Today Programme 7 December 2011 – John Lamidey

JH: (Paraphrased) Gave overview of lending situation, and cited the R3 figure of 3.5million people who thinking of taking out a payday loan. Featured brief segment on “Anna”, who claims to have debts with eight different companies. She borrowed £300 from Wonga , and now owes £720.

JL: Wonga not one of our members. My members do not have the same business model.

JH: Is Wonga doing sometime they’re not meant to be doing?

JL: Well I don’t know because I don’t know what Wonga’s doing

JH: Well you know what they’re doing because you run the CFA. I take your point that they’re not a part of your organisation, but you know what they’re doing don’t you?

JL: We were set up to establish and maintain very high standards in the industry because the type of loan is actually very useful; people are able to take out a small amount of money over a short period of time to meet an immediate need or desire. We are only lending to people who have got a job, who have got a bank account and who have got disposable income, and they’re the people we’re looking to help to balance out their finances.

JH: So you’re happy that it never, never happens with one of your companies, and you represent about nine out of ten of them don’t you –

JL – eight out of nine-

JH: Right, the vast majority – that somebody comes up to you and says, I want to borrow a bit of money, and you don’t ask any questions, indeed on the contrary you offer the money up front saying you can have it within the hour, you pay them the money, they then can’t afford to pay it back over the following month, you ... and the company positively encourage them not to do so because they make special offers to them, which means they can continues borrowing the money and paying back nothing from the principle, from the capital.

JL: Nothing could be further from the case. We ask numerous questions, we do significant affordability tests. If you’re borrowing from one of my members who offer these loans online, they’re turning down nine out of ten applications. So we are only lending to people we are sure have got the ability to repay

JH: More than one of four are turned over -

JL: Well that's not what our research says, that's not what the academic research says. What the academic res says – don't forget, this research is just done by a polling organisation, the sort of company that tells you who's going to win the next election – the academic research that has been done of this says that 28% of customers across the board with payday loans actually do extend their loans, and on average they extend it twice. It is not as significant as is being suggested.

JH: And your research has been done by who? [Some interruption] You told me what your research shows, who did that research?

JL: I'm saying to you that Policis did that research, Policis is an academic research company –

JH: No I'm asking you for [some interruption] – You said that you had done, your association has done research, and it does X, Y and Z. We asked you in the past, our reporter Andrew Hoskin asked you show that research, and you declined to do so.

JL: Well we're talking about completely different research –

JH: Well let's talk about your research, the research that you have based your facts on.

JL: Well I based my facts on three things: academic research done by bona fide academic researchers, I base my facts on the year-long market study into this study done by the Office of Fair Trading, and I base my facts on customer research, where my member companies have actually spoken to their own customers and have a pretty good idea what they're talking about.

JH: Well alright – [some interruption]

JL: Can I just talk to you about this research, because this research has interviewed 2005 UK adults, and they say that it's weighted to be represented demographically of everybody. Now if that's the case, if it is weighted to be representative of the whole country, of those 2005 adults, only 40 will have taken out a payday loan, and if you extrapolate that to come up with the figures that they do, I'm not sure I would want to put a lot of money on the accuracy of that result.

JH: Well this is the basis - let me just deal with that - this is the basis on which all of research of this kind of carried out, and 2005 is actually a very large number.

JL: Yes, and what I'm saying to you is that of those 2005, only 40 have had a payday loan, so you're basing the assessment on payday loans on 40 out of those 2005-

JH: Go on finish your point -

JL: Well the other point is that only half of people in this country borrow money at all, so if you extrapolate 40 to mean 3.5 million, you're 50% out, because only half of those people borrow anyway, so the real figure, even if this is right, the extrapolation should only be one and three quarter million, not 3.5. i really do question this.

JH: Well maybe you want to question the CAB as well then, because what they have done is given evidence to the BIS Select Committee and they say the population of people coming to them who are unable to pay back payday loans has quadrupled in the past year. Does that concern you?

JL: Well of course it concerns me. People have debt problems, and people do go to CA. We actually advise people go to CA and the other free debt advice companies when we discover that they have structural debt problems.

JH: No but you see they're talking about –

JL: One of my member companies a couple of years ago had seven issues from CA. Now that's it, so if that's quadrupled it's now 28, and that's not a very large number. The vast majority of people who use these loans use them sensibly, they pay them back in full and on time and they find them very valuable, otherwise why would I have 94% of my customers saying they're very satisfied, 97% of customers saying the deal was totally transparent and they know exactly how much it was going to cost, and 86% saying that they would recommend it to a friend. It just doesn't stack up, the customers like it.

JH: [laughing] Well it would help enormously obviously if one were able to look at those figures oneself and see them and check them out, but there we are, let's take your word for it. Let me offer you this study, this particular case. You borrow a £100 loan, from say from QuikQuid, over 28 days, the interest charge in £25 if the loan is paid back within that time, but in this particular case that I'm looking at, the applicant, and this is common as you know, was immediately offer 5 so-called 'extensions', in other words 5 more months to repay. And in their own literature, they say that their most popular loan is the two period loan, so that means that after 60 days, you will repay £150 on the basis of having borrowed £100. If you extrapolate that over the year, which I think is commonly done in the finance industry, that's 300% APR. Is that reasonable?

JL: Well firstly, this isn't borrowed of year is it?

JH: It may very well be!

JL: That's just two months, and the research bears that out. People who do extend do it average just twice.

JH: Is it reasonable after just two months - two months - to have to pay back a £150 on just a £100 loan?

JL: Right now let's borrow that money, from your bank –

JH: I'm not asking about the bank, I'm asking about you, with respect.

JL: Yes, and I'm just about to answer you question. If you borrow that money from the bank, on an unauthorised overdraft, typically they will charge you £5 a day, so after 30 days you're going to have to pay back £250. And after another 30 days you're going to have to pay back £400 – that is hugely more than any payday lender is offering. There was a big story on Moneybox yesterday pointing this out, and what we've got in this country are 4million people who use unauthorised bank overdrafts a year and they pay on average of 6 charges per year, not the two extensions we're talking about for a payday loan. So they're paying hugely more than they would pay for a payday loan, and they're extending it significantly more than a payday loan. We are actually offering people a cheaper alternative to the problems they've got right now.

JH: You question whether or not those figures are right. That is whether the number of people taking these payday loans really have increased the way that I described it... If that is the case why is it that so many American companies are increasing their business here? Is it because the regulation is now becoming tougher in so many American states and the regulations here are very light, so they can get away with it?

JL: Well I think it's completely wrong to say that regulations here are very light, we are regulated in exactly the same way as every other provider of consumer credit, whether that be credit cards, bank loans, hire purchase, anything else. We regulate in the UK the process of lending, not the product, because if you try and regulate the product, people just come up with a product that doesn't quite fit your definition. The consumer credit legislation has been revised three times in the last ten years, I was there, I sat on the working parties, and recently we have had the European regulations coming in, so that we have a single standard across the whole of Europe for all lending.

JH: Hang on – there is no cap on APR in this country at all - there is in most European countries.

JL: Not most EU countries, some EU countries, and if you put a cap on the APR, you simply remove this product. You take away consumer choice, you take away competition, and you take away the very short term product that people want to use. Even if these figures are right, and I do question them, I think they're out by at least 50%, but even if they're right, what it is telling us is, people like this sort of product. They don't want to rack of debt on their credit cards, they don't want to rack up big bank loans, they want to deal with their immediate problem right now, quickly, pay it back and move on. And I think that's very sensible.

JH: And when the small print at the bottom of these ads warns you that the APR is 1700% or whatever, more than that often, do you think people actually look and it, and take account of what's there and think –

JL: What people look at is the cost. People look at the cost, and a payday loan will cost you between £10 and £30 on everyone £100 you borrow. And that's the cost, that's what people look at. There's a wide range of prices, there's lots of competition out there, shop around, get the best deal. But people like it, and people are using it. Our complaints level is so low that the Financial Ombudsman Service, when it publishes its complaint figures every 3 months, we haven't even got our own category, because there are so few complaints to the Ombudsman about payday loans. There are thousands of complaints, every 3 months, abut banks accounts and other financial services. So we haven't got lots of consumers complaining about this product, we've got lots of people who like it a great deal.