

Frequently Asked Questions

▪ **How is the payday lending industry regulated?**

The industry is regulated by the OFT. BCCA members also abide by the BCCA's Constitution and strict Code of Practice. A link to this can be found on the home page of this website.

▪ **How are APRs misleading when applied to payday loans?**

An *annual* percentage rate (APR) is not necessarily a good guide to the cost of very short term credit. The APR (but not the cost) of a loan gets particularly high if the amount the customer borrows is small and the repayment term is quite short. For example, if a customer pays a £12 charge to borrow £88 over 28 days, this gives an APR of 429.9%, even though the interest paid is only 13.6% of the principal.

Another example can illustrate the limited use of the APR when applied to short term lending. Jim and Bill meet up in the pub one Friday night for a couple of pints. Unfortunately, Bill has no money so Jim offers to lend him £25 until the following Friday, as long as Bill buys him a pint. The following week, Bill repays the £25 and buys Jim a pint for £2.50 and everyone's happy.

What has actually happened is that Bill has borrowed £25 for 7 days with the total cost being £27.50, an interest rate of 10%. However, the APR for this loan is 14,348.1%.

The OFT's '*High Cost Credit Review*', published in June 2010, also made comment on the trouble with applying APRs to the cost of payday loans. It said, "*the price of such loans expressed as an absolute amount is often proportionate to the costs, but the annual percentage rate (APR) is often high because of the short term nature of the loan and the high relative cost of the loan compared to its value.*"

▪ **What do BCCA members typically lend and who do they lend to?**

The amount a member lends depends on the customer's financial situation.

In the OFT's High Cost Credit Review (June 2010) it states that, typically, consumers that take out payday loans are male, earning more than £1000 a month, unmarried and without children.

▪ **What about those customers who fall behind with repayments?**

Most customers are able to pay their loans back on time and like the service BCCA members provide. For the small proportion of customers that do fall behind with their

repayment, our members are happy to work with their customers and exercise forbearance.