THE NEED FOR REALTIME DATABASE ENFORCEMENT

The use of high-cost short-term credit and payday loans has grown rapidly in recent years as consumers look for quick easy borrowing to support their finances. Veritec welcome the steps the FCA has taken to regulate the market through introducing a cap on credit and to protect against excessive charges. They are also encouraging market participants to share data.

Yet, while these measures will offer some improvement, due to the nature of payday loans, evidence from other countries has shown that only real time enforcement has properly protected consumers.

We have consistently seen that payday lenders fail to act in consumers' best interests. Previous efforts to allow the payday lending industry in the UK to self-regulate have not succeeded and tragic cases have come to light where individuals have become trapped in a downward spiral of debt through multiple simultaneous loans.

The actions of payday loan companies should be monitored by the FCA and a database with real-time information on existing loans is what is required.

Key reasons as to why real time database enforcement is needed include:

1. **It stops consumer harm before it takes place**
   Under the current regime the FCA has no way to enforce compliance with rules on rollovers, irresponsible lending and multiple, simultaneous borrowing.

2. **It gives the FCA the power to instantly uncover bad practices**
   Under the current regime it can be years before the FCA identifies and takes action against rule-breaking lenders while loans can be made and delivered in minutes.

3. **It stops lenders 'gaming' the rules**
   Under the current regime it is too easy to bend the rules and the FCA will not have the information to spot problems in the market so it will have to rely on complaints instead. This has been the lesson in many US states, Canadian provinces, and is under active consideration at the Australian federal level.

4. **It allows FCA resources to be targeted at the worst offenders**
   Under the current regime the FCA will have to spend most of its time assessing already-compliant firms rather than investigating bad lenders.

5. **It saves consumers, businesses and the FCA money**
   Under the current regime the FCA uses outdated systems that are very costly to operate and create barriers to entry, but do not prevent consumer harm. Simply employing the modern but low-cost systems already used by financial regulators elsewhere would make the FCA regime more efficient and close the technology gap with lenders.

Moreover, the FCA's current proposals on data sharing suggest a proxy regulation via the use of credit reference agencies (CRAs). However this will prove ineffective due to the following reasons:

- **It will not eliminate the problem of multiple simultaneous loans:** The limitations of the proposals and the fast-paced nature of the payday lending process means that consumers will still be able to take out multiple loans that they cannot afford to pay back.

- **It is not real time:** Despite claims about reporting in real time, the proposals are merely increasing the level of data sharing. The data passed to lenders will still only be a limited snapshot and will not report in real time and prevent consumer detriment at the point of sale.

- **One credit reference agency will not capture 100% of the market or 100% of data:** There are multiple credit reference agencies that lenders can choose and CRAs will be reluctant to share their commercial data. The proposals also do not include doorstep or other forms of consumer finance.

- **It will not stop lenders making non-compliant loans:** There is no stipulation on lenders not to lend if individuals are not credit worthy.

- **Lenders will be reluctant to submit data:** Lenders are often wary of providing competitors with information via CRAs

- **It does not help the FCA regulate better:** There is no reporting requirement to the FCA and so it is unclear how regulation will be improved. Information held by CRAs is not always up-to-date and often does not reflect instances where customers have rolled over their loans or where the original loan has morphed into another product. Already, all 34 jurisdictions in the US require some form of quarterly or annual product reporting. It is very apparent that consumer detriment has not been abated by reporting aggregate loan data to their respective regulator.

- **There is no guarantee of correct data:** We have repeatedly seen lenders failing to report accurate data to CRAs, which means other firms are depending on flawed data sets for credit assessments. (The US federal regulator has recently taken action against a log-book lender in a state without a regulatory database.)

- **No major improvement on status quo:** Lenders have always been able to draw upon CRA data, yet major problems in the market persist. The US and Canadian payday lending industry have had decades in which to operate with CRA data sharing. Not one regulatory agency has relied on CRAs to ensure lender compliance.

There are also likely to be unintended consequences that will negatively affect consumers

- **CRAs use credit data to sell marketing solutions to businesses:** Some CRAs use the personal data they collect to sell to marketing firms and lead generators. This means it is in their interest to acquire information and it is in the interest of lead generators/marketing firms to generate revenues from this costly data. By forcing the usage of traditional and non-traditional CRA's, the FCA is putting at-risk consumers in the spotlight for existing lenders and those who wish to enter the market. Instead of developing a costly marketing and sales plan, all a prospective lender would need to do is buy a complete listing of all consumers who currently have a payday loan listed on a particular CRA.

- **Detrimental impact on consumers' creditworthiness:** an increasing number of mainstream lenders (particularly mortgage lenders) are refusing to lend to anyone with payday loan on their credit record. It is questionable whether a very short-term product should have such a bearing on consumers' attempts to take out a completely different and much longer-term product. Mortgage lenders' attitudes in this regard are symptomatic of the general lack of faith that payday products are lent and used as intended (i.e. very short-term, one-off credit smoothing facilities).

About Veritec Solutions

Veritec provides a data system that enables regulators to effectively enforce regulation of payday, doorstep and other short term consumer lending. Veritec does not provide any goods or services to the consumer credit industry, but provides regulatory services to regulators.

We have over a decade of experience working with US regulators in 14 different states, covering 88 million consumers. In addition to our work in the United States, we have also advised the Provincial Governments of Ontario and British Columbia in Canada, and the Federal Government of Australia.

Veritec's system covers:

- 88 million consumers
- Over 1,000 licenced lenders
- 7,200 store locations
- Internet lending
- 300 million-plus credit transactions

Our experience has allowed us to build an unrivalled store of unfiltered data documenting borrowing in the high cost credit market. This has allowed us to provide empirical evidence to governments to ensure their policies are fit for purpose.