

The impact on business and consumers of a cap on the total cost of credit

Technical Appendix

TNS-BMRB

Personal Finance Research Centre
University of Bristol

2013

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Business survey

A Business Survey was carried out which comprised qualitative in-depth telephone interviews with representatives from trade associations and lenders. The interviews were undertaken by experienced qualitative interviewers in the first quarter of 2012. Most interviews were undertaken by telephone; one was undertaken face-to-face.

Trade associations

Interviews were conducted with representatives from five lender trade associations: British Cheque and Credit Association, Consumer Credit Association, Consumer Finance Association, Finance and Leasing Association, National Pawnbrokers Association. We did not interview the Consumer Credit Trade Association. The topics covered in the interviews were:

- Market size and trade association coverage
- The concept of a cap on the total cost of credit
- How a cap on the total cost of credit might be structured
- The level of a cap on the total cost of credit
- Profitability
- Problems said to be associated with these markets.

The interview lengths ranged from 30 minutes (where the trade association submitted a written response prior to the interview) to over two hours. The interviews were voice recorded (with permission) and transcribed. Full analysis of these interviews was undertaken using thematic grids.

Lenders

Telephone depth interviews were conducted with 24 lenders, incorporating a total of 28 companies (one lender represented a group of five companies).¹ In the case of some larger lenders, the interview was conducted with more than one company representative (e.g. chief executive, finance director, public affairs).

The lenders we interviewed were all members of one or more of the five trade associations mentioned above. They included a mix of large, medium and small lenders covering the following credit products:

¹ One lender submitted a written response to the questions in the topic guide.

- Nine home credit lenders
- 12 lenders that offered both pawnbroking and in-store payday loans
 - Two also offered longer term instalment loans
- Six online payday lenders
- One online instalment lender.

We did not identify any store-based lenders that only offered payday loans; these loans were always provided in combination with pawnbroking and often other services such as cheque cashing, money transfer and foreign currency. In cases where store-based lenders offered pawnbroking and payday loans, both products were discussed. With BIS's agreement, the interview focused more on payday loans than pawnbroking in relation to aspects of the business such as risk assessment and management. The topics covered in the interviews were:

- Background information about the business
- Loan product details
- Customers
- Risk assessment and management
- Costs and profitability
- Capping the total cost of credit
- Default charges.

The interview length ranged from 37 minutes to 2 hours 20 minutes; the average was 1 hour 30 minutes. This was considerably longer than the average 45 minutes we had anticipated. The interviews were voice recorded (with permission) and transcribed. Some lenders provided written information in advance of the interview; a number also sent further information after the interview. Full analysis of these interviews and supporting materials was undertaken using thematic grids.

Consumer survey

The Consumer Survey for this study was designed and analysed by the University of Bristol's Personal Finance Research Centre (PFRC) and undertaken by TNS-BMRB. The survey included customers of four types of short-term loan, as defined by the study:

- Home credit
- Pawnbroking
- Retail payday lending
- Online payday lending.

The survey was undertaken using computer-assisted telephone interviewing (CATI).

Questionnaire content

The questionnaire content was developed in consultation with BIS. It covered the following topics:

- General views and attitudes towards the high-cost credit sector used
- Based on most recent loan taken out:
 - The decision to borrow
 - Taking out the loan
 - Shopping around
 - Repaying the loan
 - Satisfaction and self-reported impacts
- Other high-cost borrowing
- Financial circumstances and other borrowing
- Socio-demographic characteristics.

Pilot

A pilot survey was conducted from 7 to 19 March 2012 to test (1) whether the customer details provided by lenders were accurate and up-to-date; (2) reactions to questionnaire content, length, and flow; (3) customer recall; and (4) comprehension of individual questions. The customer samples for the pilot survey came from three of the 14 lenders who agreed to help with the survey. These three lenders covered the four markets listed above.

The target number of achieved interviews for the pilot was 100. A total of 88 interviews were achieved. This shortfall was largely due to a smaller sample of pawnbroking customers than we had anticipated.

Findings from the pilot were used to revise the questionnaire content, with fairly minor revisions being identified and addressed ahead of the main stage of the survey.

Sample

The sample universe for the survey was defined as consumers who had taken out a loan in the period 01 November 2010 to 31 December 2011.

PFRC approached lenders in each of the four markets to provide customer samples. A total of 76 lenders from across the four markets were approached, reflecting a mix of larger and smaller lenders. The home credit lenders who agreed to provide customer samples include a mix of large and small lenders. In the other three markets, the lenders were generally larger lenders.

Lenders who did not respond to the initial approach were followed up once by email. Where lenders provided reasons for not providing customer sample, these included lack of time, practical difficulties (e.g. no computer system), and particularly among smaller lenders concerns about disrupting/jeopardising their relationship with customers.

A total of 17 companies provided sample for the survey. These included the three lenders who provided sample for the pilot. All of the lenders were asked to make a random selection of customers from their database of customers who had had a loan in the two-year period 1st January 2010 to 31st December 2011. The reason for stipulating a two-year period was to capture people's experiences over time, in particular to give home credit customers the opportunity to have paid off a loan, as the typical loan period of 12 months is often extended due to occasional missed payments. The sample selection method that lenders used was stipulated closely by PFRC in order to ensure that the sample selected was proportionate to the size of the customer base for these lenders, relative to other lenders included in the sample of lenders. The selected sample was provided to PFRC.

In order to strike a balance between capturing experiences over time and customers' accurate recall, and based on early feedback from the pilot, the sample was subsequently narrowed to those who had had a loan in the period 1st November 2010 to 31st December 2011. 1st November was chosen as the start date to ensure that customers who had taken out a loan in the run-up to Christmas, which we know to be a very common time to borrow, were included in the sample.

Once passed to TNS-BMRB, customers from outside the relevant period (i.e. pre-November 2010) were removed and the sample was cleaned to leave only respondents with valid telephone numbers. The full sample breakdown, including the targets for the final achieved sample, is shown in Table 1.

Table 1: Sample breakdown, showing target and achieved consumer interviews

	Target achieved sample	Number of lenders	Initial sample numbers (total)	Actual achieved sample*
Home Credit	400	6	2,699	399
Pawnbrokers	400	4	3,767	264
Retail payday lending	350	4	3,634	393
Online payday lending	350	3	2,331	395
TOTAL	1500	17	12,431	1,451

* Including pilot.

Based on an assumed response rate of 15 per cent, it was decided that all of the available sample for the period 1st November 2010 to 31st December 2011 should be used for customers of pawnbroking and retail and online payday lending. For the home credit sample, due to a surplus of available sample, a random selection was made to produce a final list of respondents for inclusion in the main-stage sample. The home credit sample was stratified by date of loan within loan company, and a one in every two selection was carried out.

Midway through fieldwork it emerged that response in the pawnbrokers sample was lower than anticipated, at around seven per cent. As a result, it was decided to boost the pawnbrokers sample by using customers who had taken out a loan prior to November 2010.

Main stage fieldwork

Fieldwork for the main stage of the survey was carried out by fully-trained interviewers from the Kantar Operations² telephone field force using CATI. Interviewers assigned to the project received a face-to-face briefing from a member of the TNS-BMRB research team before starting work on the survey.

Fieldwork for the main stage of the survey was conducted between 3rd April and 23rd May 2012. An advance letter was sent to all records selected for the main stage one week before the start of the main stage of fieldwork. An additional mailing was sent midway through fieldwork to the extra pawnbrokers sample (see above).

² TNS-BMRB is one of the companies within the Kantar Group, the information, insight and consultancy arm of the WPP Group plc. Kantar Operations was formed on 1st April 2004 to assume responsibility for the operational capabilities previously owned by the individual companies within the Kantar Group in the UK.

By the close of the main stage of fieldwork, the number of interviews achieved was slightly below the intended target of 1,500. A total of 1,363 interviews were completed at an overall response rate of 16%. The average interview length was 20 minutes.

The 88 interviews conducted during the pilot were included in the final data. Due to the similarities between the pilot and main stage questionnaires, the data from both stages is largely comparable. A small number of questions were either changed or added following the pilot stage. Data for these questions are available only for interviews carried out during main stage of the fieldwork.

Data preparation

Coding of open-ended questions:

Coding of fully and partially open-ended questions was carried out by a team of coders from the Kantar Operations data capture department, using code frames developed by the TNS-BMRB research team and PFRC. Coders were briefed by the TNS-BMRB research team before coding started.

Data cleaning:

The use of CATI removes much of the requirement for post-fieldwork data cleaning, since range, logic and consistency checks can be built into the CATI program. A number of additional checks for filter logic and numerical values were incorporated at the data preparation stage to ensure that the data were clean and complete.

Preparation of the survey dataset:

The survey dataset was prepared in SPSS for Windows format to specification agreed with PFRC and BIS. Sets of data tabulations against an agreed set of breaks were also provided to PFRC and BIS.

Consumer depth interviews

Consumer qualitative depth interviews were undertaken with 17 people who had used home credit, payday loans or a pawnbroker. Across both types of sample, the research aimed to achieve interviews with 3 to 4 customers of each loan type. The interviews were undertaken in April and May 2012.

Sample and recruitment

Six of the 17 people interviewed in depth were recruited through debt advice agencies. Three advice agencies, all based in the South West of England, provided contact details for clients who had received debt advice in relation to one or more types of short-term credit covered by the study (they may have also received debt advice in relation to other types of credit). In the first instance, the debt advice agencies approached the debt advice clients to invite them to take part. The clients were sent a letter giving details about the research and the interview and a letter to consent to be contacted by PFRC, which they were asked to sign and return to the debt advice agency if they were willing to take part.

The remaining 11 participants were customers who had taken part in the Consumer Survey and who had agreed, at the end of the survey, to be followed up. The participants were drawn from three broad geographical locations: London and the South East, the West Midlands and the North of England. TNS BMRB provided PFRC with contact details for those customers who had agreed to a follow-up interview. The 11 participants were selected purposively to ensure the depth interview sample as a whole included a mixture of people by the type of short-term credit they had used.

Taken together, the 17 participants comprised four home credit customers, three pawnbroking customers, five retail payday loan customers³ and four online payday loan customers. There were no restrictions placed on the sample in relation to other types of short-term loans that they may have used, other than the one for which they were selected to take part, and they may have used other types of credit, including mainstream types.

Although no quotas were applied to the sample, the depth interviewees comprised: a mix of men (six) and women (11); a range of ages, early 20s to over State Pension Age; a mix of people with and without partners and with and without children; a range of housing tenures; and a mix by employment status and housing tenure.

³ One respondent who was recruited through a debt advice agency as a retail payday loan customer had in fact taken out a logbook loan not a payday loan. This respondent was excluded from the analysis.

Method

The one-to-one depth interviews were undertaken by experienced qualitative interviewers. One participant was interviewed by telephone, the remainder were interviewed face-to-face. Participants were reassured about the confidential nature of the interview, that their contact details would not be passed on to any other organisation, and that they would not be identified in the final report. Participants received shopping vouchers to the value of £20 as a thank-you for taking part. Interviewers were provided with contact details for debt advice services to give to participants in the event that they needed them.

Topic guides for the depth interviews were prepared by PFRC and agreed with BIS. The topic guides (shown in Boxes 1 and 2) were reviewed following the initial interviews and minor revisions were made.

The interviews were voice-recorded with the permission of the participant and transcribed in full. Rigorous iterative data analysis was undertaken using thematic grids.

Box 1: Topic guide for use with participants recruited from debt advice agencies

1. Interviewer introduction

2. Background

- Household members, housing tenure
- Number/age of children
- Work situation/partner's work situation/how long (un)employed
- Sources and amount of household income, whether income steady or fluctuates
 - Probe for recent changes in circumstance
- Bank account in own or joint names? Overdraft facility?

3. High-cost credit use (check against information provided by client where relevant)

Check which of these have they recently used:

- Payday loan taken out in a store
- Payday loan taken out online
- Home credit
- Pledged jewellery or other items with a pawnbroker?

If used more than one type, probe for each (USE TIMELINE IF APPROPRIATE):

- When did they first start to use this type of credit?
- How did they first come to use this type of credit?
 - How did they find out about the lender?
 - What did they know about this type of credit? Sources of information?
 - Feelings about this type of credit at the time e.g. positive, negative, ambivalent?
- How often have they used this type of credit e.g. how many times in last 12 months?
 - Probe for multiple loans from same/different lenders
 - Probe whether they felt the lender encouraged them to borrow/borrow more and if so, how?
- How much did they typically borrow?
- What was the money used for e.g. discretionary, day-to-day essentials?
- Why did they decide to use this type of credit rather than another type of credit?
 - Probe if had credit cards or overdrafts at the time and why not used
 - Did they feel they had access to other forms of credit or not? Why/why not?
 - Probe for relative importance of different factors
- Did they have any other options for raising the money they wanted/needed e.g. savings, going without, buying cheaper/fewer goods?
 - Why not considered/why rejected?
 - Check whether they have any savings, either at home or in account; why not used
- What would the consequences have been if they had been unable to get the loan?
 - How viewed the consequences e.g. serious or not?

- What would they have done in this situation?

4. Applying for a loan

Probe for most recent high-cost loan taken out. If more than one type of high-cost credit used, ask about most recent for each type:

- Check details of most recent loan:
 - Lender and whether used before
 - When taken out
 - Amount borrowed and term of loan.
 - Probe whether they felt the lender encouraged them to borrow more than they wanted.
 - Other options they felt they had/considered and why not used
- What was the application process for the loan?
 - For PDL only: Did they apply direct to the lender or through a broker or other third party? How did this work e.g. did they get offered a loan from more than one lender?
 - What information did they have to provide e.g. payslips, bank statements, proof of ID, address?
 - If they didn't have to provide information, why not? Had they provided it before?
- Did they receive a credit agreement/terms and conditions when they took the loan out?
 - Did they read the agreement/terms and conditions? Why/why not?
 - Did they understand the agreement/ terms and conditions?
 - Did the lender later refer to terms and conditions of which they were unaware?
- What factors did they consider when deciding to borrow this money?
 - How important was cost in their decision, relative to other factors?
- Were they clear about the cost of the loan when they took it out or not?
 - What information (if any) did they receive/ask for regarding cost e.g. APR, total cost of credit?
 - What piece of information (if any) was the most important/relevant to them?

Loan repayment : Probe for most recent high-cost loan taken out. If more than one type of high-cost credit used, ask about most recent for each type:

- Did they think about how they would repay the loan at the time they took it out e.g. if they could afford to make monthly repayments, or (for PDL) pay the amount in full when it became due?
 - Why/why not?
- How did they repay the loan e.g. cash collected from home, at the store, by debit card
 - If paid by debit card, how much did they know about this e.g. did the lender explain what would happen, were there details in the terms and conditions?
 - Did they experience any difficulties e.g. the lender taking money out of the account at unexpected times or more than expected?
- Was the amount they had to repay more/less/about the same as they expected?
 - Why?

- Any unexpected fees or charges? How much, what for?
- Did they rollover or refinance the loan? How many times? Why?
 - Did they feel the lender encouraged them to rollover or refinance? How?
- Home credit and PDL only: How easy/difficult was it to keep up with loan repayments?
 - Late/behind with any payments? Why? What happened as a result?
 - Total amount currently owed compared to amount originally borrowed?
- Pawnbroking only: Redeemed pledged items or not? If not, why not?

5. Seeking debt advice from the CAB (USE TIMELINE IF APPROPRIATE)

- Thinking about their most recent contact with CAB, when did they approach the CAB for debt advice?
- What was their financial situation like at the time they contacted the CAB? (SHOWCARD A)
 - How had this situation occurred?
 - Concerned about it? How long for?
 - What had their financial situation been like previously? Previous debt problems?
- What were the main triggers that led them to seek advice on this occasion?
- What bills and commitments were they having difficulty with when they contacted the CAB?
 - Probe for household bills: rent or mortgage payments; council tax; gas, electricity, water bills, telephone bill (including mobile phone/broadband), TV licence.
 - Amounts owed, how long in arrears, actions taken by creditors?
 - Probe for details of high-cost credit and other types of credit
 - Number of loans/cards, amounts owed, how long in arrears, actions taken by creditors?
- To what extent did their use of home credit/payday loans/loans from a pawnbroker contribute to their debt problems, e.g. was it a major cause of their problems or not?
 - Why/why not?
- What help and advice have they received so far from the CAB?
 - In relation to the high-cost credit they used
 - In relation to other debts
- Views about this help and advice? E.g. how useful was it, was it what they expected or not?
- Looking ahead over the next 12 months, do they think the financial situation of their household will improve, stay the same or get worse? Why?

6. General views about high-cost credit

- What were the good things about using this type of credit? Bad things?
 - Balance between good and bad?
- Good/bad things about the lender/lenders they used?
 - Customer service generally; how dealt with missed payments or any difficulties that arose
- What were the impacts on them and their household of using this type of credit:
 - In the short term (positive, negative?)
 - In the longer term (positive, negative?)

- On balance was their experience positive or negative?
- Do they feel better off or worse off overall as a result of using this type of credit?
- If they needed a similar amount of money again in the future, what would they do?
 - Based on their experience, would they borrow from the same lender again or not? Why/why not?
- Would they recommend this type of credit to a friend? Why/why not?

Any questions or further comments?

Thank and close

SHOWCARD A

Managing without any difficulties

Managing but it was a struggle from time-to-time

Managing but it was a constant struggle

Fallen behind with some bills or payments

Having real financial problems and had fallen behind with many bills and payments

Box 2: Topic guide for use with depth interviewees recruited from the Consumer Survey

1. Interviewer introduction

1. Background

- Household members, housing tenure
- Number/age of children
- Work situation/partner's work situation/how long (un)employed
- Sources and amount of household income, whether income steady or fluctuates
 - Probe for recent changes in circumstance

2. High-cost credit use

PRIOR TO INTERVIEW: Check which high-cost credit they recently used from survey data:

- Payday loan taken out in a store
 - Payday loan taken out online
 - Home credit
 - Pledged jewellery or other items with a pawnbroker?
-
- When did they first start to use this type of credit?
 - How did they first come to use this type of credit?
 - How did they find out about the lender?
 - What did they know about this type of credit? Sources of information?
 - Feelings about this type of credit at the time e.g. positive, negative, ambivalent?
 - How often have they used this type of credit e.g. how many times in last 12 months?
 - Probe for multiple loans from same/different lenders
 - Probe whether they felt the lender encouraged them to borrow/borrow more and if so, how?
 - How much did they typically borrow?
 - What was the money used for e.g. discretionary, day-to-day essentials?
 - Why did they decide to use this type of credit rather than another type of credit?
 - Probe if had credit cards or overdrafts at the time and why not used
 - Did they feel they had access to other forms of credit or not? Why/why not?
 - Probe for relative importance of different factors
 - Did they have any other options for raising the money they wanted/needed e.g. savings, going without, buying cheaper/fewer goods?
 - Why not considered/why rejected?

- Check whether they have any savings, either at home or in account; why not used
- What would the consequences have been if they had been unable to get the loan?
 - How viewed the consequences e.g. serious or not?
 - What would they have done in this situation?

3. Applying for a loan

- Since they completed the telephone survey, have they taken out any new payday/home credit/pawnbroking loans?

IF YES: Ask for following details. If more than one, ask about most recent.

- How many loans?
- Same/different lender?
- When took out?
- Amount borrowed?
- What was the loan used for?
- Did they feel the lender encouraged them to borrow more than they wanted?
- Other options they felt they had/considered and why not used

ASK FOR MOST RECENT LOAN TAKEN OUT:

- What was the application process for the loan?
 - For PDL only: Did they apply direct to the lender or through a broker or other third party? How did this work e.g. did they get offered a loan from more than one lender?
 - What information did they have to provide e.g. payslips, bank statements, proof of ID, address?
 - If they didn't have to provide information, why not? Had they provided it before?
- Did they receive a credit agreement/terms and conditions when they took the loan out?
 - Did they read the agreement/terms and conditions? Why/why not?
 - Did they understand the agreement/ terms and conditions?
 - Did the lender later refer to terms and conditions of which they were unaware?
- What factors did they consider when deciding to borrow this money?
 - How important was cost in their decision, relative to other factors?
- Were they clear about the cost of the loan when they took it out or not?
 - What information (if any) did they receive/ask for regarding cost e.g. APR, total cost of credit?
 - What piece of information (if any) was the most important/relevant to them?

4. Loan repayment

Probe for most recent high-cost loan taken out.

- Did they think about how they would repay the loan at the time they took it out e.g. if they could afford to make monthly repayments, or (for PDL) pay the amount in full when it became due?

- Why/why not?
- How did they repay the loan e.g. cash collected from home, at the store, by debit card
 - If paid by debit card, how much did they know about this e.g. did the lender explain what would happen, were there details in the terms and conditions?
 - Did they experience any difficulties e.g. the lender taking money out of the account at unexpected times or more than expected?
- Was the amount they had to repay more/less/about the same as they expected?
 - Why?
 - Any unexpected fees or charges? How much, what for?
- Did they roll over or refinance the loan? **IF YES:**
 - Why did they rollover/refinance the loan?
 - Did they feel the lender encouraged them to rollover or refinance? How?
- Home credit and PDL only: How easy/difficult was it to keep up with loan repayments?
 - Late/behind with any payments? Why? What happened as a result?
 - Total amount currently owed compared to amount originally borrowed?
- Pawnbroking only: Redeemed pledged items or not? If not, why not?

5. General views about high-cost credit

- What were the good things about using this type of credit? Bad things?
 - Balance between good and bad?
- Good/bad things about the lender/lenders they used?
 - Customer service generally; how dealt with missed payments or any difficulties that arose
- What were the impacts on them and their household of using this type of credit:
 - In the short term (positive, negative?)
 - In the longer term (positive, negative?)
 - On balance was their experience positive or negative?
 - Do they feel better off or worse off overall as a result of using this type of credit?
- If they needed a similar amount of money again in the future, what would they do?
 - Based on their experience, would they borrow from the same lender again or not? Why/why not?
- Would they recommend this type of credit to a friend? Why/why not?

6. Other consumer credit use

- **SHOWCARD A:** Other types of credit currently used
 - For each type, probe number of cards/loans etc
 - Why use these types rather than others
- What is credit used for? E.g. discretionary, day-to-day essentials, emergencies/unexpected expenses, 'lumpy' items (e.g. replacement white goods)
- Total amount owed (excluding mortgage borrowing)?

- How easy/difficult to keep up with repayments?
 - Late/behind with any payments?
 - Pay back minimum on any credit/store cards?
- Any informal borrowing e.g. from family/friends? Amounts, what money used for, whether expected to pay back/pay interest

7. Patterns of borrowing in past 12 months

Thinking about their borrowing as a whole (high-cost and any other borrowing):

- Any changes in borrowing behaviour over the past 12 months or so?
 - What types of behaviour change e.g. borrowing more/less, trying to pay off what they owe, borrowing for different purposes?
 - What has prompted change e.g. actual or anticipated changes to household circumstances, concerns generated by media coverage of recession? If several things, main driver?
 - Are changes temporary or likely to be longer-term?
- **SHOWCARD B:** Views about current level of borrowing – which statement best describes their current situation? What prompts these views?
 - A. I could afford to borrow more if I wanted or needed to
 - B. My level of borrowing is about right, I would not want to borrow more
 - C. I have borrowed more than I can really afford

8. Financial situation and seeking advice

- **SHOWCARD C:** Overall, how well are they managing financially at the moment? Probe for details
 - A. Managing without any difficulties
 - B. Managing but it is a struggle from time-to-time
 - C. Managing but it is a constant struggle
 - D. Fallen behind with some bills or payments
 - E. Having real financial problems and fallen behind with many bills and payments

IF STRUGGLING TO MANAGE:

- Sought any advice?
- Where from?
- Was it free or did they pay?
- What help/advice did they receive?
- What happened as a result?
 - A. Probe relevance to high-cost credit discussed above e.g. if included in debt management plan

- What's the current situation? Resolved or not?

ASK ALL:

- Any (other) financial matters about which they would have liked help/advice in the last 12 months? Sought advice or not?
 - A. If sought advice, who from, help/advice received, whether paid for it, outcomes
 - B. If did not seek advice, why not? What did instead?
- Looking ahead over the next 12 months, do they think the financial situation of their household will improve, stay the same or get worse? Why?

Any questions or further comments?

Thank and close