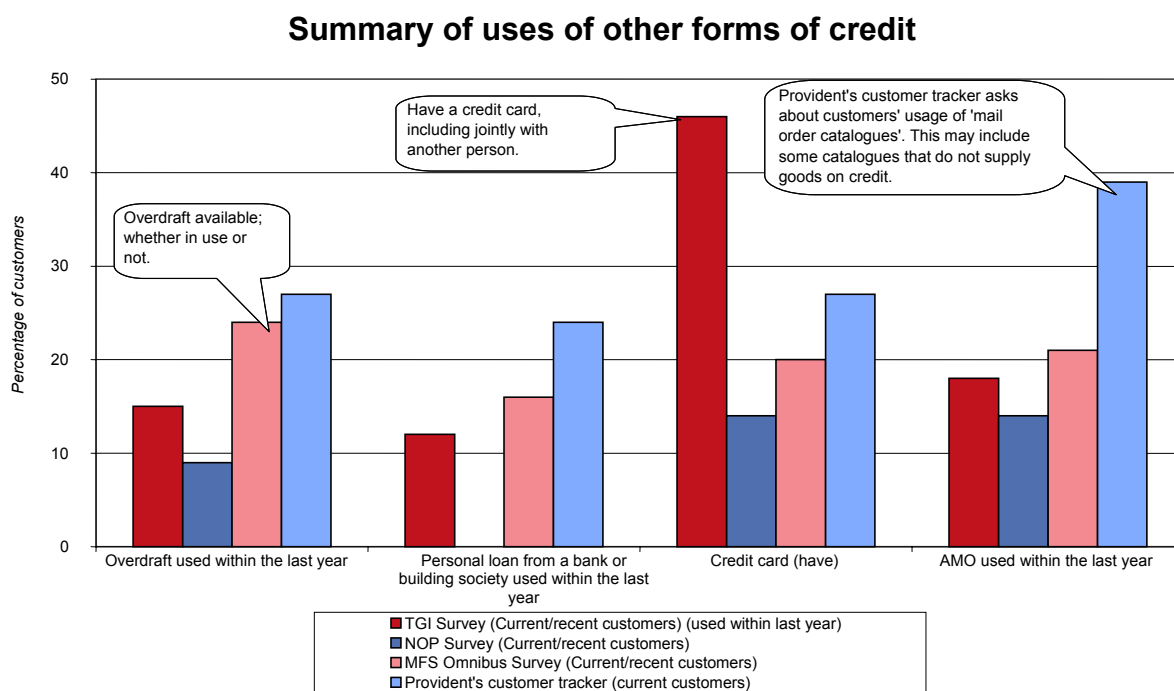
the overall population.⁵² The extent and implications of current account ownership for competition from other forms of credit are discussed in Section 4.

2.112. The CC commissioned qualitative research to explore users' and agents' perceptions and experiences of home credit and other forms of credit. This research was conducted by AIA,⁵³ who reported users of home credit as falling into four broad categories of customers who:

- had access to mainstream credit products but chose to use home credit; or
- knew they were excluded from mainstream credit, and for whom home credit provided an available borrowing option; or
- having used up other lines of credit such as bank loans, credit cards, etc, turn to home credit as a further source of borrowing; or
- had been reluctant or afraid to approach mainstream credit suppliers, and saw home credit as a safer, easier and more friendly option.

2.113. We explored home credit customers' use of other sources of credit using the quantitative surveys referred to in paragraph 2.103. Figure 2.5 provides a summary of survey results for the use of other forms of credit. It also indicates that survey results on this issue can be sensitive to the way in which questions are phrased. The most widely used alternative sources of credit are AMO, credit cards, personal loans and overdraft facilities. The implications of customers' use of other sources of credit are discussed further in Section 4.

FIGURE 2.5



Source: MFS omnibus, NOP and TGI survey and Provident's customer tracker.

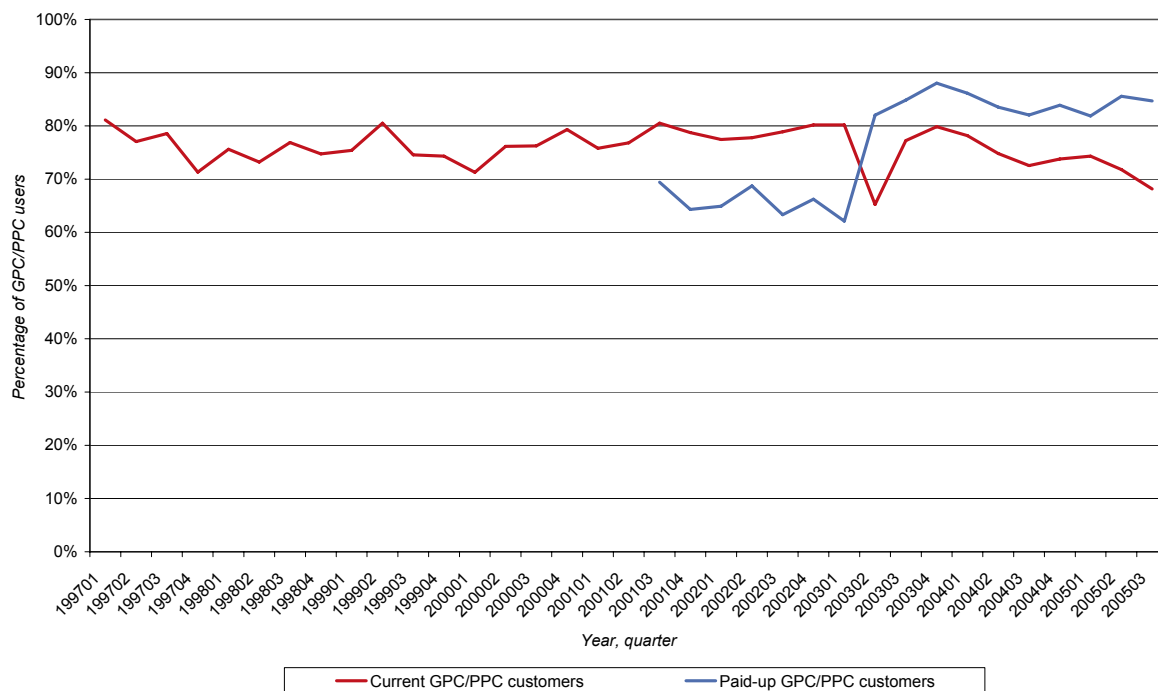
⁵²MFS survey.

⁵³AIA research report, pp3-4.

2.114. For some customers, home credit is the sole source of credit. However, the majority of customers have at least one other credit option. Around 70 per cent of Provident customers indicated⁵⁴ that they used other sources of credit. Figure 2.6 maps current Provident customers' use of (or access to) other forms of credit from 1997 to 2005, and paid-up Provident customers' use of other forms of credit from 2001 to 2005.

FIGURE 2.6

Use of other credit products* by GPC/PPC customers



Source: Provident Customer Tracker.

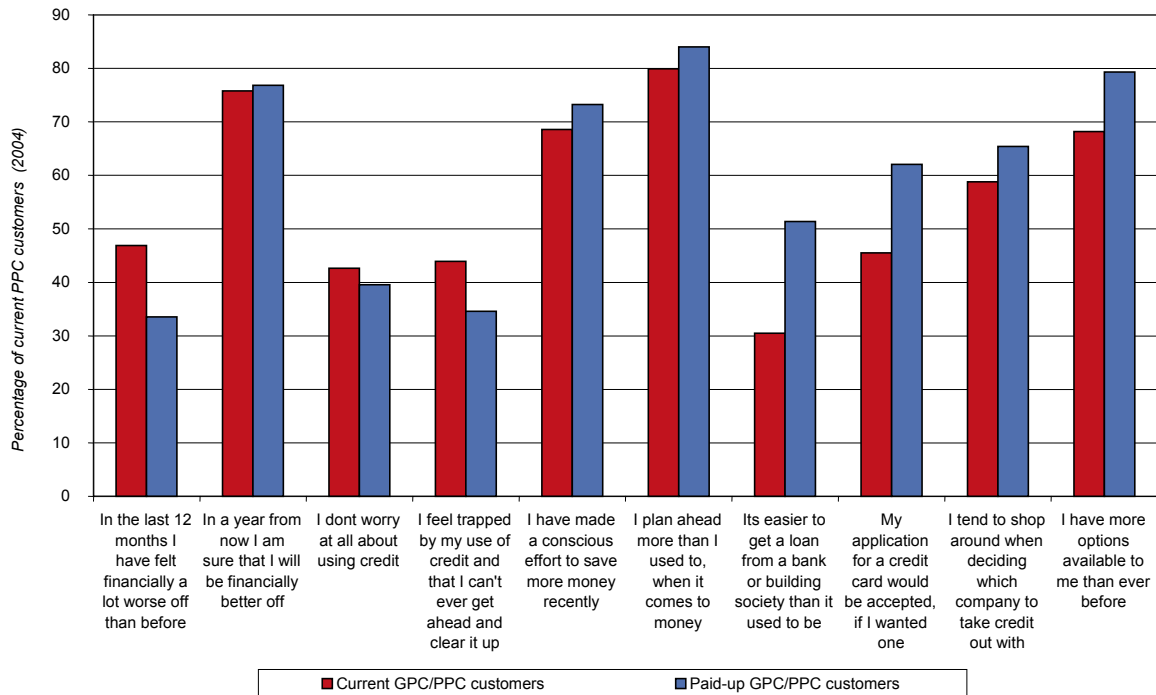
*Personal loans, credit cards, overdrafts, store cards, mail order catalogue, interest-free credit, hire purchase, credit union, Social Fund.

2.115. Customer perceptions of the availability of other sources of credit seem mixed. While close to 70 per cent of Provident current customers agree with the suggestion that they have more financial options available than ever before, only 30 per cent agree that it is easier to get a loan from a bank or building society than it used to be (see Figure 2.7). Provident told us that since around three-quarters of its customers held other credit products, around a quarter might not have a CRA record, and showed us data that indicated that, in 2004 at least, around a quarter did not. A further significant minority of Provident's customers in 2004 had poor credit scores (which might inhibit their access to some other credit products).

⁵⁴Provident customer tracker.

FIGURE 2.7

Percentage of GPC/PPC customers who (strongly or slightly) agree with following money matter statements



Source: Provident customer tracker.

How and why do customers use home credit?

2.116. The AIA research report⁵⁵ put forward seven sample segments which are listed below. Although they are not mutually exclusive, they indicate the range of different types of home credit user:

- *Novices* were unsophisticated borrowers who needed a loan for various reasons, eg for a car, and accepted the offer of home credit which came across as more approachable than other sources of credit. They had probably not really considered alternative sources.
- *Impulse borrowers* were using home credit to finance a 'live now, pay later' lifestyle and using loans for non-essential items where the impulse to buy might come at certain times of the year. Some had access to other forms of credit.
- *Crisis borrowers* were rather hard pressed and used home credit to tide them over financial crises, eg delays in receiving benefit money or the need to replace household goods. They often had irregular or low incomes and used home credit to help them get through lean times. They often had or felt they had no alternatives to home credit.
- *Occasional borrowers* used home credit in a fairly disciplined way to finance specific needs. They made a point of paying off loans rather than renewing them,

⁵⁵Neither the nature of the research, nor the size of the sample, allow us to draw conclusions about either the comprehensiveness of this list, or the proportions of home credit customers falling into each group.

and some were using home credit to complement other sources of credit such as shop credit, credit cards, etc.

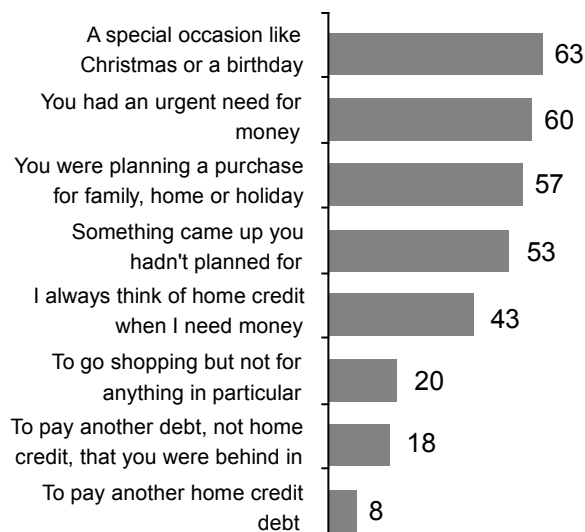
- *Home credit habitués* originally started using home credit in hard times. They now seemed to be keeping up home credit loans, whether or not they were needed, apparently to keep up a relationship with their agent.
- *Secret borrowers* were a relatively small segment of those interviewed. Other family members were not aware that they had taken out home credit loans. For various reasons or motivations, it was important to them to hide the fact and purpose of the loan from their partner or family.
- *Home credit leavers* have managed to re-establish their access to mainstream credit sources, credit union, etc. They were in the process of winding down their home credit borrowing.

2.117. Figure 2.8 explores customers' motivations for taking a home credit loan. Among the range of reasons given, an urgent need for money was about as popular as using the loan for a special occasion like Christmas or a birthday.

FIGURE 2.8

Key drivers of taking a home credit loan

Q6 Which of the following were important reasons why you decided to get a home credit loan? Prompted. Multiple answers allowed.



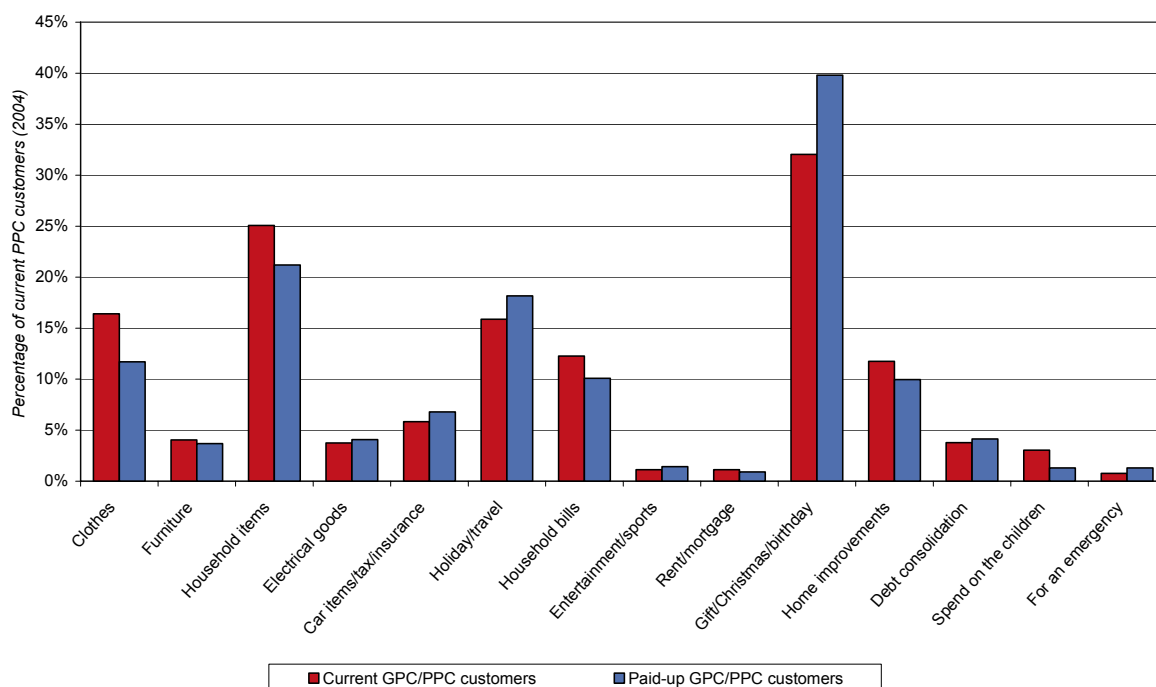
Effective base: All respondents 775 (all excluding those misattributing brand)

Source: NOP World.

2.118. The Provident customer tracker also asked customers what the purpose of their last home credit loan was (using a different range of possible answers). The responses as illustrated by Figure 2.9 show home credit loans being used for a range of purposes, from paying rent/mortgage to holidays and entertainment.

FIGURE 2.9

Purpose of home credit loans issued by PPC



Source: Provident customer tracker.

- 2.119. The AIA survey and Provident’s material found similar patterns of reasons why customers like home credit; these are discussed in more detail in paragraphs 6.61 to 6.68.
- 2.120. In conclusion, we found that home credit use was associated with a particular demographic profile (described in paragraph 2.107), but that a significant minority of home credit customers did not match that profile. Some had alternative credit options; others did not. Similarly, there was no single clear pattern in home credit customers’ reasons for using home credit.
- 2.121. None of the evidence which we heard in the latter part of our investigation would lead us to believe that the patterns shown in paragraphs 2.102 to 2.120 had changed materially in the course of our investigation.