Management Scrutiny Committee

Focus Group: At What Cost – Money Lending?

Monday 23rd January 2012

Present: Cllrs Rolph and Wood.

Also Present: Malcolm Hays (Managing Director – Hays Credit), Neil Gillespie (Director – Hays Credit), Peter Kenyon (Chief Executive – Ramsdens Financial Limited), Nigel Cummings (Scrutiny Officer) and Gilly Stanley (Scrutiny and Area Support Co-ordinator).

Notes

Members of the Management Scrutiny Committee attended a focus group meeting with a number of credit providers from across the city to discuss issues related to the policy review looking at high cost credit and illegal money lending. The main points from this discussion were as follows:

What is the typical profile of lenders who approach your organisation?
NG explained the typical client profile was one of a low income family that is state dependent with the vast majority living in rented accommodation. The gender split was on average 60% female and 40% male with a typical borrowing sum of between £200 and £300.

An agent would then collect an agreed weekly amount from the clients home for the fixed period of the loan, e.g. client borrows £200 and pays £10 per week back over a 28 week period.

The relationship between the agent and the borrower was seen as very important. It was noted that typically agents working for Hays Credit lived in and around the area that they worked in. Agents were typically female age between 35 and 65 and worked on a part-time basis.

It was also reported that the majority of clients preferred home collection (80-90%) however a small percentage did come into the office to pay their weekly amounts.

PK explained that Ramsdens offered loans, payday loans and a pawn broking service. It was noted that a recent Department for Business, Innovation and Skills Select Committee study had acknowledged that APR's for short term credit were relatively meaningless. Ramsdens APR's were 80% in relation to the pawn broking element and 400% for payday loans.

PK also explained that the customer split for Ramsdens was similar to that of Hays Credit in that it was a 60% female 40% male split with average age of clients being between 35 and 45. The average loan amount was £175 and that was slightly higher than the national average of £157.

PK acknowledged that the pawn broking side of the business did experience that yo-yo effect of a client using the same asset time and again.

What check and balances do you have in place to limit the risk of default or non-payment?
MH explained that the actual bad debt performance of the company was very good and the company had a good risk management system in place. Hays Credit rejected on average 85% of new credit applications. Every prospective new client is subject to a credit reference check and home visit. It was noted that the company had a large number of repeat client business.

It was also noted that Hays Credit had very minimal default charges and were very receptive to the up and down nature of their client's finances and circumstances. Also the company's local collection agents are in a good position to assess client's individual circumstances.

PK also highlighted the high decline rate of his company and it was noted that 90% of new applicants were declined. Again a lot of the company's business was repeat custom from a trusted client base.

How do people find out about your organisation?
MH reported that Hays Credit did not advertise but did have a high street location, but overall the majority of business was generated by word of mouth.

PK expressed a similar view in that their biggest advert was word of mouth although they did use TV advertisements and had prominent high street locations.

How do people apply for a loan?
Both companies used a simple application form followed by credit reference checks including bankruptcy and insolvency checks to confirm the information on the application form. An assessment is then made on the information collected. The process typically takes 72hrs but for existing customers this could be an almost instant decision.

Are requests for loans increasing?
December saw a large increase in requests and is always the biggest peak within the year for obvious reasons. It was noted that the levels of default remained at a generally consistent rate. It was acknowledged that while demand was increasing there was also a higher decline rate.

What are typical loans used for?
It was noted that there was a fairly even split between necessity and casual/luxury. An important factor to note was that with banks and traditional financial institutions tightening their controls and restricting credit had allowed other financial routes to expand and increase.

PK reported that there was still a stigma attached to pawn broking and it was a challenge to change this perception. Most of the pawn broking market was against items of gold jewellery.

Are potential borrowers aware of interest payments and the financial agreements they are entering in to?
Customers on a low income/budget are generally good with money, they have to be. It was also highlighted that if people are not as confident in the future then they do not borrow as much or as regularly.

Both companies questioned the rates some firms were charging and it was an unusual paradigm that the smaller the business the cheaper the rates, which is the reverse of many other business models. It was noted that there was a greater risk for big companies with much higher default rates. Often these larger PLC businesses are driven by investors and must look to increase their customer base and volume of lending.

What problems do you see this industry in the future?
One of the major issues highlighted was the rise of paid for money advice companies who can take up to 35% of an individual's disposable income to provide solutions. Similar advice and debt management solutions are available from organisations like the Citizens Advice Bureau or the Credit Counselling Service and most importantly their advice is free.

Members of the Committee thanked Malcolm Hays, Neil Gillespie and Peter Kenyon for taking the time out of their busy schedules to attend the focus group and provide valuable evidence for the committee.