



House of Commons
Treasury Committee

Credit Searches

Third Report of Session 2009–10

Report, together with formal minutes, oral and written evidence

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Summary

We began this inquiry because of fears that by shopping around for credit, especially for unsecured credit such as personal loans and credit cards, consumers were building up credit application searches on their credit reference files which would in fact make it harder for them to obtain further credit.

Credit reference files are an important part of our financial system, and regulatory changes to prevent irresponsible lending may make them still more significant. This means that it is vital they should be accurate and accessible. Our Report suggests that the Office of Fair Trading and the Information Commissioner's Office should assess whether the current rules are appropriate.

There are complex tradeoffs between the need to prevent irresponsible lending, and the need to ensure consumers feel free to search for the best deals on unsecured credit. In responding to this Report, we recommend that the OFT explicitly considers those trade-offs. The use of application search data in credit scoring has clearly been sensible in the past as a means to detect fraud or demonstrate potential inability to pay. However, it is not clear that this remains the case now that shopping around has become more common and credit is harder to obtain, even for those who may be able to repay it. There is a fine balance of public interest between ensuring that fraud is prevented, and consumers are protected from reckless lending, and ensuring that the market is subject to the disciplines of informed consumer choice. We have not been presented with unequivocal evidence that application search data is essential for loan providers, who have, as they themselves say over 400 indicators that they may use. Nor have we been given overwhelming evidence that it is a major source of direct consumer detriment, although the number of consumers making multiple application searches seems likely to rise. However, we are extremely concerned about the effect of the use of credit searches on market mechanisms, since, in principle, we believe the ability to shop around is not only an important means for consumers to assess the market, but also provides a key discipline on providers. We have been presented with some solutions which would reduce the adverse effects of the use of credit application search data in credit reference files; we consider that any acceptable solution must strike an appropriate balance between minimising fraud and over borrowing and ensuring the market is subject to normal disciplines. We recommend that the OFT look at this in its assessment of the credit market.

1 Introduction

1. We undertook this short inquiry as part of a wider look at the impact of the banking crisis on the consumer. The availability of consumer credit and the terms on which that credit is offered have come under increasing scrutiny over the last two years. Our inquiry focussed on a concern that by shopping around for credit, especially for unsecured credit such as personal loans and credit cards, consumers were building up credit application searches on their credit reference files which would in fact make it harder for them to obtain further credit. As the inquiry progressed, we also took evidence on the provision of information to consumers.

2. Since the main focus of our work was on the unsecured lending market, under the Consumer Credit Act 1974 as amended in 2006, the Office of Fair Trading (OFT) is the main body responsible for the matters discussed in this report.¹ The OFT welcomed our inquiry, and stated that “We are still alive to this issue and the potential for consumers’ credit ratings to be unfairly affected by sensible testing of the market—or shopping around”.² However, in evidence to us, Mr Cates, Deputy Director, of the OFT’s Consumer Credit Group, stated that:

we have not looked at [the issue of multiple searches] proactively but it is because we have looked at other things which we consider to be more important, proactively, where we consider there to be more harm. For issues such as debt collection, such as debt management and high cost credit, we have seen a particular rise in debt over the past 18 months, and that has led to real actual harm and we have focused on that.³

While it is right that the OFT works on issues such as debt management and high cost credit, it must also ensure a fair market. There are complex trade-offs between the need to prevent irresponsible lending, and the need to ensure consumers feel free to search for the best deals on unsecured credit. In responding to this Report, we recommend that the OFT explicitly considers those trade-offs.

Conduct of this inquiry

3. We announced our inquiry on 22 September and invited written evidence on:

- The effect of multiple credit searches on individuals’ credit ratings including the size of the change in credit scores;
- The extent to which lenders offer best practice quotation searches.

4. On Tuesday 27 October we took oral evidence from Martin Lewis, moneysavingexpert.com, Toby Van der Meer, MD for Money, moneysupermarket.com, Steve Martin, External & Regulatory Affairs Manager, Equifax, Gillian Key-Vice, Head of

1 Ev 64

2 Ev 65

3 Q 190

Government Affairs and Regulatory Policy, Experian, Eric Leenders, Executive Director of Retail, British Bankers' Association, Fiona Hoyle, Head of Consumer Finance & Fraud, Finance and Leasing Association, Jan Smith, Industry Relations Director, Callcredit Information Group, Vivienne Dews, Executive Director, Corporate Services, Nigel Cates, Deputy Director, Consumer Credit Group, Office of Fair Trading, and Jonathan Holbrook, Head of Data Protection Practice–Private Sector, Office of the Information Commissioner. We received 14 pieces of written evidence and also called on Martin Lewis to ask his subscribers for their experiences and difficulties in searching for and obtaining credit. We received valuable evidence and the posts on moneysavingexpert.com attracted over 6,000 hits. We are grateful to all those who provided evidence and who wrote to the Committee unprompted. We would also like to thank those who responded to our request for information on the web.

Regulatory environment

Credit reference files

5. The regulatory landscape is changing, and increasing emphasis is being placed on the need for responsible lending. These changes are likely to increase the use of credit reference files; it is accordingly important that the information they contain is accurate and relevant.. The Office of Fair Trading is preparing statutory guidance on 'irresponsible lending', with which all lenders will need to comply. This guidance will be released, according to the Finance and Leasing Association (FLA), in January 2010, and will include the need for lenders to undertake a credit reference search.⁴ In June 2010, the EU's Consumer Credit Directive will be introduced in the UK, and with it, according to the FLA, a "statutory requirement on lenders to assess a prospective borrower's creditworthiness".⁵ As part of those requirements, "When looking at creditworthiness, the lender will refer to information obtained from the customer, as well as via a credit search".⁶

The Data Protection Act

6. There are safeguards to ensure that information collected by companies is held and used in a fair manner. The information held by the Credit Reference Agencies comes under the Data Protection Act 1998, and is therefore of interest to the Information Commissioner's Office (ICO). In determining whether or not information can be held, in its evidence the ICO stated that a key principle would be that "that personal information must be processed fairly and lawfully".⁷ As such, organisations such as credit reference agencies must:

- have legitimate grounds for collecting and using personal information;
- not use it in ways that have unjustified adverse effects on the individuals concerned;

4 Ev 66

5 Ev 66

6 Ev 66

7 Ev 37

- be transparent about how they intend to use the information, and give individuals appropriate privacy notices when collecting their personal information;
- handle people’s personal information only in ways they would reasonably expect; and
- not do anything unlawful with it.

The ICO went on to note that other principles that might apply included that “personal information must be adequate, relevant and not excessive for the organisation’s purpose”; and that information “must not be kept for longer than necessary”.⁸ As such, the ICO must make a determination as to whether “the process of making and recording a credit search is basically ‘fair’ (there is no doubt that it is generally lawful), both in terms of its purpose and effect, and also in terms of what consumers are told about the process”.⁹

8 Ev 37

9 Ev 37

2 Credit referencing

The role of credit reference agencies

7. Lending institutions use the information held by the credit reference agencies (CRAs) to assess whether they should lend money to consumers, and in some cases, at what price credit should be offered. Experian defines the role of a credit reference agency as follows:

A credit reference agency collects, matches, derives, merges, and supplies data to organisations to help them make decisions about whether to give, or continue to give credit to individuals and/or businesses. They create and hold databases of people and/or businesses operating within the country in which they operate so, for example, the CRA operated by Experian in the UK will only hold data on people and businesses with addresses in the UK.¹⁰

Experian notes that “Experian does develop and provide credit scores but most lenders will use their own, although they use Experian scores as part of their decision process”.¹¹ CRAs do not set lending policies within lending institutions or set the level of risk a lending institution may be prepared to accept.¹²

8. The information held by CRAs will be a mixture of public and private information. Public information could include whether consumers are listed on the electoral register, and whether they have any bankruptcy proceedings against them. Private data will include details of any credit agreements a consumer has signed up to.¹³

9. The lending institutions were keen to point out that if they were to ensure that lending is conducted in a responsible way, it was important that lenders were able to make proper assessments of those seeking credit. Searches of information of credit reference agencies played an important part in that assessment process.¹⁴

Pricing for risk

10. Some credit products, such as personal loans, may have an advertised interest rate, so that all consumers accepted for such a product will only receive that interest rate. Some credit products though are ‘priced for risk’. For these ‘priced for risk’ products, while a consumer with a weaker credit history (in the eyes of the lender) can still be accepted for credit, they may receive a higher APR (interest rate) than that advertised. However, under the *Consumer Credit (Advertisements) Regulations 2004* the APR (or lower) that was

10 Ev 25

11 Ev 27

12 Ev 25

13 Ev 25

14 Ev 26

advertised should be obtained by at least 66% of those people for whom the credit was provided.¹⁵

Different types of credit searches

11. The increasing use of 'priced for risk' products meant that a different form of credit search was created. The two main types of credit search are as follows:

- An **application search** is made when a consumer wants to apply to receive credit. Consumers' credit reference files are marked when such searches are made, and such searches are visible to other lenders looking at the file.¹⁶
- **Quotation searches** were originally developed to provide a quotation of the price a consumer may pay for a 'priced for risk' mortgage.¹⁷ Quotation searches provide the lender with all the information it needs to price the product for the consumer, but no mark is visible on the file for other lenders to see that the search has been undertaken.¹⁸ This allows consumers to compare prices without multiple searches appearing to other lenders. Quotation searches only provide information on price, rather than whether a consumer will be accepted for a particular product. That means they are only useful for products that are 'priced for risk', as in other cases the advertised price is the only price available to accepted customers.¹⁹ Quotation searches do not mean that a member of the public will be accepted for the product at the price quoted.²⁰

15 Q 174; The Consumer Credit (Advertisements) Regulations 2004 (SI 2004/1484)

16 Ev 61

17 Ev 61

18 Ev 61

19 Ev 27

20 Q 88

3 Credit reference files

Accuracy

12. As we have seen, credit reference searches have a growing importance in the credit application process. We therefore reflected on the need for consumers' records to be accurate and updated frequently. It was worrying that Mr Van der Meer suggested that all was not well with the information being held by the credit reference agencies. He noted that "anecdotally, from feedback on our forums, a lot of consumers, when they check their credit file, find issues with the quality of the data and then feel the need to take action".²¹ Mr Lewis highlighted how such errors on a credit reference file could create a negative feedback loop with multiple searches:

You have got an error on your file and you apply and you are then rejected because there is an error on your file. You then make other applications and then later on find out that there is an error, go back to fix the error, but now, when you are applying, you get rejected because of all those searches that you have done trying to make applications successfully, and that is a vicious spiral which adds to this.²²

Mr Van der Meer noted that some consumers would not check their own files, and that therefore "What we do not know is how many consumers do not look at their credit file and are impacted [by poor data quality]".²³

13. Industry witnesses were quick to defend data quality. Mr Leenders told us that he thought "the vast majority of data is very accurate".²⁴ He noted that, from the lenders and credit reference agencies' perspectives, "it is in all our interests to make sure that data is accurate".²⁵ Experian stated that "The quality of data at the credit reference agencies is continually checked".²⁶ Mr Holbrook was also convinced that the data held by the credit reference agencies was, in the main, correct:

Given the huge volumes of data which we are talking about, hundreds of millions of records, it is inevitable that some of it will be inaccurate. That will always be the case. However, I have to say that our experience is that the overwhelming majority of credit reference data is highly accurate. I am satisfied that the agencies place very great store by ensuring that their clients do adhere to high standards of accurate reporting of the information that they hold. After all, it is in the agencies' business interests to make sure it is recorded properly. We are satisfied that they do.²⁷

21 Q 18

22 Q 19

23 Q 18

24 Q 159

25 Q 159

26 Ev 74

27 Q 205

However, he conceded that in a year the ICO received “in the region of 100 or so genuine complaints about accuracy”.²⁸ Mr Holbrook also confirmed that the ICO conducts no audits of the quality of the information held by the credit reference agencies.²⁹ Instead, the ICO uses consumer complaints and regular meetings with each of the agencies.³⁰

14. Given the importance of credit reference files to consumers who wish to access credit, we believe the assurance of data quality is paramount. We therefore recommend the ICO consider whether it should seek further assurances that data quality and data correction systems at credit reference agencies conform with the Data Protection Act, potentially by independent audit. There are concerns that credit applications rejected because of incorrect data may remain on file and affect future credit scoring, because being rejected for credit is seen as an indicator of risk. Accordingly, we also recommend that the Information Commissioner’s Office considers whether it is fair for credit reference files to contain details of consumer application searches made while credit reference files were demonstrably incorrect.

Cost

15. Though there was a strong defence of the quality of the data held by the CRAs by the industry, they admitted that consumers would be advised to check their credit records. Experian stated that “consumers are encouraged to check their credit report before applying for credit to make sure it is correct and up to date”.³¹ Ms Smith, of Callcredit Information Group, explained that people may want to check their own credit records for a wider set of reasons than just spotting mistakes:

people want to access their credit file to make sure, certainly, what is on there is correct [...] They also use it to alert any possibility of fraud, particularly if they think that their credit card details or something else may have been cloned or used by someone else. Just, basically, to keep an eye on total financial management.³²

However statistics provided by Experian showed that while 80% of people were aware of the existence of credit reference agencies, only about 23% of people had, at some stage, sent for their credit report.³³

16. The Data Protection Act 1998 provides for individuals to access the data organisations hold about them.³⁴ Where the data controller is a credit reference agency, further provisions on providing this data apply, one of which allows the individual to “limit his request to personal data relevant to his financial standing”.³⁵ The cost of such a statutory

28 Q 207

29 Q 226

30 Qq 225, 227

31 Ev 74

32 Q 146

33 Q 154

34 Data Protection Act 1998, section 7

35 Data Protection Act 1998, section 9

credit report is currently set at £2,³⁶ though some companies will provide similar information free in trial periods of their other consumer products.³⁷ The Council of Mortgage Lenders suggested it could be wise to remove the fee, arguing that “it does seem unfair that consumers have to pay for access to their own data”.³⁸ For the industry, Ms Key-Vice outlined the importance of the statutory report, telling us that 1 in 6 people applied for a statutory report rather than Experian’s own consumer products.³⁹ When asked why consumers should be charged for their statutory report, Ms Key-Vice told us that “Two pounds is quite a modest fee”.⁴⁰ This price also seemed reasonable to the Information Commissioner’s Office. Mr Holbrook told us that the £2 charge was “a fair administrative charge”.⁴¹ He noted that:

it is fair that [the credit reference agencies] should be able to cover their costs. They are already obliged to produce this information at a fifth of the price that anybody else would be entitled to charge for giving you your own personal information.⁴²

While a £2 fee for a consumer to receive their statutory credit file may seem modest, given that there are three potential providers of such reports, and regular checking may be appropriate, costs may begin to add up. We recommend that the OFT and the ICO consider again whether the charge remains reasonable. In particular, given the key role credit reports play, and the fact that relatively few consumers request their credit reports, they should consider whether there is a case for providing free access to increase take-up.

Clarity

17. The ICO noted that “This is a complex and technical area which consumers are likely to find confusing, not least because of the array of different types of searches of their credit files which may be made by organisations, and the different ways they impact on a consumer’s credit standing.”⁴³ It is important that consumers have a clear understanding of their own statutory credit reports. We raised the issue of whether or not such statutory reports were clear. Mr Holbrook responded that:

I think, as ever, there is always room for improvement. A standard statutory credit file is not the easiest thing to read—there is no doubt about that. I do think there is an onus on the agencies to make the information intelligible. I think that they do go to some lengths to help people understand, but there is no doubt that credit referencing is something that is difficult to understand if you have had no previous involvement with it. The ICO publishes a leaflet called Credit Explained in which we

36 The Data Protection (Subject Access) (Fees and Miscellaneous Provisions) Regulations 2000 (SI 2000/191)

37 Q 124

38 Ev 62

39 Q 128

40 Q 153

41 Q 222

42 Q 220

43 Ev 38

try to shed some light on what credit referencing is about and how consumers' data is used in the credit process. We actually distribute far more of that publication than anything else we produce.⁴⁴

He also acknowledged that some consumers needed help in interpreting the statutory credit reports they received.⁴⁵ Experian pointed out though that “When a consumer obtains their file from a credit reference agency they are also provided with a detailed guide on the data and what to do if they want to make any query about it. They have access to trained advisors either by e-mail, post or telephone as part of the service”.⁴⁶ **Given the complexity of the information presented in consumer credit reference files, we recommend that the OFT and the ICO review the information presented in statutory credit reports, and any supporting documentation and assistance the credit reference agencies provide, and provide guidance on how best to ensure consumers understand this.**

44 Q 210

45 Q 211

46 Ev 74

4 Multiple credit searches

The problem

18. Whether applications for credit will be successful is determined by the processes within each lending institution, using the information available from consumers' credit reference files in financial institutions' own internal credit scoring systems. To find out :

- whether they will be accepted for credit, and, if so;
- at what price that credit will be offered;

consumers have to make a full application for credit to each different lending institution. Before we began this inquiry, there was the suggestion that multiple applications might impact on some consumers' credit ratings, and thus the price and potential availability of lending from other lending institutions. It was alleged that multiple credit application searches were seen as a sign that a potential borrower was 'high risk'.

19. One of the main problems that worried Martin Lewis was the impact of the information about multiple credit application searches on customers trying to obtain 'priced for risk' unsecured credit products, such as certain credit cards. Mr Lewis forcefully expressed his concern for customers who:

have absolutely no idea that, when they apply for an 8.9% loan, they may be given a rate of 30% interest and they have no idea that the fact that they have been given a rate of 30% interest, rejected it and applied for another piece of credit may well then stop them getting the next piece of credit.⁴⁷

20. His concern was that when customers shopping around for a loan, using full application searches to do so, rejected offers because they were at different rates to those that they applied for, they were building up application searches on their records, and thus finding credit increasingly hard to get. Mr Van der Meer considered consumers affected were those who did not know of the impact of multiple credit application searches until it was too late and then found difficulties in accessing credit.⁴⁸ The industry though denied that there was such a strong impact in interest rate changes to consumers.⁴⁹ We explore below the impact multiple credit application searches actually have on consumers. However, it is important to note that there are alternative approaches available.

Other countries' systems

21. Mr Van der Meer raised the possibility of mirroring the German system which he outlined as follows:

47 Q 2

48 Q 62

49 Q 75

In Germany, they have a credit bureau, the SCHUFA, and they run two types of quotations, a hard search equivalent to full credit score and a quotation search which is the equivalent of the UK one maybe with some slight local nuances. The quotation search can be run and is left on the footprint of the customer and the banks can see that for ten days, therefore, allowing them to take on any fraud issues related to multiple applications, and it is available to the consumer, I believe, for a year and possibly more than that, and a full credit search would stay on the record for both the banks and consumers for three years.⁵⁰

He suggested that nothing prevented the adoption of such a system here in the UK.⁵¹ Experian suggested that there may be a cost from implementing the German system here in the UK:

Application searches are recorded when a consumer decides which potential offer to apply for but they can still be refused. Application searches are still used in scoring for up to one year but, the German credit bureau advises that whilst still predictive they are now less so than they were before this system was put in place. As a result, more consumers who should not be getting access to credit are almost certainly doing so.⁵²

And Ms Dews from the OFT shared her “fear” that interest rates for consumers may rise if CRAs were no longer able to store information on credit searches.⁵³

22. In the United States consumers have a credit score, which they can then use to assess whether particular products are likely to be available to them. Mr Lewis outlined the benefits this brought:

in the States you get the actual number of how good your credit score is and what the advertisers do is they say, “If you’ve got a credit rating of over 900, you can get this product” and, therefore, you apply.⁵⁴

However, such a system would be a significant departure from that currently in operation in the UK. Mr Lewis described the implementation of the US system as a “massive, radical overhaul” and reiterated his belief that the present problem could be sorted by “with iterative change just by making the quotation search work”.⁵⁵ Ms Hoyle was cautionary as to the potential impact of the implementation of a US system. She warned:

you were saying earlier about a standard credit scoring method, maybe as they have used in the US that sounds very much like a very ‘vanilla’, fairly restricted approach,

50 Q 48

51 Q 52

52 Ev 75

53 Q 229

54 Q 56

55 Q 57

and that may have the potential for excluding some people from the market who currently benefit from credit products.⁵⁶

23. We recommend that in considering the impact of multiple credit searches, and credit searches more generally, the OFT assesses whether there are lessons to be learnt for how the UK system operates from other countries' systems.

How important is search data?

As a signal of ability to pay

24. Given that there was a complaint that consumer detriment was occurring, we attempted to find out how important being able to see the number of credit application searches a consumer has made is to lending institutions, and see whether a correct balance was being struck. The lenders were adamant that application search data were important. The Finance and Leasing Association warned that if lenders were no longer able to refer to such data:

it would severely undermine the quality of credit decisions. It would also result in a rise in problem debts from customers with multiple searches and it is in no-one's interest to provide credit where it cannot be repaid.⁵⁷

Lenders were keen to keep their access to search data for application searches because they believed that it could be a significant indicator of whether or not consumers would be able to pay their debts in the future. However, the industry was at pains to point out that multiple credit application searches alone would not be enough to make a difference to the outcome of a credit application, as they were used as part of a range of information, and formed only part of the system used to assess credit suitability.⁵⁸ Experian explained that:

credit searches alone are unlikely to have a significant impact. However, if an applicant is already borrowing a significant amount and displays other characteristics analytically proven to be high risk then they will almost certainly lose points for each and the number of searches may tip them into being refused for credit.⁵⁹

25. It appears to be only certain customers who are most at risk of an impact from frequent and recent credit application searches. The Council of Mortgage Lenders termed these 'borderline' cases.⁶⁰ To highlight who was affected the most by multiple application searches on their credit reference files, Equifax identified three different types of consumer:

- **POOR FILE**—consumers who at the time of application had defaulted on previous credit or currently had serious arrears on one or more accounts.

56 Q 160

57 Ev 70

58 Q 80

59 Ev 26

60 Ev 62

- THIN FILE—consumers who at the time of application had either no open credit accounts or only one or two accounts opened in the last few months.
- GOOD FILE—consumers with open credit accounts at the time of applications and with a generally positive repayment history.⁶¹

Equifax then stated that those in the ‘Thin File’ group were “penalised the most heavily at all levels of search activity”.⁶² Evidence from Experian highlighted “an individual who might have a weaker credit score would be one who has a mortgage of £200k, plus unsecured a combination of unsecured and hard core credit card debt of £18k, accrued in the recent past and a declared income of £25k”, whose score result would be based on these factors, but then “exacerbated” by credit card applications.⁶³ Experian told us that credit applications are one of 400 potential characteristics, and that application search data is “proven to be linked to consumers who are less able to repay credit; often they tend to be the ones that are looking for extra credit because they are already overcommitted”.⁶⁴

26. Ms Dews noted that there was a balance to be struck between “good information being available to lenders and information which is relevant to the pricing of risk, but we do also believe very strongly, in the Office, that people should be able to shop around to get the best quote they can without that having an impact on their credit rating”.⁶⁵ She concluded that the OFT were keen to find that balance.⁶⁶

Numbers affected

27. We were keen to assess the number of people potentially affected by multiple application credit searches. Mr Lewis pointed out that such information was unavailable to the consumer side organisations.⁶⁷ For its part, the industry suggested that this was not a significant problem. The Council of Mortgage Lenders explained that “it has been put to us by one major lender that this is likely only to affect around 1% of mortgage applicants, if that”.⁶⁸ Ms Key-Vice explained that:

We have run some statistics about the proportion of consumers that have more than five credit searches within the critical period which is three months and, according to our statistics, only 7% of consumers have that number of credit searches and, of those, a small proportion would be impacted because, as we explained in our evidence, this is about the cumulative impact together with other risk information.⁶⁹

61 Ev 40

62 Ev 40

63 Ev 74

64 Ev 74

65 Q 229

66 Q 229

67 Q 15

68 Ev 62

69 Q 80

Time

28. As we noted earlier, one of the principles which the Information Commissioner's Office highlighted was that information "must not be kept for longer than necessary".⁷⁰ However, search information becomes less useful over time. Mr Leenders told us:

there is an iterative, cumulative effect for application searches, and I think the number referred to typically across the submissions that were made in writing was around about five in around about three months. Those searches are held on file, I think, for 12 months and of course the value of that data in determining risk and propensity to repay rather dilutes over time, so the value of that data after the initial three months, for example, after six months becomes a less significant issue on the score card, and actually in some score cards now they are not used at all.⁷¹

29. We note that application credit searches become less useful both for detecting fraud and as part of a credit scoring system, the older the search data is. We recommend that the ICO look at whether the 12 month period for storing search data is appropriate, given the principle that information "must not be kept longer than is necessary".

Shopping around

30. The banking crisis and the ensuing recession have of course impacted on the credit market. Credit availability has been diminished. Martin Lewis, of Moneysavingexpert.com, felt that consumers who had previously been excellent credit risks were now deemed to be good credit risks, while those deemed previously to be good credit risks were now getting products previously offered to applicants with poor credit scores.⁷² As Mr Van der Meer, from Moneysupermarket.com, explained, this has had an impact on consumers, in that "accept rates in the [lending] industry have moved from around 50% to closer to 30%, so the ability of these consumers to easily find the products that are available to them and at the rates that are available to them is declining".⁷³ As such, people are now probably having to shop around for credit, both on price and to see if they will be accepted for a loan.

31. There is also another potential driver for increased shopping around, in the increasing use of the internet, especially where consumers are searching for credit, which has a direct effect and also may have increased awareness of the desirability of comparing different prices more generally. Mr Van der Meer confirmed that "more consumers [are] shopping around over the last few years, so the use of comparison sites, like Martin's and ours, has obviously increased, but just generally consumers shopping around, however they do so, whether it is in a branch or online, is increasing every year, so you have got more consumers who want to shop around".⁷⁴

70 Ev 37

71 Q 90

72 Q 5

73 Q 24

74 Q 24

32. The industry appears to have recognised that both difficult market conditions and increased internet usage will increase “shopping around”, and appears to have made some adjustment to the way it uses search data. Ms Hoyle reported that “A couple of years ago, if you did have three or four searches within a short period of time, then that would feed into the credit score. But now customers are actively shopping around (and even more so in the current market) and some lenders are saying that actually seven or eight searches within a period of time may not be unusual and so should not adversely affect a credit score.”⁷⁵ Mr Leenders told us that:

as the banking industry, we are rather moving away from the inclusion of search data in credit scoring models rather than including more search data in search models as more sophisticated techniques come on line and one, for example, [...] was behavioural data through personal current account performance⁷⁶

33. Both the impact on credit availability from the recession, and the ease with which an application can be submitted via the internet has meant an increase in full applications being made. The industry seems to have responded by reducing their use in credit scores, or lessening the weight given to them. We recommend that the ICO examine whether there is a cut-off point beyond which the impact of search data on consumers’ risk profiles is so weak that storing this data is unfair, since any benefit would be outweighed by its detrimental impact on customers.

What are consumers offered?

34. What do consumers expect a quotation search to tell them? In its evidence, Experian suggested that consumers faced two questions when shopping around for credit, “How much will it cost?” and “Can I have it?”⁷⁷ Experian went on to assert that “shopping around for credit is not about whether a lender will provide the credit but is about how much the credit would cost and whether it is the right product for that consumer”.⁷⁸ Using such a definition, Ms Hoyle told us that “Making multiple credit applications has an effect, not shopping around”.⁷⁹

35. We have already seen that quotes provided under quotation searches do not assure the consumer of acceptance should they then make a full application. When asked whether he felt this was right, Mr Cates replied “I think you should be able to see, actually, when you are going to get credit”.⁸⁰ **Consumers who have been quoted a price for a product expect to get the product at that price and not be refused on full application.**

36. The problem is that given there is no way to find out if the product is available other than to make a full application, there is no practical distinction between “multiple credit

75 Q 93

76 Q 93

77 Ev 26

78 Ev 26

79 Q 165

80 Q 204

applications” and “shopping around”, whatever the industry view. We cannot see anything wrong in consumers making multiple full credit applications to see whether or not they can obtain credit from firms which may have different, opaque, criteria for acceptance. We received evidence that consumers seeking credit under the current system could find that multiple application searches tipped the balance between being offered credit and being refused, or affected the rate they were offered. **We are not convinced that consumers when ‘shopping around’ distinguish between questions over price and availability sequentially, but rather think of them together. At present, the evidence is that repeated application attempts reduce some consumers’ ability to access credit, or affect its price. We recommend that the OFT investigate the impact of multiple applications on the availability and price of credit to consumers.**

Fraud and open commitments

37. One of the main reasons cited by the credit reference agencies and the lenders for their need to see search data was to counter the risk of fraud, or ensure that consumers were not offered too many lines of credit at the same time.⁸¹ For example, Experian stated that consumers may make large numbers of credit applications “if they are looking to commit fraud and are testing the decision systems of lenders”.⁸² Experian also noted that “Applications that are successful result in firm offers which can only be withdrawn if crucial information changes. A consumer applying for and getting offers of 10 or even 20 or 30 credit cards could then activate them all. This could lead to an explosion in credit, often to those least able to manage it.”⁸³ By being able to see the number of credit searches a consumer has made, then the risk of either fraud or multiple open credit commitments can be combated.

38. Mr Lewis appeared content for quotation searches to be used to look for fraud. However, he was unsympathetic about the use of searches in establishing whether people posed a credit risk:

For fraud, most companies tend to use an agency like National Hunter to do their fraud scoring; it is slightly separate from the credit reference agencies. Now, I am certainly not arguing that we bar quotation searches from being sent to National Hunter so that they can weed out people for fraud based on quotation searches. If someone applies for 100 cards in a week, you would probably know it is ID fraud, but you could equally do that and say that this cannot count towards someone's credit score.⁸⁴

The Committee is, of course, committed to ensuring that fraud is minimised, and also to ensuring that people are not offered too many potential credit commitments at one time. However, as shopping around increases, the extent to which multiple credit

81 Q 89

82 Ev 26

83 Ev 73

84 Q 45

searches are good indicators of fraud or over commitment may well be changing, and should be kept under review by the OFT.

Does the system deter shopping around?

39. We are particularly concerned by suggestions that the knowledge that multiple credit applications might affect someone's credit score could itself affect the way in which the market worked. Knowledgeable consumers are often considered the bedrock of a functioning market, a position reaffirmed by Mr Cates from the OFT, who stated that "active, informed consumers really do drive the markets".⁸⁵ Mr Van de Meer highlighted a group of people who may be adversely affected precisely because of their knowledge that there is some impact from credit searches. He noted his concern for:

the people who do not apply because of unknown parts of the system as the people who do apply multiple times and are, therefore, downgraded in their credit score, so it is the uncertainty around the system and the way it works that creates a fear of shopping around which is as much of a problem as the actual number.⁸⁶

These fears, whether founded or not, are also present in some of the consumer experiences outlined in Moneysavingexpert.com's submission.⁸⁷ Consumers made statements such as "Had I not have feared having a footprint left on my file I probably would have made at least three more applications" or "I wanted a decent APR but was worried about leaving credit search footprints".⁸⁸ Industry guidance may also have not helped in this regard. One guide from financial industry associations which was sent to all MPs to help them with constituency problems had the following advice:

Be patient, not persistent

If you're refused credit for a product or service, don't keep reapplying as this may lower your score. Wait a couple of months before making further applications.⁸⁹

Ms Hoyle felt that this was reasonable advice, arguing that "if I am turned down for credit [their advice is] to pause, to have a period of time—maybe there is a volume of searches; [...] for our members, eight or more over a short period of time, which would be indicative of possible over-indebtedness or of fraud".⁹⁰ She felt that such advice was about consumers "taking a responsible approach to managing [their] overall credit rating".⁹¹

40. **There is clear evidence that some consumers do not shop around because they fear that to do so will affect their credit score. Indeed, industry advice suggests that multiple applications "may lower your [credit] score". We consider there are likely to be serious**

85 Q 200

86 Q 62

87 Ev 42

88 Ev 46

89 *The Financial Fringe: A guide to personal finance: A practical pack to use with constituents*, March 2008, p 24

90 Q 160

91 Q 160

flaws in a market in which consumers are discouraged from shopping around, either because of unfounded fears or because of industry bias against multiple searches.

Possible Solutions

Mandatory quotation searches?

41. Mr Lewis thought that the problem of multiple searches was “an easy one to solve, to be honest”.⁹² He suggested mandating quotation searches and that would prove “a very simple solution to this particular problem”.⁹³ During our inquiry it became apparent that the use of quotation searches by lending institutions appears to have differed depending on the market. In the mortgage market, about 80% of all searches performed by mortgage suppliers on the Equifax database were quotation searches.⁹⁴ Equifax concluded that “where quotation searches are required by regulation (i.e. in the mortgage market) the process is working well and ensures credit search applications are typically only being performed when a formal application for a mortgage occurs”.⁹⁵ Experian also noted this difference is the regulatory environment on the use of quotation services: “The FSA included use of quotation searches in their mortgage rules and the (then) DTI recommended that all unsecured lenders that offer rate for risk products follow suit”.⁹⁶ Quotation searches appear not to have penetrated as far into the unsecured lending market since quotation searches have accounted for only some 2% of searches in the overall market (secured and unsecured) since the end of 2007.⁹⁷ Mr Martin explained that this may be due to the mix of products in the unsecured lending market. Since it may be that more unsecured lending products were not rated for risk, there would be less need for quotation searches.⁹⁸ Experian though suggested that from their client systems they had identified a ratio of two quotation searches for each application for both mortgages and personal loans.⁹⁹

42. Moves are already afoot to ensure the system for quotation searches operates better in the future. In its evidence to the Committee, the Office of Fair Trading stated that:

We are currently considering responses following consultation on our draft Irresponsible Lending guidance. We have decided to add a reference in that guidance explicitly covering the need to allow quotation searches as well as application searches where this is appropriate to the credit product. We will reinforce this by amending our licensing forms to gather information from lenders about the systems

92 Q 40

93 Q 40

94 Ev 41

95 Ev 41

96 Ev 26

97 Ev 41

98 Qq 86-87

99 Ev 73

which they do or will have in place in order to ensure their searches can where appropriate be recorded as quotation searches.¹⁰⁰

43. Quotation searches have been widely used in the mortgage market. There may be parts of the unsecured market where they should be used more widely, in particular where the price of a product is weighted for risk. We welcome the moves by the OFT to ensure its guidance is explicit on the need to allow quotation searches where appropriate, and recommend that it undertakes regular monitoring to ensure compliance.

Other systems

44. From the evidence we have received, it may be that the industry itself is beginning to developing other systems to counter this problem. Evidence from Confused.com highlighted a system it had developed, that reduced the number of searches on consumer's credit reference files. When using this tool for credit cards, the system has, according to Confused.com, the following benefits:

- It significantly reduces the number of applications a consumer makes for credit cards that, from the outset, they have little or no chance of obtaining.
- It ensures the customer is aware which products are attainable for someone of their credit profile (and so those who want to avoid rejected applications do not choose a higher APR product in the mistaken belief that they may not be eligible for more competitive products).
- Consumers who already hold credit cards are able use their product recommendations to assess whether they are overpaying on existing debt, potentially saving them money.¹⁰¹

We welcome the development of tools by the industry that may minimise the number of full searches that have to be made by consumers, and urge all industry participants to examine such systems, and see if good practice can be shared.

Consumer education

45. The credit search process is a daunting one, especially for the uninformed. A potential solution is for greater consumer education as to the process. Mr Van der Meer stated that "education is a core part of the solution that we would advocate".¹⁰² This opinion was shared by the British Bankers Association and the Finance and Leasing Association in evidence they submitted after our oral evidence session. They felt that our hearing had "reiterated the need for better consumer education, so that customers receive clear information about credit searches and the role they play both in the application process

100 Ev 76

101 Ev 59

102 Q 40

and in influencing a customer's credit profile".¹⁰³ Because of this, they had held initial discussion "with consumer groups to explore the development of a Consumer Forum, which would also look at how greater transparency can be achieved on how consumer data is used in delivering responsible lending decisions".¹⁰⁴ **We welcome the steps taken by the British Bankers Association and the Finance and Leasing Association to explore how further transparency can be achieved. We urge the credit reference agencies to ensure they are part of this process, so that a well thought-out, comprehensive approach can rapidly be achieved.**

Conclusion

46. The use of application search data in credit scoring has clearly been sensible in the past as a means to detect fraud or demonstrate potential inability to pay. However, it is not clear that this remains the case now that shopping around has become more common, and credit is harder to obtain, even for those who may be able to repay it. There is a fine balance of public interest between ensuring that fraud is prevented and consumers are protected from reckless lending, and ensuring that the market is subject to the disciplines of informed consumer choice. We have not been presented with unequivocal evidence that application search data is essential for loan providers, who have over 400 indicators that they may use.¹⁰⁵ Nor have we been given overwhelming evidence that it is a major source of direct consumer detriment, although the number of consumers making multiple application searches seems likely to rise. However, we are extremely concerned about the effect of the use of credit searches on market mechanisms, since, in principle, we believe the ability to shop around is not only an important means for consumers to assess the market, but also provides a key discipline on providers. We have been presented with some solutions which would reduce the adverse effects of the use of credit application search data in credit reference files; we consider that any acceptable solution must strike an appropriate balance between minimising fraud and over borrowing and ensuring the market is subject to normal disciplines. We recommend that the OFT look at this in its assessment of the credit market.

103 Ev 70

104 Ev 70

105 Ev 74

Conclusions and recommendations

Introduction

1. While it is right that the OFT works on issues such as debt management and high cost credit, it must also ensure a fair market. There are complex tradeoffs between the need to prevent irresponsible lending, and the need to ensure consumers feel free to search for the best deals on unsecured credit. In responding to this Report, we recommend that the OFT explicitly considers those trade-offs. (Paragraph 1)

Credit reference files

2. Given the importance of credit reference files to consumers who wish to access credit, we believe the assurance of data quality is paramount. We therefore recommend the ICO consider whether it should seek further assurances that data quality and data correction systems at credit reference agencies conform with the Data Protection Act, potentially by independent audit. There are concerns that credit applications rejected because of incorrect data may remain on file and affect future credit scoring, because being rejected for credit is seen as an indicator of risk. Accordingly, we also recommend that the Information Commissioner's Office considers whether it is fair for credit reference files to contain details of consumer application searches made while credit reference files were demonstrably incorrect. (Paragraph 14)
3. While a £2 fee for a consumer to receive their statutory credit file may seem modest, given that there are three potential providers of such reports, and regular checking may be appropriate, costs may begin to add up. We recommend that the OFT and the ICO consider again whether the charge remains reasonable. In particular, given the key role credit reports play, and the fact that relatively few consumers request their credit reports, they should consider whether there is a case for providing free access to increase take-up. (Paragraph 16)
4. Given the complexity of the information presented in consumer credit reference files, we recommend that the OFT and the ICO review the information presented in statutory credit reports, and any supporting documentation and assistance the credit reference agencies provide, and provide guidance on how best to ensure consumers understand this. (Paragraph 17)

Multiple credit searches

5. We recommend that in considering the impact of multiple credit searches, and credit searches more generally, the OFT assesses whether there are lessons to be learnt for how the UK system operates from other countries' systems. (Paragraph 23)
6. We note that application credit searches become less useful both for detecting fraud and as part of a credit scoring system, the older the search data is. We recommend that the ICO look at whether the 12 month period for storing search data is appropriate, given the principle that information "must not be kept longer than is necessary". (Paragraph 29)

Shopping around

7. Both the impact on credit availability from the recession, and the ease with which an application can be submitted via the internet has meant an increase in full applications being made. The industry seems to have responded by reducing their use in credit scores, or lessening the weight given to them. We recommend that the ICO examine whether there is a cut-off point beyond which the impact of search data on consumers' risk profiles is so weak that storing this data is unfair, since any benefit would be outweighed by its detrimental impact on customers. (Paragraph 33)
8. Consumers who have been quoted a price for a product expect to get the product at that price and not be refused on full application. (Paragraph 35)
9. We are not convinced that consumers when 'shopping around' distinguish between questions over price and availability sequentially, but rather think of them together. At present, the evidence is that repeated application attempts reduce some consumers' ability to access credit, or affect its price. We recommend that the OFT investigate the impact of multiple applications on the availability and price of credit to consumers. (Paragraph 36)

Fraud

10. The Committee is, of course, committed to ensuring that fraud is minimised, and also to ensuring that people are not offered too many potential credit commitments at one time. However, as shopping around increases, the extent to which multiple credit searches are good indicators of fraud or over commitment may well be changing, and should be kept under review by the OFT. (Paragraph 38)

Does the system deter shopping around?

11. There is clear evidence that some consumers do not shop around because they fear that to do so will affect their credit score. Indeed, industry advice suggests that multiple applications "may lower your [credit] score". We consider there are likely to be serious flaws in a market in which consumers are discouraged from shopping around, either because of unfounded fears or because of industry bias against multiple searches. (Paragraph 40)

Possible solutions

12. Quotation searches have been widely used in the mortgage market. There may be parts of the unsecured market where they should be used more widely, in particular where the price of a product is weighted for risk. We welcome the moves by the OFT to ensure its guidance is explicit on the need to allow quotation searches where appropriate, and recommend that it undertakes regular monitoring to ensure compliance. (Paragraph 43)
13. We welcome the development of tools by the industry that may minimise the number of full searches that have to be made by consumers, and urge all industry

participants to examine such systems, and see if good practice can be shared. (Paragraph 44)

14. We welcome the steps taken by the British Bankers Association and the Finance and Leasing Association to explore how further transparency can be achieved. We urge the credit reference agencies to ensure they are part of this process, so that a well thought-out, comprehensive approach can rapidly be achieved. (Paragraph 45)

Conclusion

15. The use of application search data in credit scoring has clearly been sensible in the past as a means to detect fraud or demonstrate potential inability to pay. However, it is not clear that this remains the case now that shopping around has become more common, and credit is harder to obtain, even for those who may be able to repay it. There is a fine balance of public interest between ensuring that fraud is prevented and consumers are protected from reckless lending, and ensuring that the market is subject to the disciplines of informed consumer choice. We have not been presented with unequivocal evidence that application search data is essential for loan providers, who have over 400 indicators that they may use. Nor have we been given overwhelming evidence that it is a major source of direct consumer detriment, although the number of consumers making multiple application searches seems likely to rise. However, we are extremely concerned about the effect of the use of credit searches on market mechanisms, since, in principle, we believe the ability to shop around is not only an important means for consumers to assess the market, but also provides a key discipline on providers. We have been presented with some solutions which would reduce the adverse effects of the use of credit application search data in credit reference files; we consider that any acceptable solution must strike an appropriate balance between minimising fraud and over borrowing and ensuring the market is subject to normal disciplines. We recommend that the OFT look at this in its assessment of the credit market. (Paragraph 46)

Formal Minutes

Tuesday 15 December 2009

Members present

John McFall, in the Chair

Nick Ainger	Mr Andrew Love
Mr Graham Brady	Mr James Plaskitt
Jim Cousins	John Thurso
Mr Michael Fallon	Mr Mark Todd
Ms Sally Keeble	Mr Andrew Tyrie

Credit Searches

Draft Report (*Credit Searches*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 46 read and agreed to.

Summary read and agreed to.

Resolved, That the Report, be the Third Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134 (Select committees (reports)).

Written evidence was ordered to be reported to the House for printing with the Report, together with written evidence reported and ordered to be published on 20 October.

* * * * *

[Adjourned till tomorrow at 2.15 pm]

Witnesses

Tuesday 27 October 2009

Page

Martin Lewis, MoneySavingExpert.com; and **Toby Van der Meer**,
Managing Director for Money, moneysupermarket.com Ev 1

Steve Martin, External & Regulatory Affairs Manager, Equifax; **Gillian Key Vice**, Head of Government Affairs and Regulatory Policy, Experian; **Eric Leenders**, Executive Director of Retail, BBA; **Fiona Hoyle**, Head of Consumer Finance & Fraud, Finance and Leasing Association; **Jan Smith**, Industry Relations Director, Callcredit Information Group Ev 8

Vivienne Dews, Executive Director, Corporate Services, Office of Fair Trading; **Nigel Cates**, Deputy Director, Consumer Credit Group, Office of Fair Trading; **Jonathan Holbrook**, Head of Data Protection Practice Private Sector, Office of the Information Commissioner Ev 19

List of written evidence

1	Experian	Ev 24, 73
2	Information Commissioner's Office	Ev 36
3	Equifax	Ev 39
4	MoneySavingExpert.com	Ev 42, 72
5	Callcredit	Ev 55
6	Confused.com	Ev 58
7	Council of Mortgage Lenders	Ev 59
8	UK Cards Association and the British Bankers' Association	Ev 63
9	Office of Fair Trading	Ev 64, 76
10	Finance and Leasing Association	Ev 65
11	Moneysupermarket.com	Ev 67
12	British Bankers' Association and the Finance and Leasing Association	Ev 70

Reports from the Treasury Committee during the current Parliament

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First Report	Proposals for European financial supervision: further report	HC 37
Second Report	Work of the Committee 2008-09	HC 134

Session 2008–09

First Report	Administration and expenditure of the Chancellor's departments, 2007–08	HC 35
Second Report	Pre-Budget Report 2008	HC 27
Third Report	Work of the Committee, 2007-08	HC 173
Fourth Report	Appointment of Paul Tucker as Deputy Governor of the Bank of England for Financial Stability	HC 34-I
Fifth Report	Banking Crisis: The impact of the failure of the Icelandic banks	HC 402
Sixth Report	Appointment of Paul Fisher to the Monetary Policy Committee of the Bank of England	HC 419
Seventh Report	Banking Crisis: dealing with the failure of the UK banks	HC 416
Eighth Report	Budget 2009	HC 438
Ninth Report	Banking Crisis: reforming corporate governance and pay in the City	HC 519
Tenth Report	Appointment of Professor David Miles to the Monetary Policy Committee of the Bank of England	HC 765
Eleventh Report	Appointment of Dr Adam Posen to the Monetary Policy Committee	HC 764
Twelfth Report	Banking Crisis: International Dimensions	HC 615
Thirteenth Report	Evaluating the efficiency programme	HC 520

Fourteenth Report	Banking Crisis: Regulation and supervision	HC 767
Fifteenth Report	Mortgage arrears and access to mortgage finance	HC 766
Sixteenth Report	The Committee's Opinion on proposals for European financial regulation	HC 1088

Session 2007–08

First Report	The 2007 Comprehensive Spending Review	HC 55
Second Report	The 2007 Pre-Budget Report	HC 54
Third Report	The Work of the Committee in 2007	HC 230
Fourth Report	Climate change and the Stern Review: the implications for Treasury policy	HC 231
Fifth Report	The run on the Rock	HC 56
Sixth Report	Financial Stability and Transparency	HC 371
Seventh Report	Administration and expenditure of the Chancellor's departments, 2006–07	HC 57
Eighth Report	Re-appointment of Dr Andrew Sentance to the Monetary Policy Committee	HC 454
Ninth Report	The 2008 Budget	HC 430
Tenth Report	Re-appointment of Mervyn King as the Governor of the Bank of England	HC 524
Eleventh Report	Counting the population	HC 183
Twelfth Report	Inherited Estates	HC 496
Thirteenth Report	Budget Measures and Low Income Households	HC 326
Fourteenth Report	Appointment of Lord Turner of Ecchinswell as Chairman of the Financial Services Authority	HC 916
Fifteenth Report	Appointment of Charlie Bean as Deputy Governor of the Bank of England	HC 917

Sixteenth Report	Appointment of Spencer Dale to the Monetary Policy Committee of the Bank of England	HC 1009
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Seventeenth Report	Banking Reform	HC 1008
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Third Report	Work of the Committee in 2005–06	HC 191
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Fourth Report	Are you covered? Travel insurance and its regulation	HC 50
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Seventh Report	The Monetary Policy of the Bank of England: re-appointment hearing for Ms Kate Barker and Mr Charlie Bean	HC 569
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Eighth Report	Progress on the efficiency programme in the Chancellor's department	HC 483
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Ninth Report	Appointment of the Chair of the Statistics Board	HC 934
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Tenth Report	Private equity	HC 567
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Eleventh Report	Unclaimed assets within the financial system	HC 533
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Twelfth Report	The Monetary Policy Committee of the Bank of England: ten years on	HC 299
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Thirteenth Report	Financial inclusion follow-up: saving for all and shorter term saving products	HC 504
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Fourteenth Report	Globalisation: prospects and policy responses	HC 90
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Session 2005–06

First Report	The Monetary Policy Committee of the Bank of England: appointment hearings	HC 525
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Second Report	The 2005 Pre-Budget Report	HC 739
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Third Report	The Monetary Policy Committee of the Bank of England: appointment hearing for Sir John Gieve	HC 861
Fourth Report	The 2006 Budget	HC 994
Fifth Report	The design of a National Pension Savings Scheme and the role of financial services regulation	HC 1074
Sixth Report	The administration of tax credits	HC 811
Seventh Report	European financial services regulation	HC 778
Eighth Report	Bank of England Monetary Policy Committee: appointment hearing for Professor David Blanchflower	HC 1121
Ninth Report	Globalisation: the role of the IMF	HC 875
Tenth Report	Independence for statistics	HC 1111
Eleventh Report	The Monetary Policy Committee of the Bank of England: appointment hearings for Professor Tim Besley and Dr Andrew Sentance	HC 1595
Twelfth Report	Financial inclusion: credit, savings, advice and insurance	HC 848
Thirteenth Report	"Banking the unbanked": banking services, the Post Office Card Account, and financial inclusion	HC 1717

Oral evidence

Taken before the Treasury Committee on Tuesday 27 October 2009

Members present

John McFall, in the Chair

Nick Ainger
Mr Colin Breed
Mr Michael Fallon
Ms Sally Keeble
Mr Andrew Love
John Mann

Mr James Plaskitt
John Thurso
Mr Mark Todd
Mr Andrew Tyrie
Sir Peter Viggers

Witnesses: **Mr Martin Lewis**, moneysavingexpert.com; and **Mr Toby Van der Meer**, Managing Director, Money, moneysupermarket.com, gave evidence.

Q1 Chairman: Welcome to this inquiry into credit searches, and this is the first of three sessions this morning that we are having. For the sake of the shorthandwriter, can you introduce yourselves please and your organisations.

Mr Van der Meer: I am Tobias Van der Meer from moneysupermarket.com.

Mr Lewis: I am Martin Lewis from moneysavingexpert.com.

Q2 Chairman: Now, in their evidence to us, the OFT suggest that there are few complaints about the impact of multiple credit searches, so I put it to you that this is all about nothing.

Mr Lewis: I think that, if people understood how credit scoring, credit rating and credit searches worked, they may well complain, but the bigger-picture issue here is that we have a completely untransparent system which the vast majority of the public do not understand. They still think we have a credit rating, like they do in the US, rather than each company credit-scoring you individually. They have absolutely no idea that, when they apply for an 8.9% loan, they may be given a rate of 30% interest and they have no idea that the fact that they have been given a rate of 30% interest, rejected it and applied for another piece of credit may well then stop them getting the next piece of credit. The reason that I think this is so important and why I am very glad that it is being looked at is because the public will not complain because the public do not understand how this works, but there is a simple principled issue that underlies all of this. When you apply for a product, you should know the price of that product and whether you will be accepted before it can impact your finances. The current situation is that, if I apply for a loan at 9%, I may well get given a loan for 30%, and in my evidence there is a chap to whom exactly that happened, I may then decide that I do not want that loan, which would be quite understandable if we are going to be honest, I then apply for another loan and the lender turns me down or has an impact of turning me down because I applied for the first product in the first place, and that seems to me to be completely abhorrent. Added to that is the fact that

a number of years ago a new type of search, the quotation search, was introduced which does not go on your credit file, but even Equifax's figures, in the evidence they gave to you, suggest only 2% of searches are quotation-searched. There is a system that could solve this, but it is not being used, and there is no justice. The simple principle is that it should not impact my credit score going forward unless I know what the price is and have actually decided I want the product, but it does right now and that is wrong.

Q3 Chairman: So one of the submissions we had stated that "the whole credit scoring world is shrouded in mystery and we are not allowed to know what each credit provider is looking for to get their typical rate, so the only way we can try to get it is to apply, and the fact that this then hinders you if you got offered a poor deal and want to try elsewhere is appalling and needs to be changed as soon as possible". Does that sum up the situation for you and indicate that consumer detriment exists in this market?

Mr Lewis: Consumer detriment and profiteering, and unfair profiteering, I might add. It is quite simple. Not only do lenders here get to advertise rates at 8.9% for a loan, of which 70% of people who apply will be rejected, but, of the remainder, only 66% will get the typical rate because that is how the loans work. The rest can be charged 30% and, if that customer does not want it, you can say, "Get lost! Go elsewhere", but, if you then try and go elsewhere, you cannot get the cheaper product because you have had this minor impact of an added search on your file that is absolutely anti-competitive and the system is designed to stop shopping around at desperate detriment to consumer choice. I know that what you are going to hear later is the cost and that this is a minor issue, and that is what the companies are going to say. Well, there is a binding principle that needs to be adhered to. Unless I know the price, it should not hit and hurt me, but that is not the way it works and there is an easy system so that it could work and the reason it has not been introduced is, pure and simple, companies' bottom lines.

27 October 2009 Mr Martin Lewis and Mr Toby Van der Meer

Mr Van der Meer: Perhaps I could add some data to the conversation, and that is not a criticism of Martin. We ran a survey with over 2,000 respondents this weekend to ask them what they thought of this issue, and I just wanted to share some of the results of that with the Committee, if you will allow me.

Q4 Chairman: Do not be too long!

Mr Van der Meer: Seventeen per cent of people complete multiple applications for a loan and that number rises to 24% of people in their twenties and 23% of people in lower income groups. Of all the population that responded to the survey, 46% did not know that making multiple applications hinders your credit score. That rises to 61% of lower income groups, ie, the groups most likely to be in need of credit, so we believe that, on the back of that, there is a consumer issue and in fact, when we asked consumers whether they thought it was fair, only 29% of consumers did think it was fair and everybody else believed it was not.

Q5 Chairman: So, at a time of recession, this could be impacting more on low income groups?

Mr Van der Meer: Indeed.

Mr Lewis: Very importantly at a time of recession, if I can point out, we are all now worse credit scorers than we were two years ago. Those people who have excellent credit scores now are getting the products which the people who used to have good credit scores did, those who have good scores now are getting the products which the people who used to have poor credit scores did, and those people who have poor credit scores now do not get any products at all, which means we are being rejected more often. A classic example of this is that Capital One has just launched a new card, it is called the 'Progress Card', and it is designed to rebuild your credit score. It is about 30% interest, but, if you pay it off, it reduces each month. Now, it is designed to rebuild your credit score, but, if you look on the application page, and remember, it is designed to rebuild your credit score, it says, "Only for applicants with good credit scores", so you are having to rebuild if you have got a good credit score. That is how tough it is out there at the moment, and what you get is this system where people are being rejected and the fact that they are being rejected is impacting their ability to get a new product elsewhere, but they are not being rejected necessarily because they have got what we would traditionally think of as CCJs and defaults, but they are just being rejected because they do not quite fit the requirements anymore.

Q6 Mr Fallon: Could you now answer the Chairman's original question? You spoke of a chap making an application and you referred to a self-selecting survey of 2,000 people. Martin Lewis, how many people actually are affected by this? How many people shopping for credit have their credit lowered?

Mr Lewis: The first thing to say is—

Q7 Mr Fallon: Let us have some numbers. I do not want another speech, I want to know some numbers. How many people who shop for credit have their credit rating lowered?

Mr Lewis: By applying for a new product afterwards, after rejection?

Q8 Mr Fallon: Yes, of those who apply, how many have their credit rating lowered?

Mr Lewis: The day that you require the companies to tell me how credit scoring actually works and publish their credit scoring data is the day I can answer that question.

Q9 Mr Fallon: So you do not actually know how many people shopping for credit—

Mr Lewis: The entire system is hidden from us and we cannot get the data.

Q10 Mr Fallon: Just a minute, we are here to ask the questions and you are here to answer them. What we need to establish is not just that the system is wrong, but how wrong it is and how many people are affected. You cannot tell me how many people shopping for credit have their rating lowered?

Mr Lewis: Well, I would say there is a 70% rejection rate on the standard product.

Q11 Mr Fallon: That is not the question I asked you.

Mr Lewis: As I will go on to explain, once you have an additional search on your file, it is conventional wisdom, including from the credit reference agencies in their submissions, that that has between a minor and a more substantial impact on your ability to get credit in the future, so 70% of credit card applicants and loan applicants, and I do not know how many that is, but I would guess at ten million a year, somewhere in that type of league.

Q12 Mr Fallon: Who have their rating lowered?

Mr Lewis: Well, everybody who applies for a new product has a search on their file. Having a search on your file impacts your ability to get new credit, and 70% of people—

Q13 Mr Fallon: I want to be clear what you are alleging. I quite accept that people do not understand the risks when they make these applications, I understand that and you have made that point very successfully, but I just want to be clear what you are actually alleging. You are alleging that ten million people who shop for credit have their rating lowered as a result? Is that right?

Mr Lewis: There is not such a thing as a credit rating and that is the problem with the question. There is not such a thing as a credit rating, each company scores you individually, therefore, I cannot answer the question because unfortunately that is not how the system works, but what I cannot say is that it is generally assumed, and in the submissions from the credit reference agencies—

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Q14 Mr Fallon: Why?

Mr Lewis: Because every company scores you differently. Some companies will not take that as an impact, but many companies will. The data is not published, it is hidden from us and, if you are going to berate my argument as somebody who lobbies for consumers because we have never been told the information, that seems to be a strange point to berate me on, sir.

Q15 Mr Fallon: No, we need to be clear here whether we are talking about ten million people, one million people, 100,000 people, 10,000 people or 1,000 people.

Mr Lewis: I would think it is in the millions, but I do not have that data because I do not come from that side of the argument.

Q16 John Mann: What happens when a mistake is made? For example, in July the Halifax Bank of Scotland double-paid every single credit card payment across the country, and I think it was around 60,000 people who were affected, taking many people into default at the time because they did it right at the end of the month. What happens when a mistake is made or, for example, two bank accounts are merged into one erroneously by a bank? What happens to the individual in that situation?

Mr Lewis: Well, I would think that, if you had a systemic issue, such as the Halifax, one would hope that the Halifax then solved that problem, but the bigger problem comes from a vicious circle—

Q17 John Mann: But it is not their problem. I am talking about the credit reference agencies and what happens then to the consumer when those mistakes are made by the banks.

Mr Lewis: If people do not check their file, they get screwed.

Q18 Mr Todd: Can I just explore the issue of data quality. It was partly touched on by John, which is the impact of a mistake by a company, but is there any evidence that the searches that are carried out do not necessarily tally to the individual credit information, the data source, which relates to the individual making the search? Does that occur?

Mr Van der Meer: We do not have any quantitative data to say how big that problem is, but anecdotally, from feedback on our forums, a lot of consumers, when they check their credit file, find issues with the quality of the data and then feel the need to take action. What we do not know is how many consumers do not look at their credit file and are impacted.

Q19 Mr Todd: Well, you are moving to exactly the point I am at, which is a bit about the point Martin made earlier. We have got some able consumers who know roughly how to fight their own corner and we have got a very large number of consumers who do not know their way round this issue at all, so, if there is something wrong with your credit file, erroneous

information placed on it through some issue in the past, that has a long-lasting impact which you do not properly understand.

Mr Lewis: There is a secondary impact as well which makes it even worse. You have got an error on your file and you apply and you are then rejected because there is an error on your file. You then make other applications and then later on find out that there is an error, go back to fix the error, but now, when you are applying, you get rejected because of all those searches that you have done trying to make applications successfully, and that is a vicious spiral which adds to this.

Q20 Mr Todd: I think we probably accept that a sharing or a pooling of data about credit is not a sensible approach.

Mr Lewis: It depends which data.

Q21 Mr Todd: Yes, but also the critical issue, and we turn to it later this morning, is about the governance of that data, how it is managed, how transparent it is and how it is communicated back to the customer who is affected. Have you got some suggestions of how one might address that failure?

Mr Lewis: For me, with the data as presented, we actually have a rather difficult scenario at the moment in that, when you apply to get your credit file through the statutory solution which is by paying £2, what you get is relatively difficult. There is an example of the document in here and, if you try to go through it, it is not that easy to do. Most of the people in this room would manage it, but I am not sure that every consumer out there would manage to get it. However, if you go online and sign up for your £60-a-year credit monitoring service, then you will find the data presented in a much more easy and beautiful way that you can understand and which would give you an indication.

Q22 Mr Todd: But the punters who are going to be most affected by this are not going to pay 60 quid a year to fund that.

Mr Lewis: My problem is that in the old days credit reference companies made their money from charging businesses and now they have become a consumer service as well and what they do is have different levels of service provision. What we now have is the statutory information you get has become secondary to the online information that you have to buy. If we took what they do online and made it part of a statutory provision, it would make things a lot easier for everyone.

Q23 Mr Todd: So, just to conclude this round of questioning, it is partly about the business model of the data-holders and how they relate to the industry and to the customer, so, for example, someone like Experian and how they function, is that one of the critical issues in this?

Mr Lewis: Well, in the general picture, I think, it is a sideline issue. Certainly, the lack of transparency of how credit scoring works, which is a mix both between the industry and companies, is a major issue.

The one thing that would solve all this is if they have to publish their credit scoring details before you apply, but that is never going to happen.

Q24 Ms Keeble: I wanted to ask you, Toby, a bit more about your data. The figures you read out are in line with GE Money Home Lending and you also say in your evidence that it is 75 to 85% of consumers who apply for a loan who will be rejected. Has that changed over the period of the credit squeeze?

Mr Van der Meer: Yes, we have seen two impacts. One is more consumers shopping around over the last few years, so the use of comparison sites, like Martin's and ours, has obviously increased, but just generally consumers shopping around, however they do so, whether it is in a branch or online, is increasing every year, so you have got more consumers who want to shop around. At the same time, accept rates in the industry have moved from around 50% to closer to 30%, so the ability of these consumers to easily find the products that are available to them and at the rates that are available to them is declining.

Q25 Ms Keeble: Given that there have been concerns expressed previously about credit being too easily available, do you think that a tightening of credit is necessarily a bad thing for consumers, bearing in mind that the concerns have been about multiple debt in the past?

Mr Van der Meer: I guess, from our perspective, that that is a much broader debate. The thing we would like to make sure happens is that consumers have an opportunity to figure out what credit is available to them and at what price. In Germany, we know that is possible. Here in the UK, it is very difficult.

Q26 Ms Keeble: I think one of my colleagues is going to ask about that. In your evidence, you also say that Nationwide has a different way of conducting the searches, such that it does not leave this footprint on consumers' credit. Can you just say something about that and whether it is possible for other providers to adopt a similar model?

Mr Van der Meer: Yes, and it is very similar to the German model whereby consumers have an opportunity to apply for a particular unsecured credit product through the use of a quotation search, and the bank then has the opportunity to tell the customer whether they are going to make credit available and at what rate without leaving a permanent footprint on record.

Q27 Ms Keeble: So others could quite easily adopt that model?

Mr Van der Meer: I think the argument will be that there is a fraud issue as a result of that. Our view is that there are other ways of tackling the fraud issue, including a better use of quotation searches as an indicator of fraud rather than relying on fraud searches.

Q28 Ms Keeble: In your evidence, and I wonder if it is general across the industry, on the comparison websites you get your money from the providers as a result of the applications that are made through your

websites. Is there not, therefore, a perverse incentive for the websites to have multiple applications, and I wonder, Martin, if your website is the same, but perhaps, Toby, you could answer that first.

Mr Van der Meer: The vast majority of our relationships with banks or lenders are on the basis of completed loans as opposed to completed applications.

Q29 Ms Keeble: That is yours. In your written evidence, I think I am right in saying, it says, "How we work for consumers—moneysupermarket.com receives payment from providers for every application received through our site".

Mr Van der Meer: Yes. The word "successful" should have been added to that sentence and then it would have been factually correct, yes.

Q30 Ms Keeble: Well, that is a fairly major difference.

Mr Van der Meer: It is, yes.

Q31 Ms Keeble: Is that general across the industry?

Mr Van der Meer: I do not know what relationships the other price comparison sites have built up.

Q32 Ms Keeble: Martin, do you know?

Mr Lewis: We are not actually a price comparison site, we are an editorial site, but we do not have the—

Q33 Ms Keeble: Well, do you know what the other sites do?

Mr Lewis: Yes, absolutely, and it is pretty standard across the industry. We get paid by people like this who provide the links for us because we will not deal direct with product providers generally, so actually, whatever they get, we tend to get a share of that and when we have links put into our articles.

Q34 Ms Keeble: Can I just come back on one thing because, when I read this, it says "every application", but obviously the word "successful" is missed out.

Mr Lewis: There are different ways to get paid, but generally it is accepted applications which count the most.

Q35 Ms Keeble: Accepted? Does that mean—

Mr Lewis: In other words, if you have got the loan and you took the loan out, they get paid. They can be paid just for clicks. There are other ways it works because it is how they negotiate a deal and the majority of times it is about accepted applications where, if you do not get the loan, they do not get paid.

Q36 Ms Keeble: So it is successful?

Mr Lewis: Successful, yes.

Q37 Ms Keeble: Because we have a difference in government in that an accepted application is different from a successful one, so it is a completed deal?

Mr Lewis: It would be a completed deal. Perhaps I can just answer the multiple application point because I do not care about multiple applications, I just care that, if I apply for a product, if I do not know what price I am going to get, so, if I apply for an 8.9% loan

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and I get an 8.9% loan, that is fine, but, if I apply for an 8.9% loan and I get a 30% loan, I do not think that should count as an application because that is not the product I applied for. It is the same on a credit card in that, if I apply for a cashback credit card at 15% interest and what I am actually given is a 30% interest credit card which does not give me cashback, I do not see why that has to hit my file going forward. It is not about multiple applications per se, it is about fairness and transparency on pricing.

Q38 Sir Peter Viggers: If the percentage of credit applications which are successful has fallen, have you a feel as to whether this is a change in credit ratings or the banks' unwillingness to lend because they have not the money? Do you have a feel for that?

Mr Lewis: I think the two are synonymous. As I say, the way this process works is that, when you apply to any lender, it scores you based on its wish-list of profitable customers, so, if it wants you, it will accept you, and what has happened is that customers who used to be perceived as profitable who would be salivated over are now not profitable, so they will not lend to you anymore, so their credit scoring criteria have toughened up so that they are only lending to profitable customers, so it is a combination of both, if that makes sense.

Q39 Sir Peter Viggers: Yes. I think I am returning to the survey that you made, Mr Van der Meer. How far do you think consumers are wary of making multiple applications? How aware are they of the situation in which there are problems?

Mr Van der Meer: We did not have data on that specific question from the survey, but certainly our view is that the consumers who are aware of how the system works tend to make only one application and, if they get accepted, they will just take whatever is given to them and so, to their detriment, they will not shop around. Other consumers, usually the lower income groups who are not aware of how the system works, will make multiple applications and will, therefore, worsen the credit available to them and the rates available to them, so you get a problem whichever way the system works, given the way it is constructed today.

Q40 Sir Peter Viggers: You are putting to us that we have an unacceptable situation partly because consumers do not understand the situation at all. Do you think that educating the consumers is a way ahead or are we beyond that? Would that simply reinforce the system and should the system be changed?

Mr Van der Meer: Our view certainly is that customer education is a part of the solution. We would like to see things go a step further, including the wider use of quotation searches, but certainly education is a core part of the solution that we would advocate.

Mr Lewis: I think this is an easy one to solve, to be honest. I just think you mandate quotation searches and I think it is a very simple solution to this particular problem. On the wider issue of education, the sooner we get financial education in the National Curriculum, then the sooner, as a nation, we will not

be second in the world cup of debt to the United States. We are a financially illiterate nation with over £1 trillion of debt. It is a dire and disgusting situation and I would urge all of you to try and encourage as much as you can to start educating people at the age of 14 about how credit cards work because, until we have that, this is going to carry on and you have to be protecting people by changing the law until we do.

Q41 Chairman: But there are obviously two issues here. It is not just consumer education, it is transparency, is it not?

Mr Lewis: Absolutely.

Q42 Chairman: So it is two-fold.

Mr Lewis: If you read the submission we put forward, just to explain how that worked, I send an email to 3.7 million people every week with money tips in and we asked them to tell you what they thought of how the situation worked, and we did not put them all in because we got a lot, but you can read page after page of people who either knew about this problem, who had got products at a much higher rate than they applied for or who had got products at higher rates than they applied for, were turned down and then found out later that it impacts their ability to get credit.

Chairman: I read them, but I fell asleep at ten past one this morning!

Q43 John Thurso: Toby, can I ask you, is not the recording of unsuccessful applications simply a direct contributor to market distortion?

Mr Van der Meer: Certainly, our view is that it is. The fact that consumers cannot go to one place and see what products are available, no matter what the rate is, is a massive barrier to shopping around, and I will come back to the numbers that we talked about earlier, but on any given 'Best Buy' table, there is only a 30 to 40% chance of a customer getting a particular product advertised on there at all and, of those 30 to 40% who do get a particular product, only two-thirds will get the rate that is advertised. When you take that backwards, that means that, of all the people who look at a 'Best Buy' table, the percentage that actually get a product and a rate that is advertised there is tiny, and that clearly is a big barrier to shopping around.

Mr Lewis: It might be interesting for you to note that, when I started doing what I do about ten years ago, every loan was a fixed rate, so the rate you applied for was what you got and over the last ten years, now, there is nothing in the 'Best Buy' tables that is not a typical rate, which means they're all rated for risk.

Q44 John Thurso: Martin, in their evidence to us, Experian say, "In general, consumers only make large numbers of applications for credit if they are being rejected by other lenders or if they are looking to commit fraud and are testing the decision system of lenders". How much is this a product of the Internet age?

Mr Lewis: Well, I think that certainly ease of application has definitely had an impact on this. What people do, quite rightly, is they are trying to see

if they can get the cheap rates, so they apply to a number of different places to see who is going to give them the cheap rate, and this is an endemic problem, that they do not know without applying and that is what makes people apply more. The thing that Equifax missed off is that they talk about rejection, and I am not sure whether you count being offered a 30% loan when you have applied for one at 8.9% as rejection, but I suspect that most customers would consider that to be being rejected. They then go and apply elsewhere to try and get the cheap product, which is what people like me tell them to, to try and find the cheapest debt, but unfortunately we cannot square the circle that then hurts them.

Q45 John Thurso: So the whole premise is really that either a refusal by the consumer or a rejection by a provider is equal to a negative credit score. What happens if we just simply say that that is not permitted in a credit search and the only things that should be recorded are successful applications so that people are aware of the credit people already have?

Mr Lewis: I would be happy with that solution. I would equally be happy with a solution where you can do an indicative quote, which is what a quotation search is, to be told what rate and whether you will be accepted and then to decide whether you apply or not on the back end, which is effectively the same thing. I think it would be a much better solution. As for fraud, most companies tend to use an agency like National Hunter to do their fraud scoring; it is slightly separate from the credit reference agencies. Now, I am certainly not arguing that we bar quotation searches from being sent to National Hunter so that they can weed out people for fraud based on quotation searches. If someone applies for 100 cards in a week, you would probably know it is ID fraud, but you could equally do that and say that this cannot count towards someone's credit score. That is what we are looking for and it is not difficult.

Q46 Mr Plaskitt: Have we got a unique way of doing credit scoring and searching in the UK?

Mr Lewis: It tends to be different. I am more familiar with the American system and the UK and I have not studied other countries. In America, you know your credit rating and you are a 734. That is your credit rating and you get a number. Here we have this sort of diffuse system where it can go as far as your applying for a current account which is advertised competitively, but that current account company is looking for good mortgage customers, so you are getting rejected because you are not sort of suitable for their cross-selling purposes rather than their direct purposes of a current account. The entire thing is complicated and I do say it within this sort of strange bubble, that in all the years I have been doing this and trying very hard, I have still never seen a credit scoring table and how it works because it is the most secretive thing out

there, so that is my assumption from years of talking to people, but I could not nail it down because we do not know though it would be lovely if we did.

Q47 Mr Plaskitt: We can tell you feel fairly strongly about this, but I wondered if you had spent some time looking around the world to see if there are other systems that you would advocate for us to consider and, if so, which ones.

Mr Van der Meer: We have not done a study across the world, but we are familiar with Germany because Moneysupermarket has a business there. In Germany, in 2006 or 2007, we believe, the use of quotation searches was introduced and they have now become a widely used capability by the banks and by consumers, so in Germany a consumer can go to a website or, for that matter, an offline place, complete an application which is sent to multiple banks at the same time who run a soft quotation search and come back with a quote to the customer on what credit is available to them and at what rate, allowing the customer to compare all the offers available to them to make a decision.

Q48 Mr Plaskitt: You have told us that Germany has a 'hard footprint' system. Can you just explain what that is?

Mr Van der Meer: In Germany, they have a credit bureau, the SCHUFA, and they run two types of quotations, a hard search equivalent to full credit score and a quotation search which is the equivalent of the UK one maybe with some slight local nuances. The quotation search can be run and is left on the footprint of the customer and the banks can see that for ten days, therefore, allowing them to take on any fraud issues related to multiple applications, and it is available to the consumer, I believe, for a year and possibly more than that, and a full credit search would stay on the record for both the banks and consumers for three years.

Q49 Mr Plaskitt: So would you suggest that that is a key feature that you would like to see in the system here, for example, in order to deal with the consumer detriment issues which, you claim, exist?

Mr Van der Meer: Interestingly enough, we believe all of the facilities are in place already to allow this to happen in the UK, but it is just a practice we chose not to adopt.

Q50 Mr Plaskitt: If you have got a paradigm, the next question is going to be: how far away from it are we and what needs to be re-engineered to get to the system which you see as a paradigm? You say it is easy to get to it.

Mr Van der Meer: I think the banks would be best-placed to answer. I suspect they would be worried about fraud and, in that case, there might need to be some reworking of the fraud algorithms to understand what happens when there are soft searches done, ie, quotation searches.

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Q51 Mr Plaskitt: Well, how do the systems that you like deal with fraud? How do they safeguard against fraud?

Mr Van der Meer: I am not familiar with how the banks in Germany do it, but obviously there is fraud in Germany and they have found a way to make that model work, so I guess the banks in the UK would need to have a look at how they did it.

Q52 Mr Plaskitt: So it is your contention that our system does not need fundamental re-engineering in order to get to a place that you would like to see it in?

Mr Van der Meer: That is correct.

Q53 Mr Plaskitt: It is relatively easy?

Mr Lewis: It was re-engineered. The quotation searches were introduced to fix this problem, but they are just not being used. That is the crux here. Was it in 2002 that they were introduced?

Mr Van der Meer: Yes.

Mr Lewis: It was basically on the back of mortgage applications because of people getting more competitive mortgages and that was hurting their credit score, so the quotation system, which mortgage companies use a lot more than credit cards and loan companies, was introduced where you get a quote, you are told the rate that you are going to get and it does not appear on your credit file when other lenders look at it. That system is out there, that system is available, but that system is less than 2% of credit searches and that is the problem.

Q54 Mr Plaskitt: And why is it so?

Mr Lewis: Well, I would suspect because there are arguments that it would then involve having two searches, but 70% of people are having a quotation and then an application search and 70% of people are rejected, so I do not think that is a cost one, but I suspect that the credit reference agencies get paid more for application searches, though I do not know if that is true, but quite simply because the existing system works in the lenders' favour. It means that you can apply for 8.9%, and we have got people who have done this and there is a credit card example in our notes of somebody who applied and I cannot remember the exact initial rate, but let us say it was at 10% and they got a card at 25%—forget the numbers, the principle is what counts—and it was only two months after they got the card that they realised that their interest rate was 25%. I could actually read to you the letter that they get: "Good news! You've applied at 10%. Your loan application has been accepted and your documents, including the APR we can offer to you, will be sent in the next available first-class post. Upon receipt of your agreement, please read, sign and return to receive your funds". Now, they have applied at 10%, but how many people actually read that and realise that, when it comes out, they get it at 25% APR and then spend on it for two months? It is a very profitable system, what we have got right now, and there is no

vested interest for anybody in the industry to change it, it is only in the consumers' interests.

Q55 Chairman: Does a quotation search in the UK guarantee both acceptance and the rate?

Mr Lewis: You would be told and that is the answer you get, whether you will be accepted and the rate. That is correct, is it not?

Mr Van der Meer: That is how it works in Germany. I do not know how it works in the UK, but my understanding from some of the submissions to the Committee is that there is an issue in the banks' acceptance.

Q56 Mr Love: Can I just ask Martin Lewis about the US system. Is there a benefit from introducing the US system and what would be the costs of bringing it to this country?

Mr Lewis: There is certainly a benefit of transparency, that you know how well your score is. I write articles on how to improve your credit score and it is quite a nebulous art, if I am going to be honest. There are things you can do, you know, get a credit card at 50% interest, spend £50 a month on it and pay it off in full or get two and you do even better. Yet one of the notes we put in the submission is of someone who went to Equifax, were told they had a perfect credit score, applied for a product and got rejected, and that is the problem with our system, that the information on the credit reference files, when you apply to a lender, is coupled with information on the application form and that lender's past dealings with you, so your own bank will have a very different view of you from other companies. It is just a hotchpotch of lack of transparency, whereas in the States you get the actual number of how good your credit score is and what the advertisers do is they say, "If you've got a credit rating of over 900, you can get this product" and, therefore, you apply.

Q57 Mr Love: But what we cannot figure out is whether the introduction of the German system, if I can call it that, would solve the problem or do we need to go further and introduce parts of the US system to improve transparency?

Mr Lewis: I think that would be a massive, radical overhaul, and I think that this particular issue, and there are many others obviously, is one you could solve with iterative change just by making the quotation search work. Yes, great, bring the American system in, but that is a big issue.

Q58 Chairman: If I could sum up this session, you are telling us that many consumers do not know the effect of credit searches on their ratings, that people are having to shop around more as credit is harder to get and that rates are often higher than advertised. Perhaps you can give us a ballpark percentage.

Mr Lewis: Well, of 100% of applicants, 70% will be rejected. Of the remaining 30%, 20% of that 30% will get the rate advertised and 10% will be offered a different rate, so, of 100 people, 70 get rejected, 10 get a different rate and 20 get the advertised rate.

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Q59 Chairman: And, if they reject the higher rate and they look elsewhere, they damage their ability to get good rates from other lenders?

Mr Lewis: Yes.

Q60 Chairman: That is inherent in the system?

Mr Lewis: Inherent in the system. Now, it could be very marginal and it might not impact them because every lender scores differently, so with some lenders it might not have an effect, but it could also be the straw that breaks the camel's back which pushes them over the edge. For me, it is a principle issue. By applying for a product to find out the price, that should not impact my ability to get another product on the back end; pure principle.

Q61 Chairman: This market distortion then could be sorted by greater transparency or by greater quotation searches?

Mr Lewis: Yes, on credit cards and loans, mandatory quotation searches until you know what rate you are getting.

Q62 Chairman: Would you say that, in practice, this is a big rip-off for consumers?

Mr Lewis: I think it is a mammoth rip-off. It is a completely hidden charge. It is a way of allowing lenders to advertise what look to be hideously competitive rates and to come top of the 'Best Buy' tables when actually they are advertising rates of 8.9% and they sometimes give consumers rates of 30%. That is not a competitive market, that is just an

absolute rip-off. If you look at the anger in the notes that we have forwarded from people, they feel completely shafted, and I would say justifiably.

Mr Van der Meer: Our concern is as much for the people who do not apply because of unknown parts of the system as the people who do apply multiple times and are, therefore, downgraded in their credit score, so it is the uncertainty around the system and the way it works that creates a fear of shopping around which is as much of a problem as the actual number.

Q63 Chairman: So that is a big issue, the fear of shopping around?

Mr Van der Meer: Yes. That, for us, is a bigger issue than the percentage of customers who actually get downgraded by doing four or more applications.

Mr Lewis: It hurts you to find the cheapest, and that is not good.

Q64 Chairman: So this is a hidden problem and, in your words, Martin Lewis, a "hidden scandal"?

Mr Lewis: It is absolutely a hidden scandal. It is not the biggest one in the world, but what is deeply frustrating for me about it is that it is one of the easiest ones to fix and it has been going on a long time. It was fixed, but the medicine was never taken. It was introduced a long time ago and it is time that someone pushed that button and said, "Go take the medicine and give the best deals to consumers", because we are meant to be in an era of responsible lending and I do not understand how someone with a bad credit score is the one that you give the really high rate to. How is that responsible lending and how is that helping them repay their debts?

Chairman: Well, thanks very much for attending; it was quite helpful.

Witnesses: **Mr Steve Martin**, Manager, External and Regulatory Affairs, Equifax; **Ms Gillian Key-Vice**, Head, Government Affairs and Regulatory Policy, Experian; **Mr Eric Leenders**, Executive Director, Retail, British Bankers' Association; **Ms Fiona Hoyle**, Head, Consumer Finance and Fraud, Finance and Leasing Association; and **Ms Jan Smith**, Director, Industry Relations, Callcredit Information Group, gave evidence.

Q65 Chairman: Good morning, and welcome to the second evidence hearing we are having. Can you introduce yourselves for the shorthandwriter, please.

Ms Key-Vice: Good morning. My name is Gillian Key-Vice. I am Head of Government Affairs and Regulatory Policy at Experian. I have responsibility for regulatory issues associated with the acquisition, processing and delivery of data.

Mr Martin: My name is Steve Martin. I represent the credit reference agency Equifax. I have regulatory and government relationships.

Ms Smith: My name is Jan Smith. I am Industry Relations Director at Callcredit and my role is very similar to Gillian's and Steve's.

Mr Leenders: I am Eric Leenders from the British Bankers' Association, and I am the Executive Director responsible for retail banking.

Ms Hoyle: I am Fiona Hoyle, Head of Consumer Finance at the Finance and Leasing Association.

Q66 Chairman: Good morning and welcome. Now, if I were to move house and, therefore, take up a new mortgage, home insurance, perhaps buy a new car,

change my car insurance, change my electricity and water providers, how many potential credit application searches would be recorded?

Mr Leenders: Chairman, I am looking across to the credit reference agencies, but—

Q67 Chairman: I think we will let them answer since they are involved in it, Eric.

Ms Key-Vice: It would depend on whether you were actually applying for the credit.

Q68 Chairman: I am applying.

Ms Key-Vice: If you were applying, then for a proportion of those applications a search would be recorded.

Q69 Chairman: So how many then?

Ms Key-Vice: You were talking about a mortgage, so it would depend how—

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Q70 Chairman: I am intending getting a new mortgage, home insurance, buying a new car, changing my car insurance, changing my electricity provider and changing my water provider.

Ms Key-Vice: Well, before I get into the detail of that, can I just explain how the system actually works because there were a couple of statements made—

Q71 Chairman: No, I think we will get that later on. I am just asking how many as I am interested in that. Will somebody tell me?

Ms Key-Vice: You would normally get one for each.

Ms Hoyle: Much would depend on your utilities, as that would not necessarily involve a credit search, as such. If you were buying a new car on HP or conditional sale, then there would be a credit search carried out.

Q72 Chairman: So I could have at least six credit application searches on me, and that is it? Okay. Would my credit record be impacted in such a scenario should I then wish to change my credit card in the next month?

Mr Leenders: I think I will have to pick up on that, Chairman. From what you were saying, I think that the mortgage application would typically rely on some form of footprint search, so actually that search would not necessarily be taken into account in the context of applying for further credit. I think you mentioned in that that there was the purchase of a car and that would be a personal loan and typically perhaps it could be hire purchase and, if there is credit insurance alongside that, it is typically bundled as one credit application, so there would be potentially a search in that. If we just stick with those—

Q73 Chairman: Eric, we have a lot to get through this morning and we do not want to be confused because the issue here against the industry is that there is a lack of transparency and there is confusion, so, as a committee, we want to try and get to the point. Would my credit record be impacted by such a scenario?

Mr Leenders: There are two circumstances, Chairman, a transactional loan and a relationship-based loan. In a relationship-based loan with a personal current account typically alongside, actually the real value in understanding the risk comes from the operation of the personal current account.

Q74 Chairman: So it could be impacted?

Mr Leenders: Well, the fact that you have applied for credit elsewhere would have, at best, a very marginal impact. If I could just move across to the transactional credit where you do not necessarily have the detail of the day-to-day transactions through a personal current account, then credit score models for those transactional loan providers might place a greater emphasis on the number of searches that are made because it has been proven historically

that there is a predictive value in default from customers who make a number of credit applications.

Q75 Chairman: So searching for unsecured credit appears to be like searching in the old Soviet Russia, that you can get the price without any worry, but then you are told that you cannot get the product. What is the use of that?

Mr Leenders: Well, with respect, Chairman, I do not recognise some of the numbers that were quoted earlier, an 8% and 30% differential.

Q76 Chairman: Well, we have got a lot of information here which has been sent to us on it.

Mr Leenders: I have seen the evidence as well and, I have to say, from the discussions I have had with our members, potentially there is an impact, I do not deny that, but what I would have to say is that different lenders apply different techniques. There are some, and I think you mentioned Nationwide, who use footprint search technologies, and I think Barclaycard is another. One of the case studies relates to NatWest and NatWest use a slightly different approach where they actually sit down with the consumer and work through income and expenditure and affordability and, from that discussion, can give a price that would align with the application as it is made, so going into the agreement, the consumer is quite clear, for example, what the rate will be. What we have overlooked of course—

Q77 Chairman: Eric, sorry, but we have had submissions here from people and I looked at it last night and this goes across the whole industry. There are 20 companies, being NatWest, RBS, Barclays, Black Horse, A&L, Lloyds, Egg, North Finance, Virgin, MBNA, Halifax Plus, Sainsbury, Marbles, Asda, Capital One, Abbey, HSBC, Lombard Direct, Welcome Finance, and others, so this seems to be a whole-industry issue here. These are from consumers, Eric.

Mr Leenders: If I may, I will try not to repeat that list, but we have tried to analyse the case studies which were submitted as part of the evidence. What we cannot get from those case studies are specific examples where the consumer has been disadvantaged as a direct consequence of using any type of interrogation for that essential search.

Q78 Chairman: It seems pretty obvious from our first meeting. Experian, if I can ask a question of you, you state that shopping around for credit “is not about whether a lender will provide the credit”, but is about how much the credit would cost and whether it is the right product for that consumer.

Ms Key-Vice: That is correct. That is the agreement that was made jointly between the industry and the Information Commission, and I can tell you that we have over 233 clients that are recording quotation-type searches with us.

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Q79 Chairman: Okay, but my question to you there was: what evidence do you have that people do not assume, if a price is offered, that the product will be available?

Ms Key-Vice: Well, the guidance is that, when people are shopping around, and this is from the FSA website, it is about the right product for them, for their circumstances, and how much it will cost, and the process for quotation searches was to deal with the issue when access to credit reference data was required to calculate that price, which obviously it is not always because some lenders do not rate for risk and even those that do rate for risk do not always use credit reference data to do that. For example, in the case of a mortgage, one of the risk factors might be loan to value and it is not necessary to contact the credit reference agency to perform that calculation.

Q80 Chairman: So what evidence do you have? I am looking for some figures here, some idea.

Ms Key-Vice: We have run some statistics about the proportion of consumers that have more than five credit searches within the critical period which is three months and, according to our statistics, only 7% of consumers have that number of credit searches and, of those, a small proportion would be impacted because, as we explained in our evidence, this is about the cumulative impact together with other risk information.

Mr Leenders: Chairman, if I may, that is the key point, that it would be inappropriate to look at search data in isolation; it is one component of a blend of factors that assess risk. At the end of the day, all we use credit scoring and behavioural scoring for is to understand the likelihood that that consumer will be able to repay their credit and that is it. There has been a lot of talk about how this is being gamed in some way to profiteer. The principles of reciprocity, the way in which we share lending data, it is absolutely unequivocal—

Q81 Chairman: Before we go on then, why is there such a vast disparity between what the previous witnesses were saying and yourself? Why have we got this situation because this is an issue for us, as a committee?

Mr Leenders: I think we have been trying very hard to understand this vast disparity in the last month or so since we were called to give evidence. Certainly, when you look at the differentials for, let us say, a personal loan product of the major banking groups, you are talking single-digit percentage differences between the highest and the lowest. This (example quoted earlier) is an order of magnitude of something like 22%, and I would have to take that away, Chairman, and have a look at that.

Q82 Sir Peter Viggers: Of all the people seeking credit across the board, what percentage seek quotation searches?

Mr Martin: The current figure that Equifax have for the clients that use our services is that around about 2% of all credit applications are going through a quotation search.

Q83 Sir Peter Viggers: I have your written evidence in front of me and initially it was about 1% and it then went to 2%.

Mr Martin: Yes, it went as high as 6%. They are driven predominantly by the mortgage market and, as the mortgage market has reduced with the recession, then we have seen our percentages reduce as well.

Q84 Sir Peter Viggers: But the percentage used in mortgage searches is really very high.

Mr Martin: Yes, it is.

Q85 Sir Peter Viggers: So it follows that, if we are taking an average across the piece, the risk of the average is extremely low.

Mr Martin: That is the analysis that we have got at Equifax.

Q86 Sir Peter Viggers: So is the answer that quotation searches can be quite useful in a large product where one can obtain the quotation first and then negotiate, whereas it is pretty well useless in a credit card search?

Mr Martin: Well, it really comes down to the mix of products. If the product is priced for risk in the typical APR scenario, then there is more of a need to do the quotation search, but there will be more unsecured products that are not based on that, so, therefore, less requirement for the quotation search.

Q87 Sir Peter Viggers: So how useful are quotation searches for non-risk-based, priced products?

Mr Martin: Well, they are used to identify the quotation and the APR that is given back to the customer and nothing more than that.

Q88 Sir Peter Viggers: But surely availability is as important, as the Chairman has pointed out, to someone buying a product as price?

Mr Martin: Yes, absolutely. The quotation search is used for the price and it is not used as an absolute indicator of whether the application would be accepted.

Q89 Sir Peter Viggers: Mr Leenders, you referred to 'footprint searches'. Can you explain that? Does it impact on the applicant's credit rating?

Mr Leenders: There are two types of search, and one of course is the quotation search and one is the application search. The quotation search does not have an impact whatsoever on the credit assessment, whereas an application search does. I think the point is being made that a number of searches in a short period of time is indicative of two things: first, the credit risk; and, second, of course the fraud risk. Actually, in terms of quotation searches, the fraud risk is a lesser issue because of course a fraudster simply wants access to finance, so will be applying on multiple occasions to access as much money, assuming somebody else's identity, as possible, which is why application searches are important in that regard.

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Q90 Sir Peter Viggers: But footprint searches, over which the customer has no control at all, do impact on the way he is perceived.

Mr Leenders: Well, not in the context of the quotation search. As I mentioned earlier, there is an iterative, cumulative effect for application searches, and I think the number referred to typically across the submissions that were made in writing was around about five in around about three months. Those searches are held on file, I think, for 12 months and of course the value of that data in determining risk and propensity to repay rather dilutes over time, so the value of that data after the initial three months, for example, after six months becomes a less significant issue on the score card, and actually in some score cards now they are not used at all.

Q91 Sir Peter Viggers: But the customer can, without his own knowledge, be impacted by the number of footprint searches over which he has no control.

Mr Leenders: I think the point I am trying to make is that yes, that is a theoretical argument, but actually in practice that is, from where we sit as representatives of the banking sector, a very, very small percentage indeed. If you were to continue to press me on this point and to ask where in all those different data lines that are provided in an assessment or in some ranking would application footprints sit, it would not even be in the top ten.

Ms Key-Vice: Perhaps I can just jump in here and clarify one point about the matter of it being without their knowledge. There is a data protection requirement that organisations have a privacy notice and they get the consent of the consumer before they perform a search, whether that is a quotation search or an application search, and, as part of the privacy notice, they should say to the consumer what impact that will have on their credit report going forwards.

Q92 Chairman: We have just been told that all the 'Best Buy' credit cards are rated for risk. Is that true?

Mr Leenders: I would not know, Chairman, as, I have to say, in my line of work we do not assess pricing of risk.

Chairman: Anybody else within the industry, is it true? This is a big issue. Okay, so we will examine that further.

Q93 Mr Love: You mentioned earlier that quotation searches had gone up to as high as 3%, but had fallen back again. We heard earlier on that they had been introduced comprehensively in Germany. What is the problem here in the United Kingdom? Why are quotation searches not used much more comprehensively than they have been? BBA might want to touch on that perhaps.

Mr Leenders: I think again that the reason why this data is shared is for the promotion of responsible lending and the prevention of over-indebtedness. The reason why application searches have a value in that context is that they do predict some higher risk in certain circumstances for certain consumers and that is why the data is shared. Quotation searches do

not necessarily have that additional functionality because you can use application searches to reach the same conclusion. I guess it would be another line of data that could be included, but actually, as the banking industry, we are rather moving away from the inclusion of search data in credit scoring models rather than including more search data in search models as more sophisticated techniques come on line and one, for example, I mentioned of course was behavioural data through personal current account performance.

Ms Hoyle: If I could just add to that, what we have seen is that searches are only a small part of that credit scoring process and the feedback that we have from our members is that in recent years they have recognised that customers are shopping around more. A couple of years ago, if you did have three or four searches within a short period of time, then that would feed into the credit score. But now customers are actively shopping around (and even more so in the current market) and some lenders are saying that actually seven or eight searches within a period of time may not be unusual and so should not adversely affect a credit score

Q94 Mr Love: If I may say so, because we do have limited time, that sounds like an argument for more quotation searches rather than less. What I am trying to get at is why this has not been introduced. We have been told by others that it is to do with fraud. Can perhaps one of the credit reference agencies say whether that is high on the list of concerns in this area and what it is we need to do in order to allay industry fears about fraud?

Mr Martin: Fraud is an element, but I think it can be controlled. All I can say from an Equifax point of view is that the quotation search facility is available to be used. If our clients wish to use it, we can switch it on for them.

Q95 Mr Love: Why are the industry not using it? Frankly, I have not heard an argument so far as to why it is not much more widespread than it is.

Mr Martin: I think that wrongly it comes back to what I mentioned earlier, that under the current rules the quotation search is performed when there is a specific request for a price quote for that particular product. If that price quote does not need to be evaluated via the data of the credit reference agency, then it is not taken up and the search is not performed. The rules around the mortgage market, where it is more regulated, have seen a complete shift so that there are more quotation searches done.

Q96 Mr Love: It has been suggested that we make this mandatory—quotation searches. What would the industry's response to that be?

Mr Leenders: I come back to the point that was made earlier; it is not going to affect materially the risk assessment going forward—

Q97 Mr Love: You would be relaxed about it?

Mr Leenders: I just wonder if there is a benefit in it because, actually, there are other ways, as I think I have already tried to demonstrate, that you can

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provide the price that a consumer might ultimately pay without necessarily building in a quotation search process.

Q98 Mr Fallon: Can I just come back to Experian? You said that only a small proportion of applicants would have their rating impacted. The website witnesses this morning told us it was millions. What does “a small proportion” mean?

Ms Key-Vice: We explained in our evidence that the use of application searches in small parts is an iterative process and it has an impact with other high-risk characteristics, and looking at the evidence from Martin Lewis with those details from individuals, we believe that very few of those were actually caused by searches. It is likely that they believe it was, but looking at some of the information that people have provided about their circumstances, it is almost certain that other information had a much greater impact, such as high balances or being self-employed.

Q99 Mr Fallon: Let us have your answer: you said in evidence to us: “. . . we at Experian generally expect more than five credit applications within a three-month period to have a negative effect.”

Ms Key-Vice: That is correct.

Q100 Mr Fallon: So what is the answer to my question? When you say “small proportion” what is the percentage of applicants, in the end, whose credit rating is impacted?

Ms Key-Vice: About 7% of applicants would have more than five credit searches within a three-month period, but of those they would only be only significantly impacted if they had lost points for other things, such as high balances or large amounts of credit.

Q101 Mr Fallon: In the end, of the 7% who make more than five applications in three months, what proportion of that 7% would be impacted? Approximately?

Ms Key-Vice: Without scoring the entire population it is quite difficult to say, but it would be significantly less than 7%.

Q102 Mr Fallon: So 7% of the 7%?

Ms Key-Vice: No, sorry, significantly less than 7% of the whole, but I cannot say what proportion of that 7%, at this stage.

Q103 Mr Fallon: How many people?

Ms Key-Vice: I cannot say that, at this stage.

Q104 Mr Fallon: Is it one million? Is it 100,000? Why does nobody here have any numbers?

Ms Key-Vice: Because we would have to score the whole population to do that.

Q105 Mr Fallon: You told us of 7%, and not all the 7% will be impacted. How many will be?

Ms Key-Vice: Until we score the whole population, I cannot say.

Q106 Mr Fallon: Half of 7%?

Ms Key-Vice: I would say it is certainly less than half.

Q107 Mr Fallon: Less than half of 7%. So it might be less than 3 or 3.5% of the total number of applications?

Ms Key-Vice: Possibly, yes.

Mr Martin: If I can clarify this, we split that 7% down by looking at the profile of the applicant—some people with a thin file and not much credit information, someone with a bad reference already, someone with a good reference. The biggest impact by far is on the person with limited amounts of credit at this particular point, but that is only a very small proportion, so therefore I would suggest the figure would be somewhere below 2%.

Q108 Mr Fallon: Below 2% of all the applicants who apply in that way?

Mr Martin: On that particular characteristic. What you also have to remember is that that is just one of the elements that go into the overall decision, and there may be another dozen pieces of information which are utilised to make that final credit decision.

Q109 Chairman: One per cent of 30 million is still quite a lot of people, if that is the case. Is that right?

Mr Leenders: Chairman, I think you are absolutely right. We are trying to identify those consumers—

Q110 Chairman: We are trying to get numbers here. We are getting somewhere, slowly. One per cent of 30 million. That is good.

Mr Leenders: We are trying to identify those consumers in that 1% of 30 million people—

Q111 Chairman: A terrible lot of people. That is the idea we are trying to get.

Mr Leenders:—that are at a higher credit risk.

Q112 John Mann: A married couple where everything—credit, mortgages, the lot—is in joint accounts. Is there any reason why one would have a vastly different credit rating to the other?

Mr Martin: Their profile, if they basically have credit that is continually in joint names—

Q113 John Mann: Yes, let us say for 25 years.

Mr Martin: Then as far as their bureau information is concerned, that would look very similar. Obviously, the final lending decision also includes all the other information that is taken into account in terms of the particular details of that individual you have got from the credit bureau, and so therefore there may be a variance depending on whether one person is employed, self-employed, how long they were employed for, etc.

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Q114 John Mann: If they have both got similar employment records?

Mr Martin: Then you will expect a similar result.

Q115 John Mann: How might it happen that that would not be the case? What could go wrong in the system?

Mr Martin: In practice, the majority of people these days do not apply for everything in joint names; they will have individual credit records. A credit card, for example, is only taken out in a single person's name; that is the record that it exists on in the credit reference agency.

Q116 John Mann: So the difference would be whose name the application was in, not in any of the financial history and transactions, in reality?

Mr Martin: When a credit assessment is made, that is made of that individual and, therefore, you look at that person's credit history to make that decision, in the main.

Q117 John Mann: So, depending on who puts in the applications, despite the fact it is all joint accounts in every sense, in all financial dealings, it could be a different credit rating, despite the fact that material facts are no different?

Mr Leenders: Can I just—

Q118 John Mann: I am correct in that, from what you said.

Mr Martin: Yes, but that scenario would seldom occur.

Q119 John Mann: So there is a weakness in the system. How is that weakness being addressed?

Mr Leenders: If I can step in there, that would be addressed in the behavioural scoring sector. If an individual who has a joint account with a person, or current account provider, then applied for credit—say, a loan—their performance of that joint account would be considered in the context of the affordability of the credit being applied for.

Q120 John Mann: Yes, but who does the application is going to make a difference, is it not?

Mr Leenders: No, because the assessment of behavioural scoring assessment, as opposed to the credit score—

Q121 John Mann: But it is joint behaviour. You are wrong. It is joint behaviour; it is all joint accounts. The difference is—and it is a weakness in the system, is it not—the name in which the applications for credit have been made?

Ms Key-Vice: If I could step in here, please, not all accounts are possible to be joint, but of those that are, if they are joint they will be taken into account whoever applies for credit.

Q122 John Mann: That is not true, is it?

Ms Key-Vice: If the joint—

Q123 John Mann: With you that is not true.

Ms Key-Vice: A joint account is registered in both names on the credit reference agency. However, as Steve has explained, a credit card is not a joint account; it is a sole name with potentially a second person on it. Also, lenders can take into account another party who is linked to the applicant. So if people are operating as a financial unit they can be considered together, so that what you are alluding to does not exist.

Q124 John Mann: So the only difference then would be who the lead name of the credit card is in, despite the fact that payments would be joint. Despite the fact that everything else is managed jointly, the name in which the credit card is taken as the lead name. That is a weakness in the system, is it not? How much would it cost for me to get a rating from Experian?

Ms Key-Vice: To get a credit report will cost you £2 if you go for a statutory report or if you signed up to CreditExpert you get the first 30 days free.

Q125 John Mann: On your website you can only apply by deduction from a credit card, can you not? Why is that?

Ms Key-Vice: You give the credit card details and you have 30 days to cancel it if you so wish.

Q126 John Mann: Therefore, the only way with Experian that you can apply is by having a deduction from your credit card. There is no other way, is there?

Ms Key-Vice: If you are applying to CreditExpert that is true. If you are applying for a statutory report you can send in a cheque or a postal order.

Q127 John Mann: Your website does not say that, does it?

Ms Key-Vice: With respect, it does say that. On the application form it does.

Q128 John Mann: But your website does not direct people to do that. What percentage of people pay to a credit card for your checks for your customers?

Ms Key-Vice: We have a 5:1 ratio of consumers coming through the CreditExpert route, so one-in-six are applying for a statutory report. I do not have the figures to hand of what proportion of those pay by cheque or postal order. Clearly, it is lower because most people want to use a debit or credit card.

Q129 John Mann: You are there giving the consumer a credit rating, but in order to do so the majority of people are following your direction on your website, whereby there is a deduction off their credit card that they then have to cancel with you, at some stage in the future, to stop that deduction taking place. Is that good consumer practice?

Ms Key-Vice: We get a lot of consumer reports that they very much like the Credit Expert product. I think that is borne out by the feedback that we get from them.

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Q130 John Mann: What happens if there is a mistake in data entry, by either a bank or yourselves?

Mr Martin: The process is laid down in statute for this. The consumer can notify us or the lender directly of a potential error. That error is then immediately investigated with the source of the data, typically the lender. That lender has 28 days to investigate and, if necessary, resolve the problem and make the amendment on the credit reference agency report.

Q131 John Mann: Who informs the consumer?

Mr Martin: The consumer is advised once the correction—

Q132 John Mann: Who informs the consumer?

Mr Martin: I am sorry—in terms of?

Q133 John Mann: That that has happened, and that the changes have been rectified?

Mr Martin: The credit reference agency will contact the consumer—

Q134 John Mann: How?

Mr Martin:—give notice to the consumer.

Q135 John Mann: How?

Mr Martin: If the request to make the amendment had come in in writing, on paper, that will be sent back out on paper—the letter will be written. If it is a request that has come in via the website and the work had been done to make the amendment by the website, then a secure email would be sent back.

Q136 John Mann: How does the consumer know from that what change has been made? All your email says, to take Experian's case, is that there has been a change. It does not tell you what the change is. So, statutorily, you are required to sort this out, you and the bank, but neither is required, at the moment, to provide the precise change of detail that has taken place. Are you?

Ms Key-Vice: If we make an amendment to a consumer's credit report (and I would like to point out that when we get a query we flag the item of data on the credit report, so that any organisation accessing it during the investigation period knows that an item is under query), which is in a very small percentage of cases, we send them information that we have done that and we provide them with an amended credit report, so that they can see what has changed.

Q137 John Mann: What if the bank makes a mistake?

Ms Key-Vice: We would do the same.

Mr Leenders: It is the same process.

Q138 John Mann: The same process?

Mr Leenders: If a bank makes a mistake it is identified by the consumer, the consumer challenges the error that the bank has made, the bank has 28

days to confirm to the credit reference agency that the data is, in fact, correct or otherwise, and if within that 28-day period they have not confirmed their data is correct then the record is removed.

Q139 John Mann: In that situation, there should be no additional credit problems from that? Are there any situations or circumstances in which there could be? That that could be an ongoing problem because of, say, a bank mistake?

Mr Leenders: No, because if the error has been rectified the data is removed from the file, so it is no longer visible; it is just not there.

Q140 John Mann: What if, in the interim, there has been an application or two that has been turned down because of the mistake?

Ms Key-Vice: Because the data is actually flagged as being under dispute. So as soon as we are told that the consumer is querying an item of data it is flagged.

Mr Leenders: The complaint is received, it is flagged as queried, there are 28 days—

Q141 John Mann: So, in theory, it has no impact?

Ms Key-Vice: Correct.

Mr Leenders: Correct.

John Mann: I do not believe you. You asked for cases, Mr Leenders; I will give you a case from my constituency to prove that point. That is not how the system is working, is it?

Q142 Chairman: We do not bring you along here not to be believed, okay? That is a matter between you and John Mann, and if you can take that up—

Mr Leenders: We would be happy to take that up.

John Mann: Mr Leenders did say that the ones they investigated, they had been through them all and there were no problems. I am offering him, Chairman, one where I think that will prove to be the opposite.

Q143 Chairman: Good. You take that up with the witness.

Mr Leenders: Chairman, we are happy to take up that offer.

Q144 Mr Todd: Can I explore the business model of the CRAs? That was raised in the first evidence session. How do you earn your money?

Mr Martin: The relationship with our clients, which predominantly are the lenders, is that they pay a fee for the inquiries that they make on our database.

Q145 Mr Todd: Is there a different fee for a quotation search from a credit search?

Mr Martin: No, there is not, with us.

Ms Key-Vice: Not with us, either.

Q146 Mr Todd: They are all the same, for all three of you and you are the three operators. Your relationship to consumers. There was a little piece in the *FT* pointing towards the growth in consumer inquiries as opposed to your reliance on the banking

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or other financial services sector. Has that seen a substantial amount of growth—consumers seeking their own information from you?

Mr Martin: Yes, most definitely.

Ms Smith: It is bound to because people want to access their credit file to make sure, certainly, what is on there is correct, so that they do not have the problems that we have just been discussing. They also use it to alert any possibility of fraud, particularly if they think that their credit card details or something else may have been cloned or used by someone else. Just, basically, to keep an eye on total financial management.

Q147 Mr Todd: How do you compete, you three? What is the difference?

Mr Martin: Price, service and quality.

Ms Key-Vice: And intelligence extracted from the data.

Q148 Mr Todd: I appreciate you may not want to share that with the world at large, or with each other, but it would be helpful if I were to be able to understand how this market works more effectively. I am sensing, in some of this, that your own business models are blunting the effect of the marketplace for consumers. It would help me to understand how you earn your money and how you differentiate yourselves. If you could think carefully about what you could tell us about how this business actually operates and what the key drivers are for you as a business, which differentiate you and how you charge for your various products. My suspicion is that the consumer is disadvantaged, to some extent, by how this marketplace works. Would that be something you could do? You have produced some written evidence for us so far, and something which answers that question for me. Is that possible?

Mr Martin: I think the answer can probably just come from comparing the list of products and services that the three credit references offer to clients, which does differ. We use the data in different ways; we provide a different quality of services around those. As I mentioned before, our price differential can be significant between the three credit reference agencies.

Q149 Mr Todd: Is that right? How is that price differential based? Is the data broadly shared? There is data sharing within the sector—that is part of the point of trying to improve—

Mr Martin: Yes, there is. Public data is significantly shared; the same across all three credit reference agencies. The data that comes from the lenders themselves in supplying the account performance information to us—

Q150 Mr Todd: You all access county court judgments.

Mr Martin: Yes, we do. Those other data elements from the lenders all vary; not all lenders supply all the information to all three credit reference agencies, although obviously the industry best practice is that we support that and they support that that should happen.

Q151 Mr Todd: If we explore, for a moment, the issue of data quality (you have, perhaps, had some discussion with John about how corrections have occurred), I had one appalling case in my constituency of someone who killed herself because of a problem with data quality, so I feel quite strongly about some of this. When an error is evident—you mentioned a flagging process. In this particular case that did come up, actually—an error in an address was flagged—but it did not seem to do any good. How does that happen? Those to whom you pass the information, presumably, have discretion as to whether they pay any attention to a flag or not.

Mr Martin: Yes, we flag the record when it gets returned to our client, our client then has processes to follow; they may have various processes but the process should be that they should be alerted there is a potential error and should, therefore, take that into account as part of the decision-making process.

Q152 Mr Todd: They clearly do not. It is a flaw, to some extent, among the user community of your data, I suppose. I think, in that particular case, it was Experian that held the data. I am taking it that your company is concerned to make sure your data is used in a responsible way and in a way which does not harm consumer interests. You would be concerned if a client was using inappropriately.

Ms Key-Vice: Absolutely we would. We work very closely with the regulators, and our client agreements clearly state that they should follow not only the law but, also, the codes of conduct in using the data. One of those issues is around the use of data that is flagged with disputes, where they are required to take that into account. So we welcome any notification if an organisation is not following those processes. We would investigate it.

Q153 Mr Todd: The process of validating data by customers relies on an informed customer. Does it not? So large numbers of people would be trotting along with their lives not knowing that errors have been and might wonder why they get refused various things. I think this goes back to the Martin Lewis view, which is that we have a large bank of uninformed consumers out there who cannot look after their own interests. You charge consumers for access to their own data. Why should they be charged?

Ms Key-Vice: The Data Protection Act, under sections 7 and 9, covers access by consumers to data held about them at any organisation, and the normal charge is £10. In terms of credit reference data, under section 9, that is reduced to £2 when it is limited to credit information. Two pounds is quite a modest fee. As we mentioned earlier, it is (for Experian) a ratio of 1:5 consumers paying for it, and many of them are not paying for it.

Mr Martin: Could I also clarify about the access method? In terms of Equifax, we do offer the £2 statutory report via our online systems. So if you want to get instant access and (I think, particularly important) if you want to, as Martin Lewis

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mentioned earlier, have the opportunity of the web-based approach, you have better transparency and a better educational opportunity and window to have more information on our website. Therefore, you can access your £2 file online with Equifax, and you will get the full information that all the other quotes should have.

Q154 Mr Todd: Just to finish this, you three companies possess the “crown jewels” of much of people’s lives, of how they can access products or gain services and, yet, a very large proportion of those people do not have any grasp whatever of who you are, what you do, how you earn your money and what information is held by you about them.

Ms Key-Vice: We have done a survey which shows that 80% of people are aware of the existence of credit reference agencies, and that in the region of 23% of people have, at some stage, sent for their credit report. Lenders, under the Guide to Credit Scoring, are required to say to a consumer if when they are turned down that data from a credit reference agency contributed to that decision, and they do so. So, certainly in the past—

Q155 Mr Todd: Do they personalise that? Do they say: “It was Experian’s data which—”

Ms Key-Vice: They have to say which credit reference agency it was.

Q156 Mr Todd: Mr Leenders, you heard Martin Lewis put forward his principle of transparency for consumers, namely that nobody should be penalised for getting an accurate price for the product they wish to buy. Do your members agree with that principle?

Mr Leenders: Yes, absolutely, I think they do.

Q157 Mr Todd: In an article in *The Observer* in July of this year, it stated: “Banks and other lenders wreak havoc on borrowers’ credit scores by failing to offer quotation searches.” It goes on to say: “Insiders suggest it is down to costs—a rough average of £1.40 each time a search is requested—and concern that easy access to lots of credit offers will bring tougher competition.” Do you accept that charge?

Mr Leenders: No, I do not think I do, actually. I do not think that article is, in any sense, representative; I think, for the arguments that I have already put forward—and I do not necessarily feel it is appropriate to repeat them—that this type of search data only has, at best, an iterative, marginal impact on scoring. When you talk about banks and you talk about the loans that they make to the customers with whom they have a relationship, it is actually the behaviour within that relationship that is far more important and predominant in a credit decision.

Q158 Mr Todd: In that case, why do we not just go to the American model and have something straightforward and simple that everybody understands? You are happy working on the relationship, we all know what the data means and we not need any of this obfuscation.

Mr Leenders: One of the things that we must not lose sight of is that in the UK, over the last 10 or 15 years, we have built an entirely comprehensive, closed user group of data sharers. So the data that is provided to a bank in a loan application and the repayment profile of a credit card, for example, is accessible by a lender through a credit reference agency who might operate in an entirely different sector of the market, such as mail order. If we are to start thinking about how we want to restructure or change that model (I think I agree with Martin Lewis) that is a very big step to take. I think my overarching concern in all of that is that we must not lose the integrity and the comprehensiveness of sharing, because what that would do in the longer run is you would develop smaller closed user groups, such as the banking sector, A N Other sector; you would not have the richness of data exchange, you would not have the quality of decisions. Actually, that would not be a forward step, that would rather be a retrograde step, I would argue.

Q159 Mr Todd: If the data that has been put forward is, quite often, fairly fundamentally flawed to start with, the richness of the data just ensures that your decisions and data proliferate.

Mr Leenders: I think the assumption that the data is flawed is something that I do not recognise. I think the vast majority of data is very accurate; I think there are processes in place to ensure that that data is accurate; I am sure that the credit reference agencies would be able to explain to you how they try to identify inaccuracies proactively to make sure that there is an absolute integrity in that data, because as your colleagues said, this is the “crown jewels” in the context of the application of credit in so many instances. It is very important that that data is accurate. Not least, of course, because that inaccurate data, whilst we are talking about it in a negative frame—in other words, it bars people from getting credit—could actually, conversely, allow the provision of credit in a circumstance where you do not want it provided. So it is in all our interests to make sure that data is accurate.

Q160 Mr Todd: Can I turn, please, to Fiona Hoyle? You were, along with the BBA, part-responsible for a document that was sent to MPs *The Financial Fringe: a Guide to Personal Finance: a practical pack to use with constituents*. In that it states: “If you’re refused credit for a product or service, don’t keep reapplying as this may lower your score. Wait a couple of months before making further applications.” Do you not agree that rather goes against the concept of a free market?

Ms Hoyle: We have been talking very much today about searches and the impact of searches on our credit rating, but actually there is a sort of broader piece to all of this, especially, again, in the current economic market, and was touched upon by Martin earlier on, about how, as consumers, we can improve our overall credit rating. Some of those things are very simple and are not rocket science, such as

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paying our debts, being on the electoral register, and, also, if I am turned down for credit to pause, to have a period of time—maybe there is a volume of searches; we have talked about the fact that, you know, it is usually, for our members, eight or more over a short period of time, which would be indicative of possible over-indebtedness or of fraud. So it is taking a responsible approach to managing your overall credit rating. In no way are we saying that people should not shop around. One of the fantastic things that we have with the UK financial services market is that we have got a broad variety of lenders offering products for a broad variety of people, and the point you were saying earlier about a standard credit scoring method, maybe as they have used in the US—that sounds very much like a very “vanilla”, fairly restricted approach, and that may have the potential for excluding some people from the market who currently benefit from credit products.

Q161 Mr Todd: If you had had the credit rating agencies that are responsible for CLOs and CDOs in front of you, you would think vanilla was the flavour of the month, because that is exactly what we want to get to—a situation where the purchaser knows what they are buying and the vendors cannot hide behind rates of 9% that turn into 20%, and all the rest of it. I do not understand why we cannot have a simple and transparent system. What about the other idea of simply saying that applications for credit do not count; it is whether there is an actual acceptance that counts and is recorded? Why not just say anybody can apply for anything? That is not the point.

Ms Hoyle: Then it comes back to looking at the lender’s experience of lending and those accounts that have, perhaps, got into financial difficulties in the past. That is where we are really learning and adding real value to our current scoring and underwriting processes, because we actually do know that if Fiona Hoyle has been shopping around for a lot of credit, making lots of applications over a short of period, that gives us a real insight into the fact that there may well be a problem there and she may be having trouble. If it is only the application that is accepted then we are going to carve out a really important part of that risk process.

Q162 Nick Ainger: Following on from that, Mr Fallon earlier was trying to get a handle on the numbers. You, in your advice, say: “Don’t shop around if you get refused”. So it must be a significant element of this package of information that you have to make a decision. The fact is that if people do shop around, as we are being told to anyway, it does have a detrimental effect. Or else why would you give that advice?

Ms Hoyle: We are not saying: “Don’t shop around” completely; what we are saying, as part of that overall credit scoring and credit rating, is that if you are being turned down then there may be some sense in pausing for a period of time.

Q163 Nick Ainger: Let us just be clear: therefore, it does have an effect on people’s credit rating?

Ms Hoyle: If you are making—

Q164 Nick Ainger: It is a simple yes or no.

Ms Hoyle: If you are making a large number of applications in a short of period, it will be an element that will be taken into account as part of that application for credit.

Q165 Nick Ainger: So it, clearly, does have an effect. Shopping around does have an effect.

Ms Hoyle: Making multiple credit applications has an effect, not shopping around.

Q166 Nick Ainger: Using the facilities which are available to people seeking credit actually can have a detrimental effect on their credit rating?

Ms Hoyle: If you are applying for a large number of credit applications.

Q167 Nick Ainger: Do we know how many? Coming back to these numbers, how many are affected in that way?

Mr Leenders: I think I made the point earlier that actually there is a value in searches that rather reduces over time, so the immediacy of the first three months and the volume of searches in the first three months is more important than those that are kept on file, I think, up to 12 months. The point I made earlier as well is what you are asking for is slightly different to the concept. The concept is there is a whole raft—

Q168 Nick Ainger: You are taking us down a blind alley, quite frankly. All we want to know is how big this problem is. That is what we are trying to establish, and you have not been able to give us any information to say: “Well, about 10% of people would be refused for this reason; or 20% . . .” The 70% which Martin Lewis said are refused applications—70%—are those people that—do you agree with that figure, Mr Leenders?

Mr Leenders: I do not agree—

Q169 Nick Ainger: Do you agree with any of his figures?

Mr Leenders: I do not recognise the figures.

Q170 Nick Ainger: What are the figures? Of those that make applications, unsecured credit applications, how many get refused?

Mr Leenders: I would be more than happy to take that away and I would be more than happy to send—

Q171 Chairman: You do not know just now?

Mr Leenders: No, and I would be more than happy to take that away.¹

Q172 Nick Ainger: Let us move on then. He also said that 20% get offered the loan at the rate as advertised, as it were, but 10% get offered the loan but it is certainly not anywhere near the rate that is

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advertised. Do you accept that there is a significant issue there of people being successful for a loan and then discovering that they are actually paying a far higher APR than advertised?

Mr Leenders: I think those percentages represent or reflect the legislative requirements, which say that a typical APR should be that rate that is obtainable by 66% of those that apply for the credit. So that is built into the credit legislation.

Q173 Nick Ainger: No, no, no; you are not helping yourself. What percentage of loans offered are at a higher rate than the rate was advertised at?

Mr Leenders: We will come back to you on that, but it is certainly no more than 66% because of the regulation requirement. Sorry, no less than 66%.

Q174 Nick Ainger: No more than 66%.

Mr Leenders: The advertising requirements are that the rate that is advertised should be obtained by at least 66% of those people for whom the credit is provided.

Q175 Nick Ainger: So a third, therefore—

Mr Leenders:—potentially do not get the rate advertised.

Q176 Nick Ainger: I am sure they do not get a lower rate; they get a higher rate. So a third of those people that are offered loans actually are having to pay a rate which is, in certain instances (and we have lots of individual submissions) substantially more than the rate advertised.

Mr Leenders: And I made the point earlier that I do not recognise this differential of 8% of 30%—it is not something that I have seen in the product offerings that our members provide.

Q177 Nick Ainger: In an earlier response you said that part of the purpose of all this process was, actually, to try and address indebtedness.

Mr Leenders: Yes.

Q178 Nick Ainger: However, if a third of people that are being offered loans are actually being charged rates far higher than those which are advertised, are you not increasing indebtedness?

Mr Leenders: I think in that response I also said that the differential that I see from the offers for credit that our members provide is single-digit percentages—not 22%.

Q179 Nick Ainger: We have had lots of emails that Martin Lewis's organisation has provided to us. Just give you one example: "I applied for a Tesco loan at 8.8%, however when it went through it had gone up to 17.9%!!" That is not a single digit.

Mr Leenders: Sorry—in a range of single digits, is the point that I made. That is not 8% to 30%, with respect; that is a lot lower.

Mr Todd: It is about double.

Q180 Chairman: Let me give you another example here: "I applied for a loan with Lloyds TSB. I have one of their Premier Accounts that I pay £25 a

month for. I was told that since I had one of these accounts I was eligible for a loan at the rate of 5.9%. I applied as I needed to decrease my outgoings and was then hit with a rate of 19.9%." There is a huge issue here. For you this is all sweetness and light; for Martin Lewis, this is a thunderstorm. Where do we go from here? We have got to go somewhere. This is unbelievable, the difference in evidence that we are getting here. I expected somebody from the British Bankers' Association to come along with figures this morning. We do not have figures, so we do not have anything to go on here, Eric.

Mr Leenders: I think, Chairman, with respect—

Q181 Chairman: You really need to do your homework for us. Go away and do it.

Mr Leenders: With respect, Chairman, I accept the criticism and would be more than happy to provide the figures, but I think that we had considered that this inquiry was in the frame of, or the use of, application searches, footprint searches. Where we are getting into is far more a discussion around pricing. I would be happy to provide—

Q182 Chairman: The issue of consumer debt—that is what we are talking about here.

Mr Todd: It is a slightly charmed circle of insiders in this sector.

Q183 Chairman: However, we are going to go on with our evidence here.

Ms Hoyle: Chairman, may I just come back on one point? We do have a lot of evidence that has been produced from customers. We are very happy to have a look at that. But it is simply a snapshot; people were asked to put their case forward in 100 or 120 words; there may be a lot of other reasons why the price the advertisement quoted and the price that the customer eventually obtained the credit for may have all had an impact.

Q184 Chairman: You have a lot of work to do for us. We accept that a credit search history will be only one factor in making decisions, but there are a lot of people out there, we have heard, who want credit and, as mentioned to Gillian, a very small percentage can still be a lot of people. That is the issue that we are looking at. Shopping around—I think your point, Fiona—means that the number of credit searches is becoming less and less reliable as showing risk. You said that in your evidence.

Ms Hoyle: No, what I am saying is that we do encourage customers to shop around and, therefore, when we are looking at the number of searches that actually put us on notice that that customer may be getting over-indebted it has got higher, a couple of years ago if we had two, three or four that would have been a strong indicator for us, but now we know that people are shopping around more and making more applications, then if it is eight or more within that period of time then that is a risk. So lenders are changing their credit scoring models because we know that customers are shopping around.

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Chairman: I think it was John that asked the question: surely it is time to stop recording them, and I think we need a bit of convincing that there is not

a good answer to that. Thanks for your evidence, and no doubt, Eric, when you have done your homework, you will be in touch with us and we will keep up this inquiry. Thank you very much.

Witnesses: **Ms Vivienne Dews**, Executive Director, Corporate Services, and **Mr Nigel Cates**, Deputy Director, Consumer Credit Group, Office of Fair Trading; **Mr Jonathan Holbrook**, Head of Data Protection Practice—Private Sector, Information Commissioner’s Office, gave evidence.

Q185 Chairman: Good morning and welcome to our evidence session. For the sake of the shorthand write can you introduce yourselves, please?

Mr Cates: My name is Nigel Cates; I am Deputy Director of Consumer Credit Group at the Office of Fair Trading.

Ms Dews: I am Vivienne Dews; I am from the Office of Fair Trading and my responsibilities include the Consumer Credit Group. I just wanted to say that John Fingleton our Chief Executive would very much have wanted to be here today, but I think he spoke to you.

Q186 Chairman: He was very kind in ‘phoning to give his apologies.

Mr Holbrook: Good morning. My name is Jonathan Holbrook. I am the Head of Data Protection Practice at the Information Commissioner’s Office.

Q187 Chairman: You are all welcome. OFT, your evidence says you have no evidence of consumers being unfairly refused credit, or offered credit, on the basis of an incorrect risk assessment. Why have you missed such a big issue?

Ms Dews: Well, until this inquiry was announced in all the work we had done it had not come up as one of the main issues facing us. In the light of the evidence which it is being suggested is available we would want to look at that quite carefully and think about what we might be able to do in order to deal with the problem, but we would want to be clear that there was real consumer detriment as a result of the information.

Q188 Chairman: From what you heard this morning do you think it is worth a bigger inquiry from yourselves?

Mr Cates: It is something that we have raised with all of our stakeholders in a number of different areas. We issued a Financial Services Strategy in July this year, following some quite in-depth consultation with all parts of industry. We have also launched a high cost credit review and, as part of that, as well as other programmes of work since our new powers came in about 18 months ago, we have listened to arguments. This is something that has come up once, and that has come from *Which?*

Q189 Chairman: In the light of the evidence you have heard this morning and the reasons, maybe, why consumers do not apply, is it worth further investigation from yourself?

Ms Dews: We would certainly like to see the evidence; we would like to see it in more detail, so we can follow it up.

Q190 Chairman: I put it to you the OFT has been passive in this, where there is a need to be active. In waiting for things to come to you, maybe it is just not good enough in today’s environment.

Mr Cates: Chairman, with regards to this particular subject, we have not looked at it proactively but it is because we have looked at other things which we consider to be more important, proactively, where we consider there to be more harm. For issues such as debt collection, such as debt management and high cost credit, we have seen a particular rise in debt over the past 18 months, and that has led to real actual harm and we have focused on that. However, this is something that we do have an eye on and we are alive to these issues.

Q191 Chairman: We would hope so. You seem dismissive of the problem of credit application footprints. What do you regard as more important in this area?

Ms Dews: We issued some guidance recently on irresponsible lending, and I think that sets out many of the issues which we think are particularly important, at the moment. Essentially, our key concerns are to ensure that consumers have access to affordable credit but we want to avoid them becoming over-indebted and incurring debt which is unsustainable. So those would be our absolute core concerns in this area.

Q192 Sir Peter Viggers: Are quotation searches achieving what is needed from them, to allow consumers to shop around?

Ms Dews: I think the evidence that we have heard today suggests that they might not be. We very much welcome the principle of quotation searches because it is hugely important that people should be able to shop around for credit without that affecting their score. On the other hand, if people are making multiple applications, rather than seeking multiple quotations, we think it is important that the lender should be aware, because it is a potential indicator of problems or, possibly, fraud.

Q193 Sir Peter Viggers: Why are quotation searches so underused in the unsecured market, when take-up appears to be much higher in the secured market?

Mr Cates: You do have requirements in the Mortgage Conduct of Business Rules from the FSA, but I think it is also a very different market.

A large part of buying a house involves a chain of transactions, so it is very much more important that you have that decision in principle, which is not something that is relevant if you are buying a television on credit or a car on credit, or something like that. So you do need more information than what the cost is likely to be; you actually need that information about whether you are going to get the credit, or likely to get the credit.

Q194 Sir Peter Viggers: The memorandum from the Office of Fair Trading to us in connection with this investigation says: “The OFT has not received consumer complaints about the negative impact of searches on individual credit records as a result of shopping around by consumers”. I understand that all the evidence that has been given to us has been made available to you, and you will be noting the evidence which has been given to us. You have said, to be fair: “We are keen to consider the evidence the Committee can access” (our Committee) “and stand ready to take necessary action should that evidence show that we need to do so.” Do you think, on the basis of what you heard over the last few days and weeks, it causes you to be less, if I may say, complacent about the position in this area?

Ms Dews: I hope we were not complacent.

Q195 Sir Peter Viggers: It sounded complacent.

Ms Dews: I am sorry; we did not intend to be complacent. Yes, we have certainly heard evidence today that there are issues. I think we have to look at it more carefully than has been possible on the basis of what we have actually heard today, and we very much hope that those who provide that evidence would be prepared to give us more details, so we can look into it more carefully.

Q196 John Thurso: Martin Lewis, in his evidence, more or less put forward the concept that the market was fundamentally distorted, and it was distorted by the fact that the principle that the consumer should have access to a properly priced product without detriment was not available to them. Do you agree with his premise and his principle?

Ms Dews: If you are talking about pricing the credit in relation to risk, we think it is justified to price credit in relation to risk providing that price genuinely reflects the risk that the lender is incurring in relation to that.

Q197 John Thurso: His point was that you get the huge thing through the post—and we all get them and they come through sometimes addressed to “The Homeowner” and sometimes addressed to me—and it says: “You can be the happy beneficiary of a wonderful rate—whatever”. If you are then sucked into (I bin them without opening them) going down that route and you then think it is good and you make an application, you then discover, as he said, that you get the card but, actually, they are charging you twice or more the rate. Should you not, as a matter of course, of fairness, transparency

and openness in the marketplace, know up front what rate it is you will be charged before you are in a position where the fact you have applied for it becomes part of your credit history?

Mr Cates: Can I just say we need to be very clear here that the APR is a purely artificial construct that has been created, because we are dealing with everything from very small loans over a short term to long loans of a significant amount. The way that the APR is calculated is built on a number of assumptions, particularly in running account credit, particularly in credit cards.

Q198 John Thurso: Can I put the question more simply? You anticipate an amount of money will be charged to you and it is twice that amount of money—is that right?

Mr Cates: It is the best position that is possible, as long as you allow that to be—

Q199 John Thurso: What, that I think I am going to have 100 quid’s worth of interest and actually they charge me 200 quid’s worth? That is a good thing?

Mr Cates: The APR is based on different amounts. If you apply for a lower amount of credit, for example, your APR may be—

Q200 John Thurso: You are missing my point; my point is that you are quoted one cost and you end up paying twice or more that cost.

Mr Cates: What I am trying to say is active, informed consumers really do drive the markets. That is a fundamental part of the OFT’s view. However, in very complex transactions like this, until you actually apply you never can have—

Q201 John Thurso: If it is that complex should we stop people having credit cards? If it is so fundamentally complex to be able to actually understand anything, have we not got the market fundamentally wrong?

Ms Dews: I think there are two points I would make. One is, as I think one of the earlier witnesses said, the legislative position; that if a “typical” APR is quoted then 66%, at least, of people applying should get that APR but others can be quoted more. I come back to the point that we believe that is justified providing that quotation is genuinely linked to the risk that the lender is carrying. We are looking at this sector; we are doing a review of the high cost credit sector, at the moment, in the Office, so it is an area we are looking at, and looking at the high cost credit market more broadly.

Q202 John Thurso: I do not want to prolong this, but it seems to me that where we have got to, at the moment, is on one side you have the full weight of the financial services industry, with all their whiz-kids with double firsts at computer games, constructing ever-more complicated products, and all the rest of it, and, on the other side, you have some pretty disadvantaged people desperate for credit, who believe what is written there on the

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piece of paper. It is just fundamentally flawed and skewed. Is it not your job now, having heard this, to get stuck in in a big way?

Ms Dews: Certainly there are issues that you are raising which I think are relevant to our high cost credit review and, also, to our irresponsible lending guidance, which does talk about things like transparency.

Q203 Chairman: Is it satisfactory that quotation searches do not necessarily show whether a lender will give you credit if you apply for it?

Mr Cates: I think we have to understand that in a wide range of different products and different activities—

Q204 Chairman: Is it satisfactory? Give us a quick answer.

Mr Cates: I think you should be able to see, actually, when you are going to get credit.

Chairman: So it is not satisfactory. Good.

Q205 Mr Plaskitt: Can I come to you, Mr Holbrook, and just ask a few questions about the data involved here? What has your Office's experience been with issues about, firstly, the accuracy of data that the credit rating companies hold?

Mr Holbrook: Given the huge volumes of data which we are talking about, hundreds of millions of records, it is inevitable that some of it will be inaccurate. That will always be the case. However, I have to say that our experience is that the overwhelming majority of credit reference data is highly accurate. I am satisfied that the agencies place very great store by ensuring that their clients do adhere to high standards of accurate reporting of the information that they hold. After all, it is in the agencies' business interests to make sure it is recorded properly. We are satisfied that they do.

Q206 Mr Plaskitt: Has your Office been asked to deal with any issues raised by consumers who have complained to you about inaccuracy in this data?

Mr Holbrook: Yes, we get a fair number.

Q207 Mr Plaskitt: What sort of volume are we talking about?

Mr Holbrook: In a year, we would probably have in the region of 100 or so genuine complaints about accuracy. Those figures are approximate, but in that region.

Q208 Mr Plaskitt: What about issues of security of the data? Have you had any concerns raised with you about inappropriate use or leakage of the data, or it being revealed to someone who should not have it?

Mr Holbrook: We are aware of attempts to obtain other people's credit details, and people do try to get into the systems through the internet. I am not aware of a significant number of successful attempts to breach credit reference agency security.

Q209 Mr Plaskitt: So, from your point of view and from your knowledge, the data is secure?

Mr Holbrook: I certainly know that the credit reference agencies spend a very great deal of money indeed on physical and organisational security measures.

Q210 Mr Plaskitt: Do you have a view about the intelligibility of the data—the information that customers then receive when they ask to see it? Do you take a view as an Office on whether it is in a form that people can understand and make use of, or not?

Mr Holbrook: I think, as ever, there is always room for improvement. A standard statutory credit file is not the easiest thing to read—there is no doubt about that. I do think there is an onus on the agencies to make the information intelligible. I think that they do go to some lengths to help people understand, but there is no doubt that credit referencing is something that is difficult to understand if you have had no previous involvement with it. The ICO publishes a leaflet called *Credit Explained* in which we try to shed some light on what credit referencing is about and how consumers' data is used in the credit process. We actually distribute far more of that publication than anything else we produce.

Q211 Mr Plaskitt: Which suggests that people do need some help in interpreting it.

Mr Holbrook: Yes.

Q212 Mr Plaskitt: Do you think it is right (I think this may be a question for opinion rather than anything else) that a group of companies can make a profit out of giving people information which is about them in a form that they cannot understand?

Mr Holbrook: I see no particular objections to charging for the production of a credit file. Indeed, the credit reference agencies are the only data controllers in the whole data protection world that are obliged to give you your information for less than £10.

Q213 Mr Fallon: Has the OFT looked at the German system?

Ms Dews: We know a little about the German system, and there are aspects of it which we think probably do not work as well as our system does, because, essentially, lenders have access to less information than lenders do here, and we suspect that probably leads to higher pricing of products.

Q214 Mr Fallon: As I understand it, their system does prevent footprints affecting consumers' ratings.

Ms Dews: I was talking broadly about the German system. I come back to our key point: we do think the idea of distinguishing between a quotation, so people can shop around, and application is a very important one, and what we would want to look at in the light of this inquiry is ways in which we make a quotation used more than an application, where it is a quotation that is being sought.

Q215 Mr Fallon: Given how important all of this is, in terms of checking credit reference files, why not make such checks simply free?

Ms Dews: The credit reference—?

Q216 Mr Fallon: Yes.

Ms Dews: I am not sure that is a matter for the Office of Fair Trading.

Q217 Mr Fallon: You could not forbid the agencies from charging?

Mr Cates: I think it is specified in the legislation the charge that they can make.

Q218 Mr Fallon: But you could recommend that be changed? Do you have a view on it?

Mr Cates: I think it is fair for them to cover an administrative cost. That is in line with other legislation.

Ms Dews: I do not think this is something the Office has taken a formal view on.

Q219 Mr Fallon: Do you have a view on it?

Ms Dews: I personally do not; it is not something I had considered before, no.

Q220 Mr Fallon: What about the Information Commissioner? Would you like to see these checks free?

Mr Holbrook: I agree that it is fair that they should be able to cover their costs. They are already obliged to produce this information at a fifth of the price that anybody else would be entitled to charge for giving you your own personal information.

Q221 Mr Fallon: Would you like to see that cost reduced?

Mr Holbrook: No.

Q222 Chairman: Why not?

Mr Holbrook: Because I think it is a fair administrative charge.

Q223 Chairman: Just for administration?

Mr Holbrook: Yes.

Q224 Mr Breed: Ms Dews, you said just then that you agree with the principle of risk pricing. I put it to you, in fact, it is nothing to do with risk. If you were going to lend me £1,000 and you were prepared to take 8% over the year—pay you £80 plus the £1,000 back—yet you think that, perhaps, like in Tesco, they will charge 17%; the fact that you can get 17% back because you do not think I am going to pay you back (you are going to lose £1,000 and possibly some of the interest) means pricing has got nothing to do with that risk; the risk is around repayment. If you do not think you are going to get repayment, why would anybody take £170 rather than £80 in order to lend it? I put it to you that the fact is that is a headline rate that they put there and then they drag people into much higher rates in order to secure, even with good people, better returns on the money they are lending.

Chairman: Yes or no?

Mr Breed: Nothing to do with risk.

Ms Dews: I think I come back to the point, if it is a typical APR 66% have to get that APR. Our view is that risk-based pricing is justified providing it does genuinely reflect risk.

Mr Breed: So you get £170 back rather than £80—that is better than losing £1,000? Okay.

Q225 Mr Todd: The ICO, you gave praise of the quality of the data of the credit reference agencies. I assume you commission independent audits of it to check that statement?

Mr Holbrook: In our regulatory capacity we have very regular meetings with each of the agencies.

Q226 Mr Todd: So the answer to that question is no, you do not audit it?

Mr Holbrook: No.

Q227 Mr Todd: You rely on the reaction of consumers who, as we have found, are ill-informed?

Mr Holbrook: And our own interactions with the agencies.

Q228 Nick Ainger: Coming back to the point that Colin Breed was making, surely if somebody advertises a product at a price, people apply for that product at that price and they then are told that: “Yes, we are going to give you that product but it is at twice the price”, is there not a Trade Descriptions Act issue here? This fact that the APR is just that—it is a figure on which 66% of the approvals are given—is completely arbitrary, but the sad thing is that the very people who are being charged these higher rates are the people that can least afford it. The people that want to take out these loans at, ultimately, these high rates are people that are desperate, in many cases; something has happened in their life, their car has broken down and they cannot get to work—situations like that. However, this system penalises them because they are poor. Should there be a change in that?

Ms Dews: It is not Trade Descriptions, because it is covered by a statutory regime, which provides that if it is a typical APR then 66% should get it. However, we are looking at the high cost credit sector more broadly, as part of a study which the Office of Fair Trading is doing, and I would not want to prejudge what is coming out of that. At the moment, we are looking at a lot of evidence about the sector as a whole.

Q229 Mr Tyrie: I think we are clear that the storing of credit search data is resulting in some people being denied credit, particularly if they apply many times over a short period of time, but I think we are agreed that credit search data is also being stored because it does identify risk, so there is a trade-off between those two. You said earlier, which I thought was a very interesting remark, that in Germany there is much less information and, as a result, there is probably higher pricing. Are you suggesting that

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although some consumers are losing out, overall our population and consumers are benefiting from the storing of that search data?

Ms Dews: I want to be slightly cautious about suggesting that but I do think it is absolutely right that there is a balance to be struck between good information being available to lenders and information which is relevant to the pricing of risk, but we do also believe very strongly, in the Office, that people should be able to shop around to get the best quote they can without that having an impact on their credit rating. What we are interested in doing is finding a way of striking that balance.

Q230 Mr Tyrie: Let us just put the question more starkly: if storing of that data was no longer permitted, or brought to an end, are you clear that the cost of borrowing would go up to other consumers?

Ms Dews: I would not go so far as to say “clear”, but we would fear that it would go up if they could not—

Q231 Chairman: Do you have information that interest rates are lower here than in Germany?

Ms Dews: It is a belief rather than a clearly—

Q232 Chairman: It is a belief rather than knowledge?

Ms Dews: Yes.

Mr Tyrie: Would you take a look at that for us. I think that is very important.

Q233 John Mann: To apply for a credit search through the Experian website you have to sign up for a £6.99 monthly deduction from your credit card. Is that a fair price?

Ms Dews: I do not think that is a question I can answer. I was not sure that was what Experian said when they gave evidence.

Q234 John Mann: Office of the Information Commissioner, is that a fair price?

Mr Holbrook: You can obtain your credit report from Experian for £2.

Q235 John Mann: Only if you know about that; not if you go on their website.

Mr Holbrook: It does say that you can obtain it for £2.

Chairman: Okay. Have you finished?

John Mann: Yes.

Chairman: No final questions. Okay. Obviously, this hearing has suggested to us that there is a real problem that needs looking into, and we are grateful that you are accepting that there is that problem. I would hope, as a Committee, we would make rapid progress in this, so that we can have something in the public domain for your organisation and others to have a look at. So can I thank you for your time. No doubt we will be in contact with you, as the weeks go past. Thank you very much.

Written evidence

Written evidence submitted by Experian

ABOUT EXPERIAN

Experian is the leading global information services company, providing data and analytical tools to clients in more than 65 countries. The company helps businesses to manage credit risk, prevent fraud, target marketing offers and automate decision making. Experian also helps individuals to check their credit report and credit score, and protect against identity theft.

Experian plc is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. Total revenue for the year ended 31 March 2009 was \$3.9 billion. Experian employs approximately 15,000 people in 40 countries and has its corporate headquarters in Dublin, Ireland, with operational headquarters in Nottingham, UK; Costa Mesa, California; and São Paulo, Brazil.

For more information, visit <http://www.experianplc.com>.

Experian is the largest credit reference agency (“CRA”) out of the three consumer credit reference agencies operating in the UK, supplying c70% of the shared personal data used for credit underwriting by the UK financial sector. This amounts to some 150 million credit enquiries each year. Experian also provides data for a variety of other purposes such as identification checks for the prevention of money laundering as required under the Prevention of Money Laundering Regulations.

EXECUTIVE SUMMARY

1. The Treasury Select Committee has sought information on the impact on consumers’ credit ratings of shopping around for credit and the extent to which lenders use quotation searches.

2. Whenever a consumer’s credit file is accessed a search footprint is recorded. There are many different types of footprint and, at Experian, only credit application searches are shared with lenders and used in application scorecards.

3. Shopping around for credit is encouraged by all consumers advisors but it is important to note that this does not involve actually applying for credit. Shopping around is about looking for the best product and price before actually making an application to see if the lender will offer it to the consumer. In most cases, a consumer can find out the price quite easily but, if the price is based on risk, then the lender may need to access the consumers’ credit file in order to give a price quotation.

4. In 2001 the Information Commission raised this with the credit industry and credit reference agencies, including Experian, created a new search type called a quotation search for lenders to use in these circumstances. Rules for the use and recording of such searches were jointly agreed between the ICO, the FSA, the CML and the credit reference agencies.

5. Experian has communicated with all clients on numerous occasions to advise them that if they offer rate for risk products they should be using quotation searches if they need to access consumer credit files. FSA Mortgage rules make it clear that mortgage lenders must use quotation searches and guidance from the (then) DTI recommended that unsecured lenders do likewise.

6. Many Experian clients are using quotation searches although it is impossible to confirm whether every organisation that offers rate for risk products is using the system there is little evidence of significant deviation from the guidance.

7. Importantly, there are very few complaints from consumers about the number of searches that are recorded.

8. Lenders are also keen to monitor each other and Experian has on a number of occasions investigated the processes of lenders to ensure that the industry agreement is being followed.

9. In Experian’s view, quotation searches are being widely used and there is little evidence that consumers are being disadvantaged by the current system. Searches are predictive of risk and, in some cases, possible fraud and are only used in scorecards, not as a decline rule for example. They tend to only have a significant impact when present in large numbers and in conjunction with other risk predictive data where they will have a cumulative impact.

PURPOSE OF THIS BRIEFING

1. To respond to the Treasury Select Committee Inquiry into credit searches and to explain the background and rules associated with the registration and use of credit searches.

What is a credit reference agency?

2. A credit reference agency collects, matches, derives, merges, and supplies data to organisations to help them make decisions about whether to give, or continue to give credit to individuals and/or businesses. They create and hold databases of people and/or businesses operating within the country in which they operate so, for example, the CRA operated by Experian in the UK will only hold data on people and businesses with addresses in the UK.

3. Credit reference are third party custodians and providers of information and services and do not make the decisions themselves. Neither do they set the policy for the lenders and are not therefore part of the final decision as to the level of risk or otherwise that a lender is prepared to accept.

4. In addition to using the data for making decisions about credit, in some countries, including the UK, the data may also be used for other purposes such as performing Identification (ID) checks, tracing debtors, offering new products to existing or new customers, checking employees and preventing and detecting crime and fraud.

5. In the UK, credit reference agencies collect and hold public and private data as follows:

Public

- Electoral Register (full)
- County Court Judgements
- Bankruptcy, IVA, and other insolvency data

Private

- Credit agreements
 - (a) Limits
 - (b) Utilisations—balances
 - (c) Payment performance—whether the payment was made as expected and for credit cards only, whether they were paid in full, in part or the minimum and whether cash has been drawn and if so, how much and how often.
 - (d) Other information such as special arrangements, Debt management plans etc

6. In addition, credit reference agencies derive intelligence from the data and from changes in the data. This will create links between names (as people change their names) and between addresses (as people move address). Searches, and in particular credit searches, provide information on the applicant and also on how often they are applying for credit as well as information on the type, amount and term of the credit they are seeking.

7. The private database known as CAIS (Credit Account Information Sharing) is shared for specific and notified purposes and may only be used in accordance with the cross industry rules on data sharing known as the *Principles of Reciprocity*. For the most part, the rules specify that the data may only be made available to those organisations that share data and furthermore, that data may only be obtained to make decisions about accounts that are themselves shared.

8. All of this information is collected, processed and used in ways which are clearly notified to consumers as part of the credit application process. Lenders are obliged under the terms of the Data Protection Act 1998, to obtain the consent of the data subject before undertaking a credit search and to notify them how their data will be used. All of this information will be contained within the *Privacy Notice* contained within the lenders' application form or procedure. An example of the model privacy notice for the credit industry—which is agreed with the Information Commission—may be found at http://www.experian.co.uk/www/pages/responsibilities/compliance/fair_obtaining_clauses.html.

What is a credit search and why are they used in credit decisioning?

9. The Data Protection Act requires that an audit trail of who accesses an individuals' credit file be retained. Credit reference agencies record "searches" of consumer files and also the date, purpose and name of the organisation conducting that search. So for example, when a consumer asks for a copy of their own file, a particular type of search footprint will be recorded to show that has occurred.

10. Consumer files are accessed for a variety of purposes but the only search type that is shared with lenders and may be used in lending decisions, by Experian clients, is the *application or credit search*.

11. Credit application searches show that an individual has applied for credit. When lenders build their decision systems they will analyse all data available from a credit reference agency to determine if it is predictive in making decisions. Ever since they have been available, credit application searches are

consistently shown to be predictive of risk. How predictive and how much risk will depend on other information or characteristics too. However, in general, the reason why searches are predictive is that, in general, consumers only make large numbers of applications for credit if they are being rejected by other lenders or if they are looking to commit fraud and are testing the decision systems of lenders.

12. As with any data used in credit scoring systems, credit searches alone are not necessarily predictive. When lenders build decision systems, items of data that are predictive in their own right or are indicative of characteristics that are outside the lending policy of that lender will be used on their own in *policy rules*. Thus, amongst other things, a lender will have a policy rule around persons who are under 18 years of age, who are currently bankrupt and, possibly, who have one or more county court judgements. For characteristics that are incrementally predictive, the best way to use them is within a score.

13. As a result, credit searches alone are unlikely to have a significant impact. However, if an applicant is already borrowing a significant amount and displays other characteristics analytically proven to be high risk then they will almost certainly lose points for each and the number of searches may tip them into being refused for credit.

THE RULES PERTAINING TO THE RECORDING AND USE OF CREDIT AND QUOTATION SEARCHES

14. Lenders do not want to turn down consumers who can and will be able to support the credit they seek. At the same time, lenders also want to lend responsibly and do not want to lend to those who will not repay them or who will struggle to repay them. Access to information on current commitments and the payment profile on current and recent agreements is hugely predictive of consumer credit behaviour. The increases in data sharing have enabled lenders to provide credit to a wider range of consumers and to identify and assist consumers showing signs of difficulty at an earlier stage.

15. In order to ensure that the system works as effectively as possible it is important that data is accurate whether that be credit account information or that searches are correctly recorded and reflect that a consumer is actually applying for credit and not merely making enquiries about the possible cost of a particular product.

16. For well over 15 years the lending community has been required to ensure that no more than one credit search is recorded for any application. Credit reference agencies have a system of unshared enquiry type searches for use in the event that a further check is required. This might occur if the proposition changes, for example in the case of a mortgage if the property valuation changes.

17. Hitherto, consumers were encouraged and advised to shop around for the best price deal which involved them asking and checking the rates and APRs of possible lenders. It was not necessary for a credit search to take place. However, with the advent of lenders offering products priced on a rate for risk basis it soon became apparent that a new system would be required.

18. Following discussions with the Information Commission in 2000 the industry agreed to develop and implement a quotation search type for use in cases where the lender offered a product that was priced according to the risk and for which credit bureau data would be required to give a quotation.

19. The FSA included use of quotation searches in their mortgage rules and the (then) DTI recommended that all unsecured lenders that offer rate for risk products follow suit.

20. Rules were agreed between the lending industry, the FSA, the ICO and the credit reference agencies and they were updated to provide further clarification in 2007. They are available at http://www.experian.co.uk/www/pages/responsibilities/compliance/searches_in_lending_process.html.

21. In essence they make the clear distinction between the consumer questions of “How much will it cost?” and “Can I have it?”. The former being a quotation, which might or might not require a credit reference search and the latter being an application where a clear commitment to lend is sought.

22. It is important to note that shopping around for credit is not about whether a lender will provide the credit but is about how much the credit would cost and whether it is the right product for that consumer.

PHYSICAL OR WEB BASED BROKERS OR INTRODUCERS AND PRICE COMPARISON WEBSITES

23. As outlined above, organisations that are not lenders are not permitted to access the shared credit database, this includes brokers, introducers and price comparison websites. Brokers are however permitted to access public data to get an idea of the risk profile of a potential applicant who might be discussing options with them.

24. Consumers can, of course, obtain their own credit file to help inform discussions with brokers and/or provide and aide memoire in discussions with brokers or potential lenders.

25. Many brokers have a relationship with one or more lenders and are able to offer consumers the opportunity to obtain a quotation and process an application through a lender. This will be managed on behalf of the lender with the broker acting as agent for the lender.

26. In such cases, the broker must ensure the consumer is informed if a credit search will be carried out and obtain the consumer’s consent. The broker is not allowed to access and/or use the data for any purposes associated with the business of that broker such as for marketing or product placement.

CONSUMER RIGHTS AND PROTECTIONS

27. The Information Commission was closely involved in the original discussions around the creation of quotation searches and the subsequent rules that were agreed. The requirement to process data fairly drove the need to make sure that consumers were not being treated as if they were applying for credit when, in fact, they were only asking how much a product might cost.

28. There are of course a number of instances whereby erroneous assumptions as to the reason for an application being refused are made by advisors. This may well lead to a perception that searches have a greater impact than is, in fact, the case.

29. If a consumer is turned down for credit, most lender codes of conduct and the industry Guide to Credit Scoring http://www.experian.co.uk/www/pages/responsibilities/compliance/credit_scoring.html requires that lenders give reasons why a consumer has been turned down and whether information from a credit bureau contributed to that decision. Consumers will then be encouraged to seek their credit file from the credit bureau in question and check whether the information shown on that file is correct.

30. Experian provides consumer files to over 1 million consumers each year only a minority of which are sought because the consumer has been turned down for credit. Of the > 1 million files supplied, a number of consumers do query or dispute the content of the credit file and Experian will then investigate with the lender whether there needs to be a change to the data.

31. Under the Data Protection Act consumers have the right to dispute the data held on their file. Whilst it is investigated, the file will be marked as “disputed” and lenders must take that into account if they check that consumer’s credit file. Lenders have 28 days to confirm or remove data that is the subject of a dispute.

32. In fact most of the queries are not found to be errors or inaccuracies and of those that do result in changes only a very small proportion relate to the number of searches on a file. In the event that a search has been recorded in error it will be removed. Our statistics show that searches are removed on less than 1% of the files we supply and of those, most if not all will not relate to of application searches being recorded when a quotation search should have been used.

33. Consumers also have the right to add a statement to their file called a “Notice of Correction” and also to appeal the decision and ask a lender to manually reassess their application. This is so that, in the event that data was incorrect, a consumer is not disadvantaged.

THE EFFECT OF MULTIPLE CREDIT SEARCHES ON CREDIT SCORES

34. Experian does develop and provide credit scores but most lenders will use their own, although they use Experian scores as part of their decision process. Experian credit scores are redeveloped and/or recalibrated on a regular basis. All lenders should be checking to ensure that the constituent parts of their system are still performing as expected. At present, we at Experian generally expect more than five credit application within a three month period to have a negative effect. It is important to note that the negative effect is small and on its own would not be significant. Thus an otherwise “good” applicant would not be impacted at all if they had five or more credit searches in a short time.

35. Very large numbers of applications within a one week period would be indicative of possible fraud and would attract further scrutiny from most lenders. Indeed, since fraud is on the increase one of the important reasons why Experian’s CreditExpert product is so popular is that members are alerted when a credit search is conducted on them. This service is in place as a fraud prevent measure as account takeover fraud usually manifests itself when credit applications are carried out in the victim’s name. Experian offers this free to fraud victims for one year.

THE EXTENT TO WHICH LENDERS OFFER QUOTATION SEARCHES

36. Experian has worked closely with clients to advise and try to ensure that those clients that offer rate for risk products are aware of the rules and do use searches that will not impact on a consumer’s credit score. In those industries where it is very common for consumers to shop around—such as insurance where credit will also be taken for the premium—and mortgages, large numbers of quotation searches are being recorded. However, not all lenders do offer rate for risk products and do not therefore need to offer quotation searches.

CONCLUSION

37. Quotation searches are being widely used by those lenders that offer rate for risk products but not all lenders do offer such price structures and will not therefore need or use quotation searches. The number of complaints from consumers about searches is very small and we have not seen evidence that there is an issue.

38. Experian takes its Compliance responsibilities very seriously and was instrumental in developing the original agreement with the ICO and the guidance that is available to all clients on the Experian website.

39. Experian also provides a great deal of education and information to consumers and frequently explains the importance of not applying for credit if an indicative price is all that is required.

40. Consumers can easily access their credit file through a variety of channels and are provided with information about searches on that file see the highlighted section at Appendix 1 where only the search P1 would be used in credit scoring.

9 October 2009

APPENDIX 1

SAMPLE REPORT—The information in this report is fictitious and is to be used for training and educational purposes only.

SAMPLE REPORT—The information in this report is fictitious and is to be used for training and educational purposes only.

Our reference: 00000000/A1
(Please quote on all correspondence)

Consumer Help Service
PO Box 9000
Nottingham NG80 7WP

Date of report: 15 January 2009

RR00000
MRS JESSICA SOMEBODY
186, HIGH STREET
ANYTOWN
MIDSHIRE
A12 4CD

DEAR MRS SOMEBODY

Your Credit Report

Thank you for your recent application for a credit report. This includes all the information that we hold about you at the addresses shown on page 2 of your report.

If you need to get in touch about the information on your report, please remember to quote the reference number at the top of this page. Please also provide the number of each item you are querying (these are printed directly above the item they relate to, eg, E1, C4, P2). Information may be printed on both sides of the paper.

We have included a leaflet explaining the different types of information that may be included in your report and the steps you should take if you have any questions. Please use this leaflet to answer your queries. Most of the information we hold about you has been sent to us by companies with which you have a financial relationship or have had in the past.

Your credit report has been updated to include any other names you have been known by and with links to previous addresses. If any of this information is wrong and you believe it should be changed please contact us. The enclosed leaflet explains how to do this. Our records will also show that you made a request for your credit report. This information will not be seen by companies searching your credit report but will be shown on any reports you ask for in the future.

If you have any questions about the information companies have given to us, you may wish to get in touch with them because we need their authorisation to make changes to your report. A list of useful addresses is included at the back of your report.

Consumer Help Service

PS The quickest way to get help with your report is to log onto our website www.experian.co.uk. Click on Consumer Advice and visit Your Credit Report Help Centre.

APPLICATION DETAILS

These are the details you gave us when you asked for your report. We have used this information to produce your report.

Name:	MRS JESSICA SOMEBODY
Your date of birth:	09/10/1972
Other names you have been known by:	MISS JESSICA ANYBODY
People you are financially connected to	MR SIMON R SOMEBODY
Date of birth:	02/05/1974
Address details:	
Present:	186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Other:	1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Electoral roll information

This shows the dates that your name was registered on the electoral roll and the addresses you were recorded at. There is more information about the electoral roll in the explanatory leaflet.

Present Address

E1 Local authority ANYTOWN LA
186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
SOMEBODY JESSICA From 10/2004 to present

Other address/es

E2 Local authority ANYTOWN LA
1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ
ANYBODY JESSICA From 1982to 10/2004

Aliases

Aliases are created when lenders tell us of other names you have been known by or when you tell us of other names you have used. Your credit report will include information recorded in these other names at the addresses you gave us when you applied for your report.

S1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Date of Birth 09/10/1972
Also known as MISS JESSICA ANYBODY
Confirmed by BOODLES BANK PLC on 18/05/07

Aliases continued

S1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Date of Birth 09/10/1972
Also known as MISS JESSICA ANYBODY
Confirmed by EXPERIAN CREDIT REPORT (2) on 09/03/07

This information was provided to us as part of report application or from information given after receiving a credit report

Financial associations

Financial associations show details of anyone you are financially connected to. Financial connections are created by joint accounts, joint applications, joint court judgments or from information you have given to us. When you apply for credit a lender may take into account financial information about people you are financially connected to.

L1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE. A12 4CD
Date of Birth 09/10/1972
Associated with MR SIMON SOMEBODY Date of Birth 02/05/74
Type of association JOINT ACCOUNT
Association confirmed by BOODLES BANK PLC on 20/05/07

L2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Date of Birth 09/10/1972
Associated with MR SIMON SOMEBODY
Type of association FINANCIAL CONNECTION
Association confirmed by EXPERIAN CREDIT REPORT (2) on 09/03/07

This information was provided to us as part of a report application or from information given after receiving a credit report.

L1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE. A12 4CD
Date of Birth 09/10/1972
Associated with MR SIMON SOMEBODY Date of Birth 02/05/74
Type of association JOINT APPLICATION
Association confirmed by GENERAL BANK PLC on 11/12/05

PUBLIC RECORD INFORMATION

This section of your report includes any court judgments, bankruptcies or individual voluntary arrangements. For further information please see the explanatory leaflet.

J1 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Information type BANKRUPTCY ORDER Date 03/12/06 Discharged 03/12/07
Court name ANYTOWN COUNTY COURT Case number 2005000136
Source: INSOLVENCY SERVICE

When your bankruptcy has been annulled or discharged we will be informed by the Insolvency Service. For further information please see the explanatory leaflet.

PUBLIC RECORD INFORMATION CONTINUED

J2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Information type VOLUNTARY ARRANGEMENT Date 17/06/04
End date 24/10/06
Court name UNKNOWN Case number IVA0045658
Source INSOLVENCY SERVICE

If you have any questions about voluntary arrangements you should speak to the Supervisor.

J3 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD
Information type VOLUNTARY ARRANGEMENT COMPLETE Date 17/06/04
End date 24/10/06
Court name UNKNOWN Case number IVA0045658
Source INSOLVENCY SERVICE

This information shows that the conditions of the Arrangement have been met. Details of the Voluntary Arrangement will continue to be held on your report for six years from the date of the Arrangement.

J4 MISS JESSICA ANYBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ
Information type SATISFIED JUDGMENT Date 01/08/04
Amount £481 Satisfied 16/11/05
Court name SOUTHTOWN COUNTY COURT Case number ST701043
Source REGISTRY TRUST LTD

Satisfied judgments are automatically removed from your report after six years.

J5 MISS JESSICA ANYBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ
Information type JUDGMENT Date 01/07/04
Amount £1,257
Court name SOUTHTOWN COUNTY COURT Case number ST401135
Source REGISTRY TRUST LTD

If you have paid a judgment you should contact the court involved and make sure they are informed. You may wish to request a Certificate of Satisfaction as proof of the change. We will be told that the judgment is satisfied and we will update our records. For further information please see the explanatory leaflet.

Credit account information

Credit account information shows details of your credit agreements with lenders. If you have any queries about this credit account information and would like to contact the lender yourself, there is a list of useful addresses at the end of your report. Please see the leaflet for an explanation of what all the details mean including an explanation of the status history.

C1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD

Date of birth 09/10/72

LENDU MONEY LIMITED CURRENT ACCOUNT

Started 19/10/06 Balance £344 Credit Limit £360

Status history 000000D

In the last seven months of account activity, the number of status 1–2 is 0 and the number of status 3+ is 0

File updated for the period to 01/05/07

Credit account information continued

C2 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD

Date of birth 09/10/72

BOODLES BANK PLC CREDIT CARD

Started 19/10/02 Balance £1126 Credit Limit £1300

Status history 32100U00000

In the last 36 months of account activity, the number status 1–2 is 2 and the number of status 3+ is 1

File updated for the period to 01/03/07

C3 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, MIDSHIRE A12 4CD

JOINT ACCOUNT

Date of birth 09/10/72

GENERAL BANK PLC LOAN

Started 04/06/01 Balance £0 Settled 04/06/06

Status history 000000000000

In the last 36 months of account activity, the number of status 1–2 is 0 and the number of status 3+ is 0

File updated for the period to 28/06/06

Settled accounts are kept on file for six years from the settlement date. The status history in respect of a settled account relates to the period of time prior to the date of settlement.

C4 MISS JESSICA ANYBODY, 1, CITY ROAD, SOUTH TOWN, RIVERPORT, X43 2ZZ

Date of birth 09/10/72

Arrangement from 01/05 to 08/05

MOBILE PHONE FIRM RENTAL

Started 05/07/01 Default £548 Defaulted 06/10/05 Balance Satisfied

Status history 8

File updated for the period to 19/07/06

NOTICE OF CORRECTION, Reference 00000000—See final page of report

A defaulted account is removed from your report after six years whether or not you have paid the debt in full. If you have paid some of the debt off, the balance should show how much you still owe.

C5 MISS JESSICA ANYBODY, 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Date of Birth 09/10/72

MOBILE PHONE COMPANY RENTAL

Started 27/08/98 Default £1,021 Defaulted 08/09/04 Current Balance £695

Status history 8

File updated for the period to 07/09/05

A defaulted account is removed from your report after six years whether or not you have paid the debt in full. If you have paid some of the debt off, the balance should show how much you still owe.

Credit account information with account management details

For credit card and store card accounts, some lenders may provide extra information about how you manage your account. This includes details such as the balance shown on your statement each month, the amount you repaid each month, and the number and value of cash advances made each month. If we hold this additional information, the account details will be shown in a separate section of your report called "Credit account information with account management details". An example of one of these entries is shown below:

Miss Jessica Anybody 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Date of birth 09/10/72

ABC BANK PLC Credit/Store Card

Started 06/03/06

In the last 36 months of account activity, the number of status 1–2 is 5 and the number of status 3+ is 0

File updated for the period to 24/03/07

<i>Status Code</i>	<i>Balance</i>	<i>Payment Amount</i>	<i>Previous Statement Balance</i>	<i>Number of Cash Advances</i>	<i>Amount of Cash Advances</i>	<i>Payment Code</i>	<i>Promotional Rate Indicator</i>
0	£5286	£219	£1451	0	0	M	
0	£1,451	£20	£1,363	0	0		Y
0	£1,364	£21	£1,335	0	0	M	Y
0	£1,335	£128	£1,447	0	0		Y
0	£1,447	£0	£1,388	0	0		Y
0	£1,388	£0	£1,139	0	0	M	Y
0	£1,139	£0	£912	0	0		Y
0	£912	£0	£921	0	0	M	
0	£921	£0	£903	0	0		
0	£903	£0	£911	0	0	M	
0	£911	£0	£880	0	0		
0	£880	£0	£0	0	0		

CREDIT LIMIT

<i>Current</i>	<i>01/06</i>	<i>02/02</i>	<i>10/01</i>	<i>08/00</i>
£6,000	£5,000	£4,800	£4,000	£2,000

The first part of the record contains similar information to that shown for all other credit accounts. This information is explained in more detail in the "Credit account information" section of this leaflet.

The central section, shown as a table, records the way in which the account has been used and repaid each month. Each row shows the information the lender sent to us for a particular month, with the most recent information shown on the top row and the oldest information on the bottom row. Up to 12 months' worth of information may be shown. The payment code and promotional rate indicator will only contain a value

under certain circumstances (see table below). If other rows or individual fields are blank this indicates that the lender has not provided this information for that month.

Status code	The status codes are the same for all credit accounts. You should read the status code history from top (most recent) to bottom (oldest).
Balance	This is the total outstanding balance shown on your statement
Payment amount	This is the total amount you repaid in response to your last statement.
Previous statement balance	This is the total outstanding balance shown on your previous statement.
Cash Advances (Number)	This is the total number of cash advances that you took out using your card since the lender last updated the information.
Cash Advances (Amount)	This is the total value of the cash that you took out using your card since the lender last updated the information.
Payment code	An "M" shows whether the amount you paid in response to your last statement was equal to the minimum payment shown on that statement. If you repaid more or less than the minimum payment, this field will be blank.
Promotional rate indicator	A "Y" shows that a promotional offer was applicable to some or part of the balance on your account when the lender last updated the information, such as a period of interest-free credit.

The final part of the record shows past changes in the credit limit for this account. Up to a maximum of four changes may be displayed, with the current limit on the left and the oldest change on the right. Each credit limit change shows the date of the change and the previous credit limit.

Council of Mortgage Lenders (CML) information

Members of the Council of Mortgage Lenders record information on customers who have given up their homes or had them repossessed. If you have any queries about the CML information shown below and would like to contact the company concerned yourself there is a list of useful address at the end of your report. CML information may be recorded at up to three addresses—the address which was repossessed or surrendered and your previous and forwarding address(es).

C6MRS JESSICA SOMEBODY 186 HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD

MORTGAGE YOUR HOUSE PLCFORWARDING ADDRESS

POSSESSION ORDER 16/11/04

File updated for the period to 24/12/02

Previous searches

Previous searches show the names of organisations that have seen some or all of the information recorded on your credit report within the past 12 months. Searches of your credit report should all have been made with your consent. Most will relate to credit applications you have made but some may be routine checks by your lenders on accounts you already have. Unrecorded enquiries, quotations, identity verification checks and credit report applications are shown for you on your copy of your report but are not seen by lenders.

P1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD

Date of birth 09/10/72 Time at address 04 years 01 months

Searched on 27/11/08

Searched by LENDU MONEY LIMITED

Application type REVOLVING CREDIT

P2 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD

OPT OUT

Date of birth 09/10/72 Time at address 04 years 01 months

Searched on 15/11/08

Searched by HOPE BING AND LAMOUR LIMITED

Application type UNRECORDED ENQUIRY

P3 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD

Date of birth 09/10/72 Time at address 04 years 02 months

Searched on 01/12/08

Previous searched on 19/11/08, 07/07/08, 27/06/08

Searched by EXPERIAN REPORT (1)

Application type CREDIT REPORT

This information was provided to us by you when you applied for your credit report via our website

Financial associate searches

Financial associate searches show when your credit report information has been seen because someone you are financially connected to has made an application for credit. This information is recorded for you on your copy of your credit report only. It will not be seen by lenders.

U1 MRS JESSICA SOMEBODY, 186 HIGH STREET, ANYTOWN, A12 4CD

Date of birth: 09/10/72

Name of applicant: MR SIMON SOMEBODY

Date of birth: 02/05/74

Date of application: 15/12/08

Searched by: PEARLY KING AND QUEEN STORES

U2 MRS JESSICA SOMEBODY, 186, HIGH STREET, ANYTOWN, MIDSHIRE, A12 4CD

Date of Birth 09/10/72

Name of applicant: MR SIMON SOMEBODY

Date of Birth 02/05/74

Date of application: 05/12/08

Searched by: HONEST BANKING COMPANY LTD

Linked addresses

Linked addresses are created by lenders when you move or when you tell us your previous addresses. This information shows addresses that you have been connected with. For further information please see the explanatory leaflet.

B1 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Linked to: 186 HIGH STREET, ANYTOWN, MIDSHIRE

Source: HOPE BING AND LAMOUR LIMITED

Date of information 15/10/04

B2 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Linked to: 2 ELSEWHERE DRIVE, SOUTHTOWN, MERSEYSIDE

Source LENDU MONEY LIMITED

Date of information: 05/01/04

B3 MRS JESSICA SOMEBODY, 1 CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Linked to: 186 HIGH STREET, ANYTOWN, MIDSHIRE

Source EXPERIAN CREDIT REPORT (2)

Date of information: 15/04/06

This information was provided to us by you when you applied for your credit report in writing or by telephone

CIFAS—The UK's Fraud Prevention Service

CIFAS information is displayed by address and so the information may not be in your name. CIFAS aims to detect and prevent fraud and so protect innocent people whose names, addresses or other details are used fraudulently by others in order to get credit. Organisations who are members of CIFAS examine credit applications very carefully and may contact you to make sure you have applied for the credit. They will not

automatically refuse applications from people with warnings on their report. If the CIFAS entry is recorded in your own name and you require further information you should contact the company directly at the address provided on the entry.

F1 Name used MRS JESSICA SOMEBODY

Date of birth used 09/10/72

Address Used 186, HIGH STREET, ANYTOWN, MIDSHIRE A12 4CD

Date recorded 08/01/09

Member name JINGLES MOBILE PHONE COMPANY

Members address Jingle House, Mobile Road, Tonetown, Southshire Z98 1VY

Case Reference 14AY2400

Product Type COMMUNICATIONS

Type of case VICTIM OF IMPERSONATION—use, by another person, of this name and/or address.

Gone Away Information Network (GAIN)

GAIN shows that an individual owes money and has moved without giving the lender a forwarding address. It is explained more fully in the leaflet. If you have any queries about this information please contact the company which gave us the information.

T1 MRS JESSICA SOMEBODY

Date of birth 09/10/72

Last known at 1, CITY ROAD, SOUTHTOWN, RIVERPORT, X43 2ZZ

Located at 186, HIGH STREET, ANYTOWN, MIDSHIRE

By: MOBILE PHONE FIRM

Reference 62623456 On 09/03/05

Notice of Correction

Reference: 00000000

Page 1

00000000/SOMEBODY. "I, MRS JESSICA SOMEBODY, WISH TO MAKE IT CLEAR TO ANY POTENTIAL LENDER THAT THE HISTORY OF ARREARS ON THIS ACCOUNT WAS SOLELY THE RESULT OF REDUNDANCY AND NOT A RESULT OF ANY UNWILLINGNESS TO PAY. I WOULD LIKE TO STRESS THAT I AM NOW IN FULL TIME EMPLOYMENT AND ALL MY MONTHLY PAYMENTS ARE MADE ON TIME. SIGNED MRS J SOMEBODY." ADDED 11/01/06 JPJ

Useful addresses

The following addresses will help you to contact lenders or other organisations if you want to ask them about information on your report.

SOUTHTOWN COUNTY COURT: QUEENS' HOUSE, ROYAL STREET SOUTHTOWN, U48 7RF

ANYTOWN COUNTY COURT: 100, VICARY STREET, ANYTOWN, EW67 9RW

LENDU MONEY: MRS VERITY HELPFUL, CUSTOMER SERVICES (DATA PROTECTION), LENDU MONEY, CASH HOUSE, 200 NEARBY ROAD, CLOSETOWN, MIDDLESHERE, KI14 8XZ

HOPE BING AND LAMOUR LIMITED: CUSTOMER SERVICES, HOPE BING AND LAMOUR LIMITED, FRIENDS PLACE, HARDLY ANYWHERE, KV12 9YY

JINGLES MOBILE PHONE COMPANY SERVICES: MRS SHIRLEY ANSWER, CREDIT UNDERWRITING DEPT, JINGLES MOBILE PHONE COMPANY SERVICES, MOBILE HOUSE, PARK STREET, NOWHERE LK76 5YH

GENERAL BANK:MR ANDRES QUERY, COLLECTION & LITIGATION DEPT,
GENERAL BANK, GENERAL HOUSE, LOCAL ROAD, TOWNSPACE, TG98 4TR

ABC BANK PLC: CONSUMER SERVICES, ABC BANK PLC, 26 BANK CLOSE, BANK
BUSINESS PARK, GENERALBOROUGH, GF12 5AT

Written evidence submitted by the Information Commissioner's Office (ICO)

EXECUTIVE SUMMARY

1. The Information Commissioner's Office (ICO) is the UK's independent public body set up to uphold information rights in the public interest, promoting openness by public bodies and data privacy for individuals.

2. The Treasury Select Committee is undertaking a short inquiry into the impact on the credit ratings of consumers shopping around to obtain credit, through personal loans or credit cards, on the most advantageous terms. Evidence is sought on:

- The effect of multiple credit searches on individuals' credit ratings including the size of the change in credit scores; and
- The extent to which lenders offer best practice quotation searches.

3. The ICO has not received a significant number of complaints about the effect credit searches have on individuals' credit ratings, and we are unable to comment on the extent to which lenders offer quotation searches as an alternative to credit searches. Nevertheless, this is a practice that we would support and encourage, as shopping around for the best credit deal should not result in an impaired credit score. Lenders must ensure that they only conduct a credit search when a consumer has actually applied for credit.

4. Subject to this, we consider that the process of making and recording a credit search is basically fair in data protection terms—not least because it provides lenders with information relevant to making informed and responsible lending decisions.

5. On the understanding that multiple credit applications are predictive of increased credit-risk, we also consider that the potential negative effect which multiple credit search footprints have on individuals' credit scores is justifiable—at least in principle. However, we raise concerns around ensuring that these negative effects are proportionate to the increased risk, and about the transparency of the process.

ROLE AND EXPERIENCE OF THE ICO

6. Individuals who consider that their rights under the Data Protection Act 1998 (DPA) have been infringed are able to ask the ICO to make an assessment as to whether or not this is likely. The Commissioner has investigatory powers in this regard and may take enforcement action where he considers that to be warranted. Enforcement action usually falls short of criminal prosecution, although the Commissioner does have power to prosecute for specific offences created by the DPA—such as that of unlawfully obtaining personal data. In addition, a new power is likely to come into force soon enabling the Commissioner to impose financial penalties for serious breaches of the DPA that are likely to cause substantial damage or distress.

7. Complaints about credit-related matters form a significant proportion of the ICO's caseload, and it is common for us to deal with complaints concerning the accuracy of information recorded on a consumer's credit file, for example. Nevertheless, our experience is that we do not receive many complaints about the effect credit searches have on individuals' credit ratings. This could well be because people are generally unaware of the impact that a credit search has on their credit score, or because they do not appreciate the distinction between credit searches and quotation searches, but this is merely speculation. We have seen some complaints where multiple credit searches have been undertaken in relation to a single application for credit and, as we explain below, such situations clearly raise questions about fairness.

8. Given the dearth of actual complaints to the ICO on these matters, we are unable to comment on the extent to which lenders offer quotation searches as an alternative to credit searches, or on the extent of the negative effect which multiple credit searches actually have on individual credit scores.

9. Although the provision of a complaints resolution service for individuals is a key element of the ICO's functions, we also devote significant resources to encouraging compliance and promoting good practice at an organisational level—with the aim of making it easier for those organisations who seek to handle personal information well, and tougher for those who do not. We do this by means of a range of activities, from the publication of general guidance to direct engagement with organisations and industry bodies in respect of particular data protection policy concerns.

10. Much of this engagement work concerns consumer financial services. We work with the credit reference agencies and with financial institutions, and with other regulators such as the OFT, to improve the ways in which financial services organisations handle consumers' personal information.

CREDIT REFERENCING AND THE DATA PROTECTION ACT 1998

11. Organisations that handle (or “process”) individuals’ personal information must comply with the DPA. They must register as data controllers with the ICO. This involves notifying us of certain particulars about their data handling activities, and the payment of an annual fee. However, the ICO has no power to refuse or revoke a registration—so this process is not akin to the OFT’s role in issuing consumer credit licences. Data controllers must also comply with the principles of good information handling that are enshrined in the Act.

12. It is clear that the whole process by which lenders and others share information about consumers via the credit reference agencies—including making credit searches—involves processing personal information, and that lenders (and the credit reference agencies) must therefore engage in that process only in ways that comply with the DPA and with the data protection principles in particular.

13. A key principle is that personal information must be processed fairly and lawfully. In practice, this means that organisations must:

- have legitimate grounds for collecting and using personal information;
- not use it in ways that have unjustified adverse effects on the individuals concerned;
- be transparent about how they intend to use the information, and give individuals appropriate privacy notices when collecting their personal information;
- handle people’s personal information only in ways they would reasonably expect; and
- not do anything unlawful with it.

14. Further principles that are worthy of note here are that:

- personal information must be adequate, relevant and not excessive for the organisation’s purpose; and
- it must not be kept for longer than necessary.

15. So, we need to be satisfied that the process of making and recording a credit search is basically “fair” (there is no doubt that it is generally lawful), both in terms of its purpose and effect, and also in terms of what consumers are told about the process. The relevance of credit search records in decision-making, and the length of time for which records of historic credit searches appear on credit files also goes to the question of fairness.

CREDIT SEARCHES—PURPOSE AND EFFECT

16. The purpose of a credit search is, of course, to provide a lender with information that will enable it to make an informed and responsible decision as to whether or not to grant credit to a consumer and, if granted, as to its terms. It is entirely fair and reasonable that lenders should do this—provided that they have been transparent in telling the consumer in advance what will happen.

17. As we understand it, making a credit search has a dual effect: first, it leaves a visible “footprint” on the consumer’s credit file; and, second, it potentially has an adverse effect on their credit score.

A) *Search Footprints*

18. When a credit search is conducted, it leaves a “footprint” on the consumer’s credit file. As we understand it, the purpose of such a footprint is twofold: first, it enables the consumer to know that a search has been conducted (and by whom); and, second, footprints enable other lenders to see how often the consumer has applied for credit.

19. Credit searches should be distinguished from “quotation searches”, the latter being made only for the purpose of providing a quotation, rather than to determine an actual credit application. We understand that both types of search leave a footprint that is visible to the consumer and lender alike, but that they are distinguishable on the face of the credit file.

20. We consider it essential that these search footprints should be visible to the individual consumer. The real question is whether they should also be visible to other lenders who may subsequently search the consumer’s credit file. This, in our submission, should depend on whether they provide the searcher with information that they have a legitimate interest in seeing for the purposes of their search.

21. The credit industry’s position is that prospective creditors do have a legitimate interest in knowing whether (and how often) an applicant for credit has applied for credit in the past. The industry says that making several such applications over a short time period is predictive of the applicant’s financial over-commitment and even of possible fraud. Assuming that this is true, we agree that the information is relevant to the decision whether to grant or refuse credit, and that it should therefore be available to lenders for that purpose. We should note, however, that while the logic of the industry’s position seems perfectly reasonable, the ICO is unable to verify the extent to which multiple credit applications are predictive of sub-optimal credit risk. No doubt this is an issue that the Committee will wish to explore with other witnesses as part of its inquiry.

22. We are not aware of any claims that merely “shopping around” for the best credit deal is predictive of increased credit risk—and we would be sceptical of any such claim were it to be made. On this basis we see no reason why lenders making credit searches should be able to see the footprints left by earlier quotation searches, as that information would be both irrelevant to the decision-making process and excessive. Our understanding is that quotation searches do leave a footprint that other lenders can see, and that they may be taken into account in credit scoring, but the Committee may wish to confirm this with the credit reference agencies.

B) *Credit Scores*

23. Financial institutions use information gleaned from a consumer’s credit report, together with information obtained from the individual direct, to produce a credit score, which is then used to assess the risk of granting credit as part of the credit decision-making process. Different institutions use a variety of models to generate credit scores and the ICO is unable to comment on the detail of the credit scoring process. Nevertheless, we understand that most (if not all) credit scoring models take account of historic credit searches that appear on a credit file, and that multiple credit searches tend to have a downwards effect on credit scores: in other words, they depress an individual’s creditworthiness.

24. This downwards effect on credit scores is based on the predictive quality of multiple credit searches mentioned above and, for the same reasons, we think it is unobjectionable in principle. However, there are a number of significant qualifications to our support for the inclusion of credit scores in automated credit scoring. These may be summarised as follows:

- The negative effect that multiple credit searches have on a credit score must be proportionate to the increased risk they predict. We have no means of knowing whether this is actually the case in practice.
- On a similar theme, it would be helpful to have greater clarity as to how many credit searches it takes to cause this negative effect. Anecdotal evidence suggests that, these days, lenders are less wary of multiple credit searches than perhaps they once were. This is again something that the Committee may wish to explore further with industry representatives.
- The predictive quality of records of credit searches diminishes over time. Consequently, credit search footprints should be removed once they are no longer of practical use. We understand that the industry standard for retention of credit search records is 12 months.
- Lenders should not leave more than one credit search footprint in respect of a single application for credit—because this could have a disproportionately detrimental effect on the applicant’s creditworthiness, and would therefore be unfair.
- Shopping around for the best deal should not result in an impaired credit score. Multiple quotation searches should not impair an individual’s credit standing, and lenders must ensure that they only conduct a credit search when a consumer has actually applied to them for credit.

TRANSPARENCY OF PROCESS

25. This is a complex and technical area which consumers are likely to find confusing, not least because of the array of different types of searches of their credit files which may be made by organisations, and the different ways they impact on a consumer’s credit standing.

26. We have already commented that search footprints bring a desirable level of transparency for consumers. However, there is a further dimension to the transparency issue—consumers need to be given information about the likely effect of a search on their credit standing (and about any choices they have) before the search is carried out.

27. A consumer should be told in clear and understandable terms that a search of their credit file will be made, and what sort of search it will be.

28. In addition, lenders should only conduct a credit search where the circumstances warrant it. So, lenders’ front-end processes should be designed to elicit whether a consumer is seeking a cost quotation or actually applying for credit. Only in the latter case should a credit search be made.

29. It is worth noting that at least one of the credit reference agencies publishes quite extensive guidance for consumers on its website, including guidance on the effect of multiple credit applications on an individual’s credit standing. This is very much to be welcomed. However, the Committee may wish to inquire about the extent to which lenders take steps to bring this sort of guidance to consumers’ attention, and whether additional guidance on related issues would be desirable.

Written evidence submitted by Equifax

1. EXECUTIVE SUMMARY

1.1 Equifax, a global leader in information solutions and one of the largest credit assessment, ID verification and fraud prevention solution providers, is grateful for the opportunity to respond to the Treasury Select Committee's inquiry into credit searches.

1.2 This document details Equifax's response to the Committee's two points of focus:

1. The effect of multiple credit searches on individual's credit ratings including the size of the change in credit scores.
2. The extent to which lenders offer best practice quotation searches.

1.3 To inform our response, Equifax has analysed a range of data relating to full credit searches and quotation searches.

1.4 We would like to highlight at the outset that credit reference agencies (CRAs) are not informed of the outcome of a credit decision made by a lender following a credit search. Therefore, while Equifax is able to identify the predictive power of credit search data, we cannot provide information on the actual numbers of applicants who are declined credit due in part or otherwise to the number of previous credit searches appearing in their credit file.

1.5 Credit searches form an important part of a lender's decision making process. The credit score used by a prospective lender is based on a number of characteristics. Examples of these include a consumer's payment history, their age, accommodation type, and employment status to name a few. The number of prior credit searches is one further characteristic which is taken into account. It is therefore the combined impact of these characteristics which formulate the overall predictive power of a scorecard and ultimately drive the credit decision.

1.6 The precise effect that making multiple searches has on a credit score will vary depending on the extent and status of a consumer's current credit file. For example, an applicant with very little credit information will be more heavily penalised by multiple credit searches than an applicant with a fuller credit file. Further to this, an applicant with a good credit file (ie those with open credit accounts at the time of applications and with a generally positive repayment history) will be penalised the least.

1.7 It is important to note that references to "penalising" credit ratings throughout this submission relate to reductions to a consumer's credit score when calculated using credit file data held by Equifax and using Equifax scorecards.

1.8 We have also analysed the impact that removing credit searches from the decision making process would have on the predictive power of credit risk scoring systems. Clearly, any significant loss in risk scoring power has the potential to weaken a creditor's capacity to ensure they lend responsibly and minimise bad debt.

1.9 Across all sectors analysed by Equifax, removing credit searches weakens the power of credit risk scoring systems. For applicants with little credit history, the loss is greatest and would likely significantly weaken lenders credit decision making ability. We anticipate that this could lead to an increase in bad debt, or, more likely, increase rejection rates as creditors introduce stricter lending criteria.

1.10 With regard to the use of quotation searches, our analysis shows that they currently work well in the regulated mortgage market. However, our analysis has also shown that their use across the unsecured credit market—particularly the credit card sector—is negligible.

1.11 We would be delighted to meet with the Committee or the inquiry manager to discuss this document and our work in greater detail.

2. EQUIFAX SUBMISSION

1: *The effect of multiple credit searches on individual's credit ratings including the size of the change in credit scores.*

2.1 Information provided by Equifax to the credit industry to support credit decision making includes credit risk scores tailored to particular credit sectors or generic across the UK lending population.

2.2 These scores can be used by lenders as the primary decision making indicator, but are more typically used as part of a broader range of information which includes a lender's own scorecards and policy rules.

2.3 Equifax's generic credit risk scorecards have very recently been redeveloped and this has allowed us to analyse a range of data to inform our response to the Committee about the potential effect of multiple searches on an individual's credit rating.

2.4 However it should be noted that due to the methodology used to build scorecards which assumes that future performance will reflect past performance, the latest scoring models are based on application data samples from 2005 and 2006. This is to allow time to analyse the performance of previously opened accounts in order to predict the performance of future accounts.

2.5 Therefore, while the following information provides extremely useful evidence to show the impact credit searches have and have always had in credit scoring decision making, it may not fully reflect what may or may not be happening in today's credit market following significant reductions in credit applications and any changes creditors may have made to their approval criteria. It will be many months before the outcome of today's credit decisions can be seen.

2.6 To best show the effect that multiple credit searches will have on an individual's credit rating we have grouped our analysis into three distinct groups of consumers, as described by their credit file status:

- "POOR FILE"—consumers who at the time of application had defaulted on previous credit or currently had serious arrears on one or more accounts.
- "THIN FILE"—consumers who at the time of application had either no open credit accounts or only one or two accounts opened in the last few months.
- "GOOD FILE"—consumers with open credit accounts at the time of applications and with a generally positive repayment history.

2.7 We then analysed each consumer group against Mortgage, Credit Card and Loan product groups. Across all three product groups approximately 50%–55% of people do not have a recorded credit search within the last 12 months.

2.8 The "POOR FILE" consumer group is most likely to have a search within the last 12 months, followed by the "GOOD FILE" and "THIN FILE" consumer groups respectively (actual percentages vary between products).

2.9 In all instances the credit ratings of the "THIN FILE" consumer group are penalised the most heavily at all levels of search activity (It is important to bear in mind that this group are also least likely to have credit searches).

2.10 The "GOOD FILE" consumer group is penalised least for initial low levels of search activity (1–2 searches over 12 months). However, as multiple searches increase the "GOOD FILE" group is penalised more heavily than the "POOR FILE" group.

2.11 Whilst the "POOR FILE" group is more likely to have multiple credit searches, the incremental punishment they receive for additional searches is the least—giving this group the most stable penalty across the range of credit searches ie the level of multiple searches is less indicative than the fact they have multiple searches.

2.12 Comparing the penalty associated with credit searches across product groups, all consumer groups are penalised most heavily for a Credit Card application, followed by a Loan application and Mortgage application respectively.

2.13 In addition to looking at the points associated with searches, we can attempt to quantify the significance including multiple search characteristics in our credit score models. To do this we scored our samples with and without the multiple search characteristics. Across all products multiple search characteristics are of most importance to the "THIN FILE" group—adding between 6–8% onto the measure for assessing the scorecard's predictive power (the model's ability to accurately evaluate the level of risk associated with an applicant). By comparison, when they are included in the "POOR FILE" group the search characteristics add approximately 2% to the models' strength. For the "GOOD FILE" group searches add between 2%–4%.

2.14 In conclusion, search characteristics are of more importance to the "THIN FILE" group, (influencing scores to a greater degree when present) and comparatively not impacting the "GOOD FILE" and "POOR FILE" groups to the same degree.

2.15 It is important to reiterate that this analysis has been carried out on samples dating to 2005–06. If due to the current economic climate there is a generic policy shift within the financial sector to rejecting a proportion of credit applications they would have previously accepted, then the picture is liable to alter.

2.16 Currently, we would expect to see a higher percentage of the population making multiple credit searches in an attempt to find better deals. This creates the potential for "GOOD FILE" consumers to be additionally penalised until decisioning models are realigned. As a result they will be portrayed as a higher risk applicant when in theory their classification is being driven by the market place and not their risk.

2: *The extent to which lenders offer best practice quotation searches.*

2.17 We have examined the proportion of quotation searches as a percentage of the total number of credit searches. We have reviewed the trend over time, and assessed the results by the type of company performing a search (eg mortgage supplier, finance house, bank, building society, credit card provider etc).

2.18 Equifax does not record the type of product applied for in our search database, and therefore cannot link the search inquiry directly to the credit product. Therefore, if a search was performed by a bank, the customer may have been applying for any one of the products that organisation offers.

2.19 Equifax began capturing quotation searches in 2004, but initial volumes were negligible. In January 2005 they reached 1% of total credit related searches. During 2006 the number of quotation searches started to increase dramatically reaching over 6% of total searches by the end of 2007. Since then, the number has declined to average pre-2007 levels of approximately 2% of total searches

2.20 Further analysis shows that the number of quotation searches appears to be heavily driven by companies which provide mortgages—perhaps explaining the significant reduction in the number of searches since 2008. The peak in quotation searches during 2007, as a result of regulations introduced at this time which required mortgage providers to use quotation searches to support “rate for risk” products, and the following decline can be seen in each of the following company types: mortgage suppliers, building societies, finance houses and finance services.

2.21 If we highlight companies classed solely as “mortgage suppliers” we can see that the number of quotation searches performed by these companies since the start of 2009 is about 80% of all searches performed by mortgage suppliers on the Equifax database. This is four times the rate of credit searches and likely reflects the current “shopping around for quotations” prior to making a formal credit application.

2.22 We would conclude that where quotation searches are required by regulation (ie in the mortgage market) the process is working well and ensures credit search applications are typically only being performed when a formal application for a mortgage occurs.

2.23 In the case of the credit card market, we see low volumes of quotation searches performed prior to a formal application for a credit card product. We suspect this is primarily due to the fact many credit card products are not “priced for risk” and therefore have no need for a quotation search when the applicant applies directly to that lender for a particular credit card product.

2.24 It is important to note that Equifax marks all credit files with a “footprint” every time information is viewed by a creditor. There are varying levels of footprint markings to denote whether a full credit search or a quotation search has taken place on a consumer’s file. Creditors do not take quotation searches into account when making credit decisions.

3. ABOUT EQUIFAX

3.1 Equifax in the UK was established in 1989 and has over 450 employees with sites in London and Bradford. We serve customers across a wide range of industries including financial services, retail, healthcare, telecommunications/utilities, brokerage, insurance and Government departments.

3.2 Originally established in the USA in 1899, we are headquartered in Atlanta, Georgia, and employ approximately 6,900 people in 14 countries through North America, Latin America and Europe. Equifax is a member of Standard & Poor’s (S&P) 500® Index.

3.3 We are the world’s largest repository for consumer credit information, and in the UK we hold approximately 400 million records on 45 million individuals. Our commercial databases contain information on 2.1 million limited companies as well as information on a significant number of non-limited companies.

3.4 We receive in the region of 192 million updates to this information each month from a range of public and private sources including Government bodies such as Local Authorities (Electoral Roll), HM Court Services (via Registry Trust Ltd) and organisations involved in granting credit, including all the banks, credit card companies, mortgage providers, mobile telecommunication providers and mail order companies.

3.5 We use this data to provide services to business, individuals and Government. In particular we offer:

- consumer and business credit intelligence;
- portfolio management;
- ID verification and fraud prevention;
- decision-making technology; and
- marketing tools.

3.6 Our business model is based on secure, accurate data. As such, we invest heavily to ensure that our databases and business processes are in line with the principles of the Data Protection Act (DPA). In the UK we have received accreditation to the Government T Scheme, as well as BS 7791 and ISO 27001 which means our processes are defined, documented and checked every year.

14 October 2009

Written evidence submitted by MoneySavingExpert.com

EXECUTIVE SUMMARY

Make an application for a loan or credit card and the act of applying puts a search on your credit file, which in turn affects your credit score and as many products are rate for risk, it is impossible to know what you'll need to pay without applying.

This means some people apply for 8% loans, get told they'd be charged 16% and then see their ability to get a cheaper loan from elsewhere diminished because of that application.

Alternatively you can apply for a credit card for its cashback rewards, only to be told that you're getting a different card without cashback that you don't want. Yet again, the process of doing so potentially hurts your ability to apply elsewhere.

Sadly most cards and loans advertise "typical rate" which legally only means 66% of accepted applicants get that rate. For those rejected the need to apply to another provider can lead to rejection spiral as too many searches, especially in a short time, can hurt both their credit score the process of consumers shopping around.

1. SITE USERS' FEEDBACK AND EXPERIENCES

1.1 After campaigning on the effect of shopping around for credit for a while MoneySavingExpert is very happy to be forwarding the personal stories of its site users as written evidence towards the Treasury Select Committee's inquiry into credit searches.

1.2 Our view is quite simply that consumers should be able to know EXACTLY what rate they will get before it's recorded on credit files.

1.3 The following responses were left on the MoneySavingExpert.com forums or emailed to us. Some spelling and minor corrections have been made, otherwise text is as provided. A range of stories sent to us about credit applications have been included. The emails have not been published on the moneysavingexpert website, therefore the identities of the correspondents have been removed.

1.4 Contributors were asked to keep their posts to around 100 words to keep the information crisp.

1.5 While a specialist money website, due to its sheer scale it is not a site frequented solely by Money Nerds. MoneySavingExpert.com users come from a complete cross section of society with all levels of income and personal circumstances. The site has eight million unique users each month, and over three million recipients of the free weekly e-mail.

1.6 The contributions selected from site users do not necessarily reflect the view of the site itself.

2. EFFECT OF CREDIT SEARCHES: CASES

2.1 The following cases highlight the effects of multiple credit searches:

XXXXX by email

My experience within the last week of this unscrupulous way of searches being applied not once, but several times by banks and building societies is something that must be stopped.

My wife and I have sold our property and have found a "new build" property that we like very much. I have been self employed for nine months and my wife has been employed for six years with a blue chip multi-national company. Our combined steady income is around £75k we currently have a mortgage with the RBS and decided to take the advice to shop around a little to see if we could better the rate.

We applied to RBS first to ask if they had another offer that would work out cheaper and as a comparison approached Barclays through an independent advisor. Only to find that the RBS could not help but Barclays had agreed in principle to a slightly better rate. We then was told by the advisor he could get a better rate from the Alliance and Leicester, so we said great lets look at theirs.

We ended up with so many searches to our good credit files that we were declined by all of the them (neither of us had any bad debt or late/missed payments), we were looking to decrease our mortgage as well from what we currently have.

We now find ourselves in a position where we cannot get any mortgage offer as our file looks like we are desperate for money. The other problem is they now want much more of a deposit (loan to value ratio) forcing us into a position where we may have to pull out of our sale just because we cannot get a mortgage for our new home.

The point being, not only is our credit rating now damaged beyond belief, but the bigger picture is this practice is stopping the sale of two homes, maybe more, in a climate where everybody else is trying to get it going.

MoneySaver fairfaxkid

In the summer I visited my bank for the last 20+ years Nat West for a loan. Advertised at 8.9% APR I was told I could only have 11.9% even though I had checked my own credit score and had excellent rating. I told them to hold it while I visited Halifax; only to be told that 11.9% was excellent and to go for it. When I quizzed Nat West I was told it was because I had had a lot of hits recently on my credit record. This was only because; on MSE suggestion; I had just changed my car; house; contents & utility bills to other companies. I was told that this would be the case for the next 6 months! So basically we are stuffed every time we switch providers? The only one making money at the moment is the banks.

MoneySaver DebtMagnet

I had a mortgage advisor do four credit searches in the space of a week without my knowledge. I only found out when I applied for a mortgage independently and was flatly refused. Checked my credit file and saw the searches. Even though I had not asked for, or authorised them, I was told by several providers that there was no way I would get offered anything competitive while those four searches were there and the likelihood was that I'd be refused if I applied again, which would in turn harm my score even further, a vicious circle.

Although that's an extreme case and there was an incompetent advisor to blame, the result would have been exactly the same had I "shopped around" for four mortgages/loans/credit cards to get the best prices.

We are encouraged to shop around for the best price on insurance, utility's, phones, food etc, and we can do this to our hearts content without any fear of it affecting anything in any negative way financially (quite the opposite actually), so why do banks and credit providers still have this power to practically destroy our "credit score" for nothing more than trying to find the best deal?

The whole credit scoring world is shrouded in mystery and we are not allowed to know what each credit provider is looking for to get their "typical rate", so the only way we can try to get it is to apply, and the fact that this then hinders you if you get offered a poor deal and want to try elsewhere is appalling and needs to be changed ASAP.

I was told it did effect my credit score and that I would be unlikely to get much as a result by a number of different providers, so made my decision on a mortgage based on that info (ie I went with one who'd already "searched" my file, in effect reducing my choice to four providers rather than the whole of market). As it was people from sales departments who said this I took it as being correct in good faith, as they didn't want to even bother going through the process of trying to get me on board?

I don't know enough about it so trusted people who should on paper know more than me, so if anything it still shows how this subject can lead to people being easily confused and getting things wrong due to the lack of transparency with the whole system. It may have been wrong, but I didn't know any better.

I'm stuck with a mortgage product that I knew wasn't the best at the time but was scared to try anyone else as I wanted to apply for some 0% credit cards and didn't want to make (what I was told was) a bad situation even worse. In the end I waited 6 months before applying for anything and it looks like there may not have been a need for that either?

I have a number of other examples should anyone want them.

XXXXX by email

I went on the Internet to look for a much needed loan the cheapest rate was 6.9% with Black Horse so I applied. What followed was an absolute nightmare.

I received 24 phone calls over two days—each one passing me from department to department, asking the same questions and confirming I could have a loan, each time I expressed concern at all the checks they were doing and the imprint it would leave on my credit file I was told not to worry as they would not turn me down. The calls went to my home, mobile and work numbers—so much so that my boss travelled seven miles to my office to find out why he couldn't get through to me on the phone. In one call a man spent 20 minutes telling me I could only have the loan with the insurance and refused to give me the price of the loan without the insurance—only when I quoted Martin's money feature on GM TV that I didn't need to buy their insurance did he eventually and very reluctantly back down.

At the end of the two days I had a loan that was more than I wanted, over a longer period of time than I had wanted for a much higher interest rate than had been advertised on the Internet—indeed higher than three other entries on the Internet but my credit rating was so screwed and I was so exhausted I had no choice. I look forward to the day I make the last payment and I will never trust Black Horse again. This system has to change otherwise they have us over a barrel every time.

XXXXX by email

When I first wanted a loan back in 2000, I took what I thought was a sensible approach and spent a day ringing loan companies looking for a cheap rate. I had never missed a payment with mail order companies, was employed full time and had a mortgage. I became worried during my last phonecall of the day, when the person I was speaking to asked if I had contacted any other companies. When I told him I had contacted

a lot of other companies, he advised this could affect my credit score and my ability to get credit. I was shocked, none of the other companies had advised this. They had said they would do a credit check but this did not concern me as I knew I had never had any problems or bad debt.

I decided not to take a loan but some time later applied for a Marks and Spencer's card and was turned down. I had to send for my credit report and write a letter of explanation to M&S. Eventually they gave me a card and I was careful not to apply for any credit until my credit rating had built back up. I was too frightened to buy a Dyson on interest free credit because of the effect it might have.

I felt very embarrassed and humiliated by the whole experience. I thought I was being sensible. My partner and I eventually bought a car and sat in the showroom terrified that the credit application would be turned down, even though we could afford it and had no bad debts. The whole experience was dreadful.

XXXXX by email

I originally applied for an Alliance & Leicester Credit card (MBA) taking advantage of the introductory interest free period. I was fully aware that after this period, the interest rate would increase to its standard rate of 17.5% APR. When this happened, the country was in the middle of the recent crash, and I applied for a Virgin Credit Card to transfer the balance.

For the first time in my life, having never fallen behind on any loan or card, I was refused. I applied to some other cards but was also refused credit. Alliance & Leicester, knowing that I had been trying (unsuccessfully) to transfer my balance, then increased their APR from 17.5% to a whopping 34.9%.

When I questioned it, they said that they are entitled to increase their interest rate whenever they wish, and that I agreed to this when I signed the application.

XXXXX by email

I have always had a very high credit score, and have an exemplary credit history (checked regularly on Experian). I recently decided to apply for a personal loan, and decided to take advantage of Barclays' price match offer. I also simultaneously applied for a 0% balance transfer offer card to keep the cost of my required borrowing as low as possible. I submitted two applications to see where I could get the greatest approved credit limit. For the loan, Barclays advised me to apply online for a cheaper loan with another provider and they would then match that rate. I did this, but then Barclays informed me my loan had been refused. On enquiry, they told me this was due to my low credit score, which came as a great shock to me. After paying £5.95 to obtain my score from Experian, it seems this was due to a number of recent credit searches on my account. I am now stuck with a low credit score for the foreseeable future—I can't challenge this as the information is correct—even though my credit history is unblemished, and I am in stable employment and earning a high wage. This is a classic example of the vicious circle of credit searches leading to a reduction of choice and I now have to pay a much higher rate for the credit I can obtain.

XXXXX by email

I have no credit issues and have never missed a payment on any credit card or loan etc. I have just purchased a new car and wanted to shop around for the best rate. Using a MoneySavingExpert recommendation I contacted Alliance & Leicester and Sainsbury as they seemed to offer the best rate of 7.9% however neither would confirm the rate without a credit search. The first company I applied for was Allied & Leicester and they duly offered me the advertised 7.9% after a credit search. In the interim I had also applied for the Sainsbury's one to see what they would offer as they also said they offered the first three months without payment. They called to offer me a rate but offered 8.9%. When I queried why they had put the rate up the woman specifically said that it was most likely because it was the second credit search that had been done and since I had already applied for another loan this would have reduced my rating and would be why they'd offered a higher rate!

I found this very annoying as it meant that as you say it is impossible to shop around for a loan as the more times you apply the worse your credit rating gets. I can not see why your score should be reduced if you have not taken out a loan. I could understand if I was taking out a second loan but it was clearly the same one as I'd applied to both on the same day for the same amount. I therefore realised I could not apply anywhere else to compare rates without my credit score going down again.

Credit scores should only be reduced on the basis of hard facts eg additional loans being taken out, non payment etc. Not just because someone is shopping around to get the best rate. Companies should be made to offer a rate and not vary from it—they should simply make a yes/no decision on whether they offer that person a loan at the advertised rate or not. Otherwise—what is to stop a company offering a headline super-low rate that it never intends to offer to attract applications—then offering a higher rate after a credit search knowing that the applicant's score has now been reduced and they can not shop around? Disgraceful.

XXXXX by email

I applied for a loan with my bank LloydsTSB by calling the loans department. I went through the process quickly and with no problems and was quoted an APR of 8.1%. During the time the paper work was posted to me I decided to use the site MoneySupermarket to search around for better rates. I saw Alliance and Leicester offering 7.9%. I went through the online application for this loan and shortly after received an email saying I had been approved. I cancelled my LloydsTSB loan. When the A&L loan paperwork came in the APR was 11.9%.

When I called customer services I was told the actual APR was dependant on my credit rating—not the APR that was advertised, also no mention of this in the approval email. When I called LloydsTSB back I had to re-apply as I wanted a LESSER amount. This time however, after my credit check I was referred and asked a number of questions before I was approved. Proof that the searches had affected my credit rating even though all I had done was try and search for the best deal.

XXXXX by email

In the last year, I've applied for two different loan products as my wife was having a baby, and we were looking to consolidate some of her debts and my debts down to try to save ourselves some money for when the little one turned up.

The first was with Sainsbury's loans, as suggested by your website as being the best deal at 7.9%, and it was by a long-shot. However, my application was rejected by them, and I thought nothing of it until about a week later I was again contacted by them to be offered a rate that was almost double what I'd applied for at 14.9%.

However, by this point I'd already moved on to talk to my bank, with whom I've had a long-standing relationship (yes, I know I shouldn't, but I've found it to be to my advantage when dealing with them in the past, and it worked out this time as well). Typically, their rates are 9.9% which was the rate that I applied for. After some to-ing and fro-ing, however, the rate I ultimately ended up with was at 12.9%. This ended up being the best option for me, and to be absolutely fair to hsbc there were some glitches in my cashflow (work hadn't paid me on time once or twice, and that made them nervous) that put me further up their risk matrix. So, two applications both ended up at a higher rate than the one I applied for initially.

XXXXX by email

I called the Halifax bank to get a settlement figure on a personal loan because I was looking at consolidating my debt and I'd had been offered a rate of 7.9% by another bank. I was told by Halifax that I had a guaranteed £13k that I could borrow at the same rate of 7.9%. I agreed to call them back with the exact amount I wished to borrow but the line was busy so I went into a local branch the following morning. I was told the branch didn't have that rate but they could process an application to see if they could get a lower rate. I specifically asked that no application be processed as I would just call the telephone banking. The branch loan offered me a rate of 10.9% which I declined but when I called the telephone banking from the branch, I was told my guaranteed rate has disappeared. Because they completed the process which registered a credit search, I was refused the loan from elsewhere and had to end up taking the Halifax one at a rate of 10.9%.

XXXXX by email

I have just been caught in the loan application scandal. To explain I was left 50% of a will which included a house from a family member so I needed a small amount to buy the rest of the house. Thinking of the best way I could do it I put in the hands of my financial adviser only to be knocked back and now when checking my credit report because he has looked else where there is a lot of searches which now has put me with no chance of getting this mortgage, and to make matters worse some of the companies are trying to charge me hundreds of pounds because I have been turned down.

XXXXX by email

When applying for finance on a car I purchased earlier this year, I passed the credit check and had been accepted for the loan (finance) when I returned to the garage a few days later to sign the paperwork the sales assistant realised he had used the wrong car on my application. So, he filed a new one and re-submitted it. It was declined. We couldn't understand why this had happened so he rang the Head Office, they told us that since I had last applied, my credit rating had lowered. This meant I had to use another company to finance my car, with a higher interest rate which meant my monthly payments went up from around £150 to £180!! The stupid thing is, if the sales assistant had put the correct car on in the first place I would have been accepted straight away (as I originally was) and would be paying a total of £1800 less for my car (over 60 months)!!!!

MoneySaver GAB

Shortly after buying my first house I decided to exit my company car scheme, opting instead for the cash. Being a savvy consumer I shopped around for the best loan rate to buy a car, but at every turn I was offered a far higher rate than that advertised. It was only after the third or fourth loan application that I learnt that each search left a footprint that potentially made further searches look worse!

I then got very worried, having already applied and had several searches. I applied to Experian and Equifax for my credit history and they both came back very healthy, further confusing me as to why the rates I was offered were so high. However, I was now stuck in a catch-22, I wanted a decent APR but was worried about leaving credit search footprints.

In the end, I went to my bank (NatWest), with whom I had a long and good relationship and they immediately offered me a loan. It wasn't the best rate available but was certainly better than all the others I'd been offered. So, I got my loan but was still very annoyed about the penalty of searching around for the best rate.

Something I never got to the bottom of is why I was always offered rates so much higher than those advertised. The only thing I can think of (given my clean credit history), was that having just bought my first house the banks must have felt I was at a higher risk of defaulting on a car loan. If this is correct, it clearly demonstrates why people should make decisions about loans rather than computers as, what they weren't factoring in was that my company was now giving me money, in lieu of a car, with which to pay the loan. Something a human could have factored in.

MoneySaver j-dub

I had an Egg card and an Egg loan... I decided it would be a really good idea to try and consolidate them both into a single loan as that way I'd be able to completely pay them off over seven years and should be paying less interest than I was paying on the Egg credit card and loan combined. I worked it out using the APR (around 9% if I remember correctly) on my existing loan and my payments were affordable, so I went through the hassle of filling in all the forms online to get this consolidation loan. The forms had sections to allow paying off existing loans and even cards... after spending a while filling in the online forms, and having a credit check, I got to the final page where it told me that they would do me the loan I wanted... only at 29.9% APR! This made the payments significantly MORE than the credit card payment and the loan repayment together and meant that the total interest I was to be paying was MORE than both the previous card and loan added together! When I called them to find out why, I was told that "that's the way the system works... You've already got a loan and a credit card with us".

MoneySaver foxwales

I took out a loan with Alliance & Leicester in February 2008, they advertised an APR of 7.1%, which was one of the most competitive deals on the market at the time; so, I called them up and proceeded through all of the questions to find that I had been accepted for the loan, however the interest rate which they were offering me was 8.9% APR.

Although the rate offered was somewhat competitive, I did know the ramifications of my application having an affect on my credit rating, so I accepted the loan at that rate. A few months down the line I wanted to borrow an additional sum, so returned to Alliance and Leicester who approved my additional borrowing.

However, what they didn't tell me until after they had approved my additional borrowing was that they would lend me my original borrowed amount with the additional borrowing on top, then deduct my existing loan from the new loan and then apply an interest rate of 11.6% APR onto the whole amount borrowed!

I was quite put off actually looking for a better deal than this because I now had two credit checks carried out against my file in such a relatively short period.

XXXXX by email

I had an experience with this a couple of years ago. I decided to apply for an unsecured personal loan for home improvements and obviously tried to get the best deal by comparing APR's. I spent hours researching this and even checked out my credit file, this being rated at good/very good, to ensure that I had a good chance of being offered credit. Finally when I settled on my choice, in this case Northern Rock for about 5.5%, I placed my application. To my horror, the APR they offered me was nearly 9%.

I was now at a loss at what to do next. Did I make an application to someone else and risk getting offered an even higher rate? In the end, as I did need the loan, I decided to go through with the Northern Rock offer.

I have never understood how the current method actually benefits anybody. Surely the lenders want to encourage people through their doors but if they aren't open and upfront people certainly aren't going to be rushing to recommend lenders, and the lenders who are actually being honest about their "higher" rates of interest aren't going to attract any business as the lenders making false promises are stealing the business by default. Had I not have feared having a footprint left on my file I probably would have made at least three more applications.

XXXXX by email

I bought a new Skoda Fabia recently. The dealer offered me a rate of about “5%”. I thought this was pretty good and went away to think about it. I ran the numbers (~£250/month for 24 months for £5,200) and realised they were quoting flat rate, not APR. I had an offer from Alliance and Leicester in the post offering me, as an existing current account customer, an unsecured loan for 7.9%. The loan offer was also MSE’s best loan deal at the time, so I cancelled the Skoda finance and applied for the A&L loan. I got an e-mail saying I was accepted [1] so I paid for the car on credit card and the loan paperwork came through a few days later.

I was shocked to see that despite having had a savings balance of several thousand pounds for several years (I’d just spent it on a house) and always being in credit by a substantial amount (I earn £35,000 a year), I was offered at 10.9% APR, £242/month for 24 months. So, it’s still a little cheaper than the Skoda finance, but I’ve lost the ability to overpay and clear the loan early, or the ability to get a better rate somewhere else as a) the application will have hurt my credit history, b) I didn’t have enough time to get a loan accepted elsewhere before the credit card was due.

[1] “Good News! Your loan application has been accepted and your documents including the APR we can offer to you will be sent in the next available first class post. Upon receipt of your agreements, please read, sign and return to receive your funds. Thank you.”

XXXXX by email

Last year I was considering consolidating credit card debt when I got a letter from Norton Finance offering loans at 8%, lower than the rates on my cards. I rang up and said I only wanted an idea of payments as I didn’t want a footprint on my credit file. I had recently moved in on my own which meant applying for lots of credit at once, and having an address I had not been at long, and having no landline, so I was wary of the effect on my credit rating.

I was assured no footprint would be left went through all the questions and was told black horse would offer me a loan. I was put through and went through everything again only to be told that they would offer me a loan at 30% APR. I balked at this and flatly refused to which I was told I should take it as the state of the economy meant I wouldn’t get a better deal! I was not desperate and ended the call, to find out that this had left a footprint on my credit file. I was so annoyed!!! Now I constantly receive junk mail from Norton Finance which is so annoying!

XXXXX by email

I have two loans with A&L. One is at 7.9% and the other is at 8.9%. I decided to purchase a new kitchen and applied for additional borrowing on my mortgage. I would have been credit searched. I decided to not go ahead with that. Then I entered into an interest free offer with the kitchen supplier, five days ago. I then thought I would amalgamate by two loans with A&L and borrow an additional sum. They initially quoted 8.9% (subject to credit search) and then after the search, offered me 13.9%! This would also have meant I would have been penalised for one month’s interest for early redemption and then charged an extortionate rate. I’ve decided not to go ahead.

I usually have a very good credit score (I used to work for a lender so know this for sure), but due to being searched 3 times in a short period, it’s obviously affected my credit score. I have had credit of some sort for the last 22 years and have never missed a payment of been late.

XXXXX by email

I have taken out a loan for a car. I decided on the rate offered at Nationwide. The rate finally offered was higher and not as appealing, but if I had applied for another loan this may have affected my credit rating adversely. I proceeded with the Nationwide loan though I was not confident that I had got the best deal. The car company had also applied for a loan for me although I did not request this. I was told it had been approved should I decide that I wanted it. I realised this application may have had an effect on the rate offered to me.

XXXXX by email

I applied for a Tesco loan at 8.8%, however when it went through it has gone up to 17.9%! I have to go for it though as I need to get off a 0% credit card I made a late payment on so will lose the 0%... Not good!

MoneySaver samshocker

About three years ago, I applied for a low rate MBNA platinum card. I was telephoned by MBNA to be told I was successful, and an agreement was posted for me to sign in order for the card to be issued. It all seemed very straight forward.

I was sent two copies of a lengthy agreement, one for me to keep and one to be returned asap to MBNA. I was disgusted that hidden in the depths of the small print was the APR, which was around 14% higher than I had applied for. I phoned MBNA to complain, they tried to pressure me to sign up and return it by stating that it was still an excellent deal “given my situation”.

I never did sign it or return it. Instead I felt misled and surprised by the lack of clarity around the actual rate I had “qualified” for. Had I have signed it and returned it, I would have already been committing myself to a substantial balance transfer at a rate that was worse than the current provider at the time.

MBNA felt vindicated as it was written in their terms and conditions that circumstances may not allow you to get the rate. But it wasn’t clear, or in plain English and worst of all, not clear from the application stage.

MoneySaver Eric Pisch

I wished to get a new cash back credit card so I applied for an 5% card but was turned down as I had applied for a loan recently (which I had not taken out) which had affected my credit rating. I applied for a different cash back card a few months later (unaware of the negative impact credit searches have on your rating for six months) and effectively destroyed my credit rating for six months.

The current system penalises the consumer for “testing the water” and effectively locks them into one credit application every six months and forces them to take that sole application. The rating system needs to be changed so that checks do not affect your rating and that only credit taken out is scored.

XXXXX by email

Following some cost issues on an extension we were building on our home I “parked” some debt on a credit card using a 0% purchases deal. I swapped this debt around to keep it interest free for some time. I ran into problems when I applied for a few very good deals on credit cards and loans (apologies I don’t have the detail to hand and with a two month old child and a business to run I don’t have the time to dig it all out).

I think it started with a loan it offered a great rate, but despite having a great credit rating (but admittedly quite a lot of debt (£18k) on cards) I was not offered the “headline” deal, but something that was about 3% above that rate.

I then decided to stick to cards, but in my subsequent applications I was rejected either completely or given a poor deal, something that had not happened before. I was advised by one kind lady (no one else made it easy to find out) the reason—I had made a few applications and this went against me in the decision.

I also think it would be helpful if as a matter of course the banks were made to give you a detailed response to your application—ie exactly why you were rejected or why you got a poor rate or poor deal. It can only serve to help people understand their situations better and manage them better.

XXXXX by email

I started trying to get a credit card over two years ago.

I have been residing in the UK (from New Zealand) since July 2007.

I have always been employed in the UK and earn in excess of over £45,000(gross).

I have not had a credit history in the UK before this date.

I made a host of applications at different times with no success. I approached my bank and was told that the repeated applications actually worked against me and I don’t have enough credit “history”.

I then subscribed to “Credit Expert” and monitored my credit history, in summary it read as “no issues”. I have continued to pay my bills and also registered on the electoral role. After a few months I un-subscribed and recently approached my bank. I have still been unsuccessful at gaining a credit card and no one has given me a valid reason for not supplying a credit card.

MoneySaver cakey

I got stung well and truly by Virgin once. I applied for a loan at 9% to consolidate credit cards which were at 16%. I went through the whole process spoke to the under writers and he said he was pleased to offer me the loan at 19%!! I refused as this was more than my credit card rate, even though I refused to take the load it still shows on my credit report... and the credit report doesn’t show I refused only that I didn’t take it... gutted.

XXXXX by email

I applied for a Halifax Plus credit card last week. The website advertised the card as being at a typical rate of 16.9% APR (variable). I finally got my documentation through yesterday and the rate I have been offered is 21.95% APR which is considerably higher. I am now reluctant to commit to the agreement as the rate is even higher than the card I wanted to do a balance transfer from (19.94%). If I had known before applying that I would be offered a 21.95% rate I would not have applied for the card.

XXXXX by email

When I was a student nurse I had my car stolen and had to buy a replacement. I had a loan outstanding on the stolen car so decided to consolidate to be able to afford the new car. I applied for a loan with an APR of 6.7% however on application I was offered 10.9%. I had to accept this as if I applied for another loan it would show up and penalise my credit rating. The loan company albeit a reputable one made an opening offer but then moved the goal posts.

XXXXX by email

I recently enquired about a new loan application with my bank Alliance & Leicester.

I regularly check my credit score with Experian & did so before the application—had a very good rating so was expecting to be offered a loan at the advertised rate of 6.5% typical. My application was rejected—with no explanation—and I was put thru to “one of their partners who may be able to help”.

The “partners” were unable to give me any information on the loan rate I could achieve without credit scoring me and I was not inclined to go thru the process again as it would adversely affect any decisions in the future. In the meantime I checked the partner’s website & saw that their “typical” rate was 28% APR. I did not proceed—but was unhappy that A&L would give these loan sharks my details & wondered what the benefit was to them to send me to another source at much higher rate without my full knowledge.

I am now shopping around to switch banks and have not proceeded with any further applications. This practice should be investigated—it is very easy for unsuspecting individuals to be misled.

3. RATE CHANGES: CASES

3.1. We also received a high number of examples of rates rising from the “typical” without apparent reason or warning, restricting borrowers to the rate offered if they don’t want to add another search to their file.

MoneySaver suze369

During a call to discuss my current account I was solicited by my bank Smile to take out a loan to clear my credit card balance with them. I didn’t really want to as this would tie me down to a fixed term when I really want to clear it as quickly as possible. The agent quoted me that I would pay an APR of 7.9%, which seemed a good rate so I agreed to letting someone call me to discuss it further.

A week later I received a call from the Smile loan team and I recapped the conversation with his colleague including the APR given. It was only once we commenced the application process that I was given an APR of 16.9% instead! No clear reason was given and the agent said “well you were overdrawn in April and May, so that will be why”. I can’t deny I was overdrawn but only on the last days prior to each pay day, and then only by <£5 and have had many years of being in the black with them. Needless to say I stopped the application.

MoneySaver Idiophreak

I applied to Sainsbury’s earlier in the year for a loan advertised at 8.1% “typical”. Upon application I was told my rate would be 12.1%. I questioned this and they told me to consult my credit file. Which I did. As I suspected, my credit file showed absolutely nothing amiss, a number of accounts, not a single missed payment...I did the “give me my credit score thing” you can do on the website and it said my score was 999/999. I was living with my parents, so had little in the way of outgoings and I earn a decent wage.

Armed with my credit report, I then went back to Sainsbury’s and made the point that clearly my circumstances and credit rating place me far above “typical” in terms of my ability and likelihood to repay the loan, so why was I being offered above the typical rate? I was then told that it could have been due to the amount of the loan I’d asked for or the term of the loan requested.

I tried to make my point several times that if it were these things that caused the rate to increase (or any other “internal criteria” for that matter) it was immoral, at best, for them to run a credit check—and thus footprint my file—for a loan on which I was never going to be offered the rate I’d applied for. Needless to say nothing ever came of my complaint.

It’s about time there was a little transparency added to this process and lenders should be more accountable and explain their scoring decisions. This “it’s not our fault, write to the underwriter” get-out they seem to operate is ridiculous.

MoneySaver dnrc

About a year ago I wanted a 4 grand loan to buy a car. I looked around and eventually applied for a Barclay's loan at 8%. I have a good credit record and rating but when I got a letter a few days later I had been accepted, at 30%!!

MoneySaver mhoward18

I have got a very good credit rating but I am self employed witch tends to go against me. When I applied for a loan at 5.9% I ended up getting a rate of 7.9%. It wasn't a bad rate but still what's the point in responding to someone's advert making you believe you are going to get a very cheap loan when that's not what you get.

MoneySaver lamaar75

I applied for a credit card with Marbles, it quoted their APR as 14.9%. I wasn't moving any money and only needed it as safety for an online transaction. Anyway, I was successful and advised that card would be sent in the post. When it arrived, the APR was 19.9%. I phoned them to ask why and was told that hardly no-one gets the 14.9% but they have to put that on their website as it is possible. I think it is disgraceful that you can be misled like this.

MoneySaver stuart79

I recently applied for an Egg Money card to use for cashback when I couldn't use my Amex platinum cashback card. I am a foreign national, unable to get onto the electoral roll, so was denied by Egg at first. I sent a letter to them and had a phone interview asking about all my accounts and balances (savings, other cc's, ISAs), then was told that due to it taking them a while to get back to me I'd need a fresh hard search on my credit file if I wanted to go ahead with the challenge.

To cut a long story short, I received my egg card in the end, but my rate is 21.9% + £1/month, which is a good deal more than the 16.9% advertised + £1/month.

MoneySaver louieob

Today I applied for a debt consolidation loan from Halifax/Bank of Scotland after receiving continuous offers through my internet banking account to apply. It was offered at a rate of 8.9%. I got an e-mail advising It had been approved in principle and I had to call to confirm some details.

When I called, I was told, it had been approved at a rate of 14.9% due to underwriters looking into my application and personal details. I asked what the criteria was and what in these "personal details" that made the rate jump so much, but there was no specific information they could give me. I replied that I had a really good credit history, and was told the decision may not be related to my credit score.

Additional comments on the above from MoneySaver Idiophreak

This is the bit that really winds me up—if the decision isn't to do with the credit score, they should tell you you're not going to get the desired rate *before* they go on and dent your file. I really think it's completely unethical for them not to do so...and it ought to be illegal.

MoneySaver ClareP

This happened to me a couple of months ago with Alliance & Leicester. I was in the branch and they offered 8.9% on a loan and once the application went over the system it was calculated at 11.9%!

MoneySaver PUREHOMES

I use internet banking (Barclays) and noticed I had a pre approved offer of a loan at 7.9%. I applied as this rate was lower than my current debts, with the idea of consolidating them.

When I got the paperwork through, it actually said 17.9% on it. I phoned to query this, and was told that 17.9% was the correct rate being offered to me.

MoneySaver hecjb

Applied for a £27K loan over seven years. The rate stated on application was 8.0%, or 8.2% with an immediate payment break of two months. For personal reasons we took the payment break but the actual loan we got has a rate of 9.9% APR. Needless to say I will be paying it off as soon as possible. As far as I know my credit history is clean as a whistle yet my rate was elevated for no stated reason.

MoneySaver adamwantsadb9

I applied for a loan with Lloyds TSB, I have one of their Premier Accounts that I pay £25 a month for. I was told that since I had one of these accounts I was eligible for a loan at the rate of 5.9%. I applied as I needed to decrease my outgoings and was then hit with a rate of 19.9%.

I was told at the time that my “risk score” would decrease within a few months if I kept the payments up, I have since made 19 monthly payments, on time and in full and if they were to offer me a loan now, it would be at a monstrous 24.9%.

MoneySaver powerful_Rogue

Applied for a loan with Asda three weeks ago to cover the cost of double glazing. The advertised rate was 9.9% typical. Went through the process and at the end was advised I had been accepted at 17.9%. Phoned Asda up straight away and asked them to cancel the loan. I’ve got a Virgin credit card with a limit big enough at only 15.9%. I then phoned Barclaycard who I have an account with and asked them to increase my limit, which they did with no problems, APR 9.9%.

MoneySaver DeskBob

I currently have a loan with the Halifax, which I took out about 18 months ago. I can’t remember the exact rate advertised, but it was well below what I finally got the loan for (8.9%). At the time I applied to at least two other lenders who gave me higher quotes, both these were also well above the advertised rate.

This practice is unfair and wrong, and the system is also wrong, as each search puts a mark on your credit score. I know the banks want to protect themselves from people applying and cashing multiple loans, but there must be a better way. Of course the danger of forcing banks to give one loan rate is that they may decide to just offer one high rate to everyone.

MoneySaver kadiea

You very rarely get the “typical” APR rate or as I call it the “temping” APR rate, it is obvious that the APR rate is there to make you apply. My dad got a Tesco clubcard credit card, was offered the usual 12 month BT six month Purchases. My dad has a spotless credit history, fully owned house, assets and high income. But when he applied they offered him 19.9% even though the “typical” APR is 16.9. It may only be 3% but credit shouldn’t be expensive just because the banks !!!!!led up.

Oh and you don’t have to miss a payment or have a lifestyle change to get your credit limit dropped just be a customer. They will decrease your limit so that next time you get your statement you’re over limit, or you get declined in the shop. Then you get “over limit charges”, fair enough when payments were not direct and the transaction system relied on little slips of paper but NOW what’s the point?

Why let a credit card go over limit, and usually only by about £20? Oh sorry I forgot, so that everyday people have to hand their hard earned money over to the bank, it doesn’t matter if the children have school trips, the bankers have to put their children in private school. Oh and if you start using your Santander card all the time for everyday purchases and paying off the balance in full, expect a letter telling you your account it being closed because you are not using your card enough!!! On top of the fact you were offered 15.9% and got 22.9%.

XXXX by email

Around two years ago I applied for a Capital One credit card. The advertised rate was very low I think around 12%. I got the card without problem. I used the card for over a month only to find that when my bill came (over £1,000) the interest rate was actually 29.9%. Of course I paid off the bill immediately and cancelled the card. The rate of 29.9% was not mentioned on the letter of acceptance or anywhere in the information but it was in some very small print in the terms and conditions (who reads it all?). Had I not been in a position to pay it off in full I would have had the exorbitant charges (more like store card rates). I rang Capital One and they said I was high risk and that was why I had been charged the high rate. I had three other cards, a mortgage, bank loan and other arrangements all without problem. I am self employed and this, according to Capital One made me high risk.

XXXXX by email

I received an unsolicited letter from Barclaycard (I am a Barclays Premier customer and have an offset mortgage, current and savings accounts) saying that I was guaranteed acceptance for a Platinum card at a rate of 12.9%. As this was the best rate Barclays had offered me to move my credit card from HSBC, I applied. I then received a letter saying that I had been accepted for a card other than the one I applied for with a rate of 24.9% (higher than HSBC). I did not realise that applying with my current bank would affect my credit rating, or that my “guaranteed acceptance” was not guaranteed at all. I did not take up the credit card but have since had another similar offer and one for a personal loan from them.

XXXXX by email

I used moneysupermarket.com to find a £10,000 loan. Black Horse Finance had the best interest rate of 7.9% on an exclusive offer with Moneysupermarket. As I met all the conditions, I applied and was accepted in principle but had to visit their offices in Maidstone to complete their paperwork.

My wife and I went to Black Horse's offices yesterday and, after a long interview which included a significant amount of time trying to sell me insurance, was told that the best rate they could offer me was 9.9%. I turned down this offer as I regarded their methods as under-hand. This is false advertising on the part of both Moneysupermarket and Black Horse Finance and an underhand way of trying to sell me insurance I neither want nor need.

As has been pointed out, this application leaves a "footprint" which could be detrimental to any future loan application I may make and wasted a whole day responding to an offer they were not prepared to deliver.

XXXX by email

Prior to applying for a balance transfer credit card, my score was 999. I wasn't aware that balance transfers did not include "money transfers to bank account". I applied to three providers and although approved, I only opted for MBNA as they fulfilled my needs. I cancelled Barclays (the other one was post office) but now my credit score is low because of three searches in a week. Post-office one signed me up to identity fraud and it's not easy to cancel straight away.

XXXXX by email

I recently opened a current account with Alliance and Leicester as this came with a regular savings account with high rate of interest. I had just moved house (I did not have bills etc to prove my new address and was not on the register to vote at that address as yet) however the offer was due to close by the end of the week. I explained this to the staff and was told it was not a problem if I could bring in documentation as soon as I had it. She suggested I applied for a credit card as there was a good cash back offer on. I said I would think about it as I already have a credit card however she informed me if I waited they would have to do a second credit check which would go on my credit record; If I applied that day only one credit check would be done. I therefore applied for the card. The following week I was able to provide correspondence with my new address and was accepted as a customer. I then received a letter turning down my application for a credit card. I obtained from Experian a copy of my credit report to find THREE searches had been done: one by for the credit card, one for the current account and one for identification: money laundering prevention. Needless to say I have written to complain, asking for the reasons for their decision and that my record be amended. They are currently making investigations.

XXXXX by email

Last week I phoned Barclays with a query on a cheque payment. After this was sorted out the advisor noted that I had a balance on my Barclaycard and told me I was paying 24% interest rate and if I took a loan with them to clear the balance I would only pay 15% rate. After a 20min call going over an application I was told at the end I had been accepted for the loan and had to log onto my online banking ac to complete deal. When I logged on I discovered loan rate stated 25% rate. I queried this and was told it was all they could offer me. It was even more than I am paying Barclaycard! Ridiculous.

XXXXX by email

I recently applied for a loan online with my bank and was told I had been accepted, I thought at rate of 8.9% When paperwork came through the rate was 13.9%. Decided to try Tesco who I have a credit card with but was refused. I think my credit rating is ok. I have a few late payments perhaps but none missed.

XXXXX by email

I recently applied for a loan at Alliance & Leicester at their 8.9% rate. As someone who earns an above average salary, has less than £2,000 credit card/overdraft debt, a secure job and is responsible with money (I have an A&L current account so they can see my spending habits) I was confident I would get the rate. I didn't. They offered me a staggering 11.9% which I rejected immediately despite them badgering me to accept. I must be a low risk borrower surely?

XXXXX by email

I was sent a marketing letter inviting me personally to apply for a Capital One Platinum card (despite being on the mailing preference list). The rate was attractive, the 0% balance transfer fee low and the life of the transfer at 0% was one year. I was looking for a balance transfer so I applied. I was sent a letter to sign but I noticed it was not for the Platinum card but some other card of theirs with a higher APR and only a few months 0% balance transfer. As I have no adverse credit and a good rating I wonder who exactly is eligible for the one originally offered. I did not sign or return the letter and continued to receive mail from

Capital One until I contacted them to complain. I did not apply for the standard card, if I did not get accepted for the Platinum (who does?) then it is unethical to automatically set me up with a sub-standard product for which I did not apply. I was offered no explanation.

XXXXX by email

I had a bad experience with Abbey bank, now part of Santander, last month. I needed to borrow £4,000 over two years to cover the purchase of a new car for my wife. As usual I made a search of the internet comparison sites to see which lender would provide the most competitive rate. On this occasion Abbey came out as being the best offering 7.9%. I followed the link through to Abbey's website and again the 7.9% rate was shown as being available. As I was not an Abbey customer I had to apply by telephone rather than on-line.

After providing all my details over the phone I was told my application had been approved but the rate would be 13.9%. I declined the loan and went elsewhere. I cannot understand why this rate was so far above the one advertised. I am a 40 year old married man. I earn in excess of £35k per year. I have a relatively small mortgage, have never missed a payment in 15 years. I have a current account on which I have never gone overdrawn ever. I have two credit cards with balances that are paid off in full each month. I have had several personal loans from banks in the past and have always paid them off fully and without missing any payments. I have always had the best credit interest rate made available to me so it hit me as quite a shock to find the Abbey wanted me to pay a "sub-prime" rate.

I do not regularly check my credit rating as I have never had problems but no doubt Abbey will have done a search of my file and this may, in the future have a negative effect on my status. I would welcome any government action to address this problem. The banks have taken this country to the brink of financial ruin and now they are adopting practices which can harm individuals financially.

XXXXX by email

HSBC were advertising 8.9% typical APR, I was offered 15.2% although the paperwork said offer at 8.2%. I wanted to shorten the term which they claimed could not be done without a new application despite no paperwork being signed and no credit agreement in place. The staff suggested a new application, which then came in at 9.9% along with a high pressure sales pitch of other products.

MoneySaver littlemisskitty

A year ago I had to apply for a loan to help out in a family crisis, the company had sent me a letter saying I was pre approved advertising a 7.9% APR. I applied and ended up having to take a loan over five years at 29%. Desperate times unfortunately called for desperate measures but needless to say I'm now trying everything possible to finish this loan ASAP. Unfortunately I can't keep searching for a better provider as this affects my rating!!!!

MoneySaver nettles

Some time ago, I applied for a Capital One card. It was something like 14 month 0% APR then about 7.9% I think. What I actually got was three months at 0% then an interest rate of 22.9%. I have not missed any payments on any accounts in the last 6 years, and always paid at least the minimum payment on this card, sometimes more. The rate was recently hiked and is now almost 30%. Needless to say, it is being paid off as quickly as possible, and will only be used in an emergency.

MoneySaver The Jester

During 2000 I needed a loan and contacted Lombard Direct as they advertised their rate at 7.8%. After giving Lombard Direct all my details I was shocked to be offered a loan at just over 12%! When I protested they told me I was a risk and that is why I was put on a higher rate although when questioned they couldn't justify this. The odd thing was I have never defaulted on anything in my life and I earned over the national average! I declined and sold my car instead.

XXXXX by email

I have a loan with Welcome finance and a car with welcome finance. The rates of interest in this are shocking. The car I have was initially advertised at around £6,000 (can't remember the specific amount) but after I applied the sales consultant told me that because of my credit history I had to be put on a higher rate of interest to everyone else but after that my interest rate will be lower when I take a new car. I was also told

that after two years I would be able to hand the car back and take a new finance with them to get another car. This was not the case. They said If I handed the car back I would not get another one as I was a risk because by handing the car back it meant that I couldn't actually afford the payments.

4. GENERAL COMMENTS AND SUGGESTIONS ON CREDIT SEARCHERS

4.1 We received a number of general comments about the issue, outlined below:

MoneySaver cheeryoleary

I've felt there does become a point where the credit scoring/screening method in place becomes anti competitive and puts me off "shopping around". Reminds me of the OFT news today about a Cartel of building companies sharing information in order to get the best price for themselves. I'm all for sharing information in order to screen bad risk customers. After all, credit card companies have to remain solvent. What I do object to is the sharing of information which I would consider anti-competitive.

MoneySaver BenL

The credit reference companies have a "quotation" search function but the banks and credit firms are not using it correctly. These companies need to be forced to use it for checking purposes and then when the agreement is taken out the full reporting of the facts.

MoneySaver Joe_Bloggs

Rate for risk is a double edged sword. It hinders the ability of a risky borrower to repay the capital and subsequent interest. Thus making it more likely that they will default. This thought process could well be a cycle in which lenders feel they have to charge more interest to make up losses, due to defaults/debt management plans, that their high interest rates have created.

MoneySaver bennosdelight

Some banks and building societies do something called a "soft score" on a loan which means that you find out what rate you are being offered without actually having the impact on your credit scoring.

I know that Nationwide do this and think that some of the other smaller people do as well but I'm not sure about the big players like A&L, HBOS etc.

Additional comments on the above from MoneySaver jinglespringles

I do approve of all this being looked into however this "Soft Score" doesn't always work, for example: I have just applied for a loan with N/W as I have banked with them for 21 yrs. I explained what I needed loan for, I got a "Soft Score" of the advertised rate 7.7%. However when they applied I got turned down, even the lady who was helping me could not understand why!

MoneySaver Rafter

Totally agree with the campaign but think it is wider than simply searches being recorded. The banks also need to protect themselves from fraudsters who might apply for two loans simultaneously which in combination would be totally unaffordable.

The law needs to be changed so that loan advertising makes clear what type of customer will get the advertised rate or that customers who don't get the advertised rate are declined and told whether an alternative product is available but without any search being recorded.

I have previously worked for a loan company and know that they deliberately managed offers so that only 66% got offered the advertised rate—that cannot be right and is an advertising regulation working against consumers' interests.

Something also needs to be done about debt consolidation though, so that a customer can consolidate their existing debt at a reasonable rate, in return for surrendering their existing credit cards and loans. I.E. The consolidated loan would definitely be used to repay existing debt.

I also think that we need a "debt reset" law that means if someone has built up debt more than 50% of their gross income that they can by law consolidate it into a repayment loan at say 10% APR rather than be at the mercy of credit card companies increasing their APR to 30%+ and tipping them into more drastic measures such as bankruptcy.

This would give credit card and loan companies a proper incentive not to lend too much and would mean that consumers with high interest rate debt would be able to pay it off over a reasonable timeframe rather than being stuck in a horrible debt spiral.

MoneySaver Moggles

Credit cards have always been issued subject to status, but the *rate-for-risk* policy currently practiced by some lenders, takes things to a new level. The advantage to the lender is obvious. Their market-leading deals are heavily advertised to draw in new customers. If this results in a flood of applications (even though, in reality, they're dishing out something less attractive to large numbers of applicants), they're laughing.

In more than a decade of card shuffling, I personally have not been treated to *rate-for-risk* (yet), but judging from posts to this board, there's a lot of it about now, with many victims left unaware that another deal has been substituted, until the card and paperwork arrives in the post.

As always, it's the most vulnerable that are hit hardest. If you're paying crippling interest rates on a debt, the last thing you need is several more weeks of wasted time and effort, because your chosen lender sent you a substitute card, which is just as expensive as the last. Many suspect that there was never any real intention to issue the advertised card, although there's no doubt some applicants get the flagship deal. (Is anybody checking the success rate and, if so, how often?)

Barclaycard and Capital One are among the worst offenders, but the worry is, that if they're allowed to get away with it, the practice will spread.

XXXXX by email

Whether or not we are shown the interest rate up front, the issue is that we should be able to apply for any number of credit cards without it penalising us. The simple fact is credit enquiries should not be recorded. If you go into Phones 4 U and get a deal, then go to Carphone Warehouse they don't turn around and say, "I'm sorry Sir, because you have already been to Phones 4 U we can't give you this mobile phone".

I applied to two card companies two months ago. I now have to wait another month before I can apply to any more. This is unfair. We need to persuade the treasury to force the credit reference agencies to stop recording enquiries. Maybe a change in conjunction with a Data Protection Act request?

5. ABOUT MONEYSAVINGEXPERT.COM

5.1 MoneySavingExpert.com is dedicated to saving consumers money on anything and everything by finding the best deals and beating the system and campaigning for financial justice. It's based on detailed journalistic research, cutting edge tools and has one of the UK's largest web communities.

5.2 The site was created in February 2003 by specialised journalist Martin Lewis, and is still 100% owned by him.

5.3 In September 2009 there were nearly eight million users a month using the main site and almost 600,000 users registered in the forum.

5.4 This forum contains a huge community of MoneySavers. At any one moment thousands of people are talking about ways to save. It is split into many different subjects, each with their own mini-community and roughly 30 paperback books' worth of MoneySaving info is written each day.

14 October 2009

Written evidence submitted by Callcredit

1. As the newest of the three consumer credit reference agencies, Callcredit has a unique perspective on the use of application searches in credit assessment, though we expect we will not be alone in voicing some of the key points which we present here.

2. Lenders are making less use of application searches as a factor in credit risk assessment:

- Data variables are selected for use in assessment based on their statistical merit, and application searches are not as predictive of credit risk as they once were, probably as a result of consumers "shopping around" more.
- Other indicators of risk are increasing in power. Alternative sources of information are gradually becoming more available, whilst existing data are being processed and used in more innovative ways.
- Each credit reference agency only records a portion of the searches that take place. Not only does this mean that the full "picture" of search use is not generally visible but also that any dependency on search use can make it more difficult to readily switch credit referencing supplier or ensure business continuity.

3. Quotation searches do not offer a genuine answer to perceived consumer need:

- Quotation searches are only suitable for use to establish what rate a consumer would be charged if accepted—not whether they would be accepted.
- If consumers were allowed some new form of quotation search that let them see whether they would be accepted, it would render search data worthless for risk assessment.

- Requiring lenders to extend the availability of quotation searches would make it more expensive to lend, with consequences for the availability or price of credit to consumers. Yet it would have very limited effect on the root of the perceived problem.

4. While the predictive value of search data has decreased in recent times, we believe that the Committee will still find that application search data effectively predicts bad debt. Assuming this, a “complete picture” of searches obtained from all three agencies would hold far greater predictive power than the existing system:

- Consumers would not then be subject to the arbitrary effects that may presently occur depending on the mix of agencies consulted by the companies they have applied to for credit.
- The ability to lend responsibly, considered increasingly important at a domestic and European level, would be bolstered by enhancing lenders’ ability to predict creditworthiness.
- Removing a significant barrier to open competition in the highly distorted credit referencing marketplace would result in consumer benefit from lower prices at the end of the chain.

1. INTRODUCTION—CALLCREDIT

5. Callcredit is one of the UK’s three consumer credit reference agencies, which facilitate the sharing of data on how people manage their repayment commitments. Consumers have statutory access to the credit account performance data that Callcredit compiles on behalf of lenders, and we make optional online services available to meet more advanced consumer needs. We offer solutions to business to establish the creditworthiness and verify the identity of individuals, alongside other related products and services. Services offered to the UK financial services industry include:

- Credit Risk Solutions.
- Fraud and ID Solutions.
- Marketing Solutions.
- Consumer Solutions.

6. In the last few years the majority of the UK’s sizeable lenders have moved to implement Callcredit products and services. The rate of growth of Callcredit’s client base underlines the success of our approach.

7. Some areas where Callcredit has particular interests:

- Data Sharing—Greater data sharing has been proposed as an important step in detection and prevention of crime, and to support responsible lending, but must always be weighed against the rights of the individual and the risks of any possible inaccuracy or data security issues.
- Over-Indebtedness—Callcredit’s unique consumer indebtedness initiative uses consolidated income and debt data to help lenders avoid extending new credit to consumers who may find it unaffordable, and to identify where existing customers are taking on excessive commitments elsewhere.
- Fairness in Collections—Callcredit seeks to provide the best available tools to enable responsibility in collection activity, to assist creditors to correctly identify and treat highly indebted consumers.
- Identity Verification and Anti-Money Laundering—Callcredit assists firms in meeting their obligations to prevent money laundering and protect against fraud through identity verification.

2. EVIDENCE SUBMISSION

8. Callcredit notes that evidence is sought on:

- The effect of multiple credit searches on individuals’ credit ratings including the size of the change in credit scores.
- The extent to which lenders offer best practice quotation searches.

2.1 *Effect of multiple credit searches on individuals’ credit ratings*

9. Multiple credit searches have the capability to impact on individuals’ credit ratings in one of three possible ways:

- As a policy reject rule, where having an extremely high number of searches could prompt rejection for credit. We believe it unlikely that any lenders now have such a rule in place.
- As a policy referral rule, where applicants with excessive numbers of searches filed against them would be subject to detailed review by underwriters to substantiate concerns about their creditworthiness.
- As an item within the credit scorecard, where applicants’ scores can vary.

10. We understand it to be “common knowledge” in the credit industry that credit searches are now less statistically predictive of bad debt and fraud than they used to be historically. Consequently, we hear our clients are using them less frequently, or are assigning less weight to them when they are used in risk assessment tools alongside other variables. It is likely that the effect of creditworthy consumers increasingly

shopping around and having multiple search footprints logged against them has prompted a reduction in the ability of searches to predict bad debt. Indeed if consumers continue to increase how much they shop around, that could mean many more searches being undertaken by those who are more financially literate and capable. This effect could eventually negate the value of search data as a warning flag. Taken to the logical extreme, theoretically logging multiple searches might even become an indicator of financial competence. Data variables are used in credit based purely on their statistical value to predict bad debt. There is no room for prejudice when chasing profit in a competitive market.

11. Search data will usually be of more consequence when prospective creditors have less information to draw upon, such as when younger people or others with a sparse “credit history” apply for a mobile phone or a mail order account. Fortunately, the industry continues to widen the data which are shared to combat this effect. Payments data from the home credit sector has for example begun to be shared only in the last couple of years, while data shared by many credit card issuers now includes additional indicators of financial stress as warning signs. As this trend continues, more people who currently experience difficulty accessing mainstream credit because of a lack of data will find it easier to do so. Equally, with more predictive data available, search data will increasingly have less of a part to play. However, lenders currently use search data alongside other variables, for example levels of debt held and payments missed, to support responsible lending.

12. Callcredit cannot provide an indication of the variance in scores that may result from different numbers of searches logged against an individual. This is because we simply do not use searches in Callcredit’s proprietary credit score. This decision was taken on an objective, statistical basis, rather than due to any subjective concerns on consumer impact.

13. Although established almost 10 years, Callcredit is the newest of the three credit reference agencies. While we have achieved impressive levels of growth in the last few years, the volumes of credit searches lodged with us are naturally less than those which are recorded and held by our two competitors. We have also made innovation a keystone of our approach and successfully created unique tools and attributes which offer excellent ability to predict likelihood of default without needing recourse to consumer search footprint data. Taking these two factors into accounts, it is perhaps unsurprising that credit searches were not identified to hold adequate predictive value to merit being included in Callcredit’s scorecards.

2.2 *Extent to which lenders offer best practice quotation searches*

14. We understand from clients that the majority of them do not offer quotation searches. We cannot comment directly on their reasons for why this is so. However, we know their position is largely restricted by the conditions in place around the use of quotation searches.

15. Quotation searches were always intended to address the development of “risk based pricing”. This practice allows lenders to assess applicants and, if they fail to reach a required level of creditworthiness, offer them a higher rate. It supports financial inclusion, by allowing lenders to accurately reflect the increased risk which they run by lending to a higher risk individual in the price it offers, rather than rejecting them outright. There is however an attendant risk that the rate which the individual is eventually offered will be more expensive than they had expected or even that they can obtain elsewhere. This effect instigated the introduction of quotation searches and formed the basis of the rules around their use.

16. Quotation searches are therefore only intended to provide the means to obtain the price of credit. In order for a lender to offer a quotation search, rules dictate a “risk based pricing” scenario must exist. A quotation search hence only allows consumers to establish what rate they would be offered by a lender *if they were* to be accepted for a credit product. It does not establish whether or not the consumer *would* be accepted for the product. It is therefore currently unusable in any case where a lender offers a product at one single price. It would be of no value to a consumer who was trying to decide which of three loan providers who each offered only one rate might accept him, as he could not establish this without fully applying.

17. Multiple applications are predictive of risk essentially because they identify where consumers are making repeated applications for credit but being consistently rejected. Therefore, any attempt to extend the boundaries of use of quotation searches to confirm whether a consumer would be accepted would be self-defeating. It would completely remove the current ability of application searches to predict risk as consumers would simply never apply without first confirming they would be accepted.

3. CONCLUSIONS

18. Callcredit believes that if the current system continues the statistically predictive value of searches will continue to decline and they will be used less and less in credit assessment. Offering more quotation searches could slow the rate of decline, but probably would not stop it. There is very limited scope to widen the circumstances in which quotation searches can be used without undermining the predictive value of application searches.

19. In most situations search data can only offer “fine tuning” of the credit assessment. Common sense alone dictates that someone applying for a few credit cards will never have as strong an effect on their credit rating as them defaulting on a loan, missing mortgage repayments in succession or being taken to court and judgment (a CCJ) obtained against them. Much is being made of the effect of search data, perhaps beyond its actual value in practice.

20. One reason for the relative lack of importance of credit searches in assessment is that credit search data are held only by the agency which has performed the search. One agency holds a dominant position in the market, logging the majority of all application search footprints. The other two agencies do not have access to that data.

21. Not sharing application search data limits its potential to predict. For example, if a consumer made five applications that all went through the same credit reference agency, that could affect their score with that agency. Their score would not be affected if the five applications passed through a second agency, or would be less affected if applications were spread between the three agencies. In the latter case, a lender would not see all five applications unless they consulted all three agencies. Some lenders have now started using “multi-bureau” systems which can draw upon the combined data of two or three of the agencies rather than relying only on one. This helps to combat this effect by aggregating searches as well as allowing them to compare other differences in the data provided by the agencies.

22. In some cases we have been told that lenders are “managing out” searches from their scoring criteria because of the differing volumes of searches between the credit reference agencies. It affects their ability to potentially change from one agency to another which is increasingly desirable for business continuity purposes and is an additional feature of the “multi-bureau” approach.

23. Callcredit suggests that search data has real, but limited, value in bad debt prediction, having little general impact on consumers save as a “tipping point” in some lending decisions where it may warn of an inability to cope with debts. On this basis it would seem disproportionate to require lenders to make unnecessary changes to their business processes to accommodate quotation searches. Increasing the costs of lending might prompt a further decrease in credit availability—or an increase in the cost of credit to hard-pressed consumers. The industry already faces extensive costs through implementation of new regulation, including the Consumer Credit Directive. Consumers could instead be reassured by the Inquiry of the minimal—and decreasing—impact of shopping around.

24. This Inquiry also comes at a time when “responsible lending” has never been more relevant. Lenders are being urged from all regulatory quarters to make use of all the tools available to assess consumers’ capability to repay before they extend an offer of credit. Credit search data offers one unique tool which can help meet the need to lend to consumers who may already have overextended themselves.

25. Callcredit invites the Committee to agree that application search data remains usefully predictive of bad debt. On that basis, we believe consideration should be given to how the concentrated possession of it acts to distort competition within the credit referencing market. Requiring the agencies to share this data one with another would immediately act to level the playing field in the credit referencing market. That would bring with it all the benefits that better competition brings to participants in the market and to consumers. It would also ensure that the value of the data in assessing creditworthiness was fully realised, and that lenders had the best available toolset to help them lend responsibly, to the benefit of individual consumers and society as a whole.

14 October 2009

Written evidence submitted by Confused.com

1. INTRODUCTION AND OVERVIEW

1.1 Confused.com (the trading name of Inspop.com Limited) was the first website in the UK to provide comparison of insurance prices, allowing consumer to aggregate quotes and prices from a range of providers in one place, and select the quote that best suited their requirements. In the last two years, we have moved into the comparison of other products areas—including credit cards and personal loans.

1.2 As an innovator within the Money price comparison industry, Confused.com welcomes the opportunity to contribute to the Treasury Committee’s inquiry into the impact of multiple credit searches on consumer’s credit files.

1.3 The recession triggered by the financial crisis of 2007, and the corresponding loss of lender’s appetites, has led to an increased consumer awareness of credit scores, and what impacts them.

2. CREDIT CARDS ON CONFUSED.COM

2.1 With any issuer or comparison site, visitors receive extensive product information, but little or no product guidance. It is therefore left to the individual consumer to assess their own suitability for individual products.

2.2 From both a Treating Customer’s Fairly and a commercial viewpoint, we aim to ensure that all visitors to the confused.com credit cards homepage, whatever their credit profile, are made aware of their likelihood of acceptance for individual products—allowing them to apply with more confidence.

2.3 Historically, this has been done by the only means possible—prominently outlining the main exclusions provided to us by the individual lenders (for example, stipulations in minimum age, minimum income etc). While this allows us to significantly reduce the number of Confused.com customers being declined by issuers for “Lending Policy” decisions, there has never been scope to direct customers, on an individual credit-profile basis, to products for which they are likely to be accepted.

2.4 Since the start of 2009, Confused.com has worked with HD Decisions to provide a solution that allows consumers to be matched to products most applicable to them based on their credit profile, as held at the credit reference agency, Callcredit. This tool was launched in August 2009.

3. THE CREDIT SCORING TOOL

3.1 The use of the tool centres on a customer providing us with their consent to share their credit data and 11 key pieces of information, information that allows them to be identified at the credit reference agency, and for a real-time administration search to bring back the consumers individual credit profile. This unique profile is then matched to each Lenders credit decisioning policy using HD Decisions unique understanding of the different lending policies across the market.

3.2 This “administration search” is only visible to the consumer when viewing their own credit file. Searches of this type have no negative impact on the individual’s credit “worthiness” as they cannot be seen by lenders. This is in contrast to “full credit searches”, which when undertaken and viewed by banks, are subsequently used by underwriters as a central tenet in the credit decision process.

3.3 There are three main benefits to the consumer of having access to a tool such as this;

- Significantly reduces the number of applications a consumer makes for credit cards that, from the outset, they have little or no chance of being accepted for.
- Ensures the customer is aware which products are attainable for someone of their credit profile, and therefore doesn’t choose a higher APR product in the belief that they may not be applicable for more competitive products, and wants to avoid potential rejected applications.
- Consumers who already hold credit cards are able use their product recommendations to assess whether they are overpaying on existing debt, potentially saving them money.

3.4 This service is offered to consumers free of charge, regardless of whether or not they choose to apply for the cards for which we have highlighted they are most likely to be accepted for.

4. THE FUTURE

4.1 Such a facility can have a significant impact on the way people apply for credit cards. For that reason, Confused.com is investigating offering the same pre-search facility to other consumers applying for unsecured lending (ie personal loans).

4.2 This concept is currently being implemented by a handful of other financial institutions (both price comparison sites and individual credit card issuers), and it is believed that a number of others will follow our lead, and implement similar tools in the next 18 months. The net result of this will be a greatly reduced number of consumers making multiple failed applications that can have an adverse impact on their credit file, and thus affect the availability and price of future borrowing.

4.3 From a customer perspective, we hope that in the future, the use of tools such as this become ubiquitous—either through market competitive forces, or from regulatory intervention. This will ensure that consumers are treated fairly, and that an individual’s credit file is not unfairly impacted by a lack of understanding as to which cards represent their individual credit profile, as opposed to other factors.

14 October 2009

Written evidence submitted by the Council of Mortgage Lenders (CML)

INTRODUCTION

1. The Council of Mortgage Lenders (CML) welcomes the opportunity to respond to the Inquiry by the Treasury Select Committee, announced on 22 September 2009, into the impact on the credit ratings of consumers shopping around to obtain credit, through personal loans or credit cards, on the most advantageous terms.

2. The CML is the representative trade body for the residential mortgage lending industry. Its 135 members currently hold over 98% of the assets of the UK mortgage market.

EXECUTIVE SUMMARY

- Mortgage lenders, in line with other lenders, have routinely been carrying out credit searches on prospective borrowers for many years.
- All checks are carried out in accordance with data protection and other relevant legislation, and also in line with industry rules agreed with the main credit reference agencies.
- The purpose of the checks is to protect the lenders from fraud, and to protect consumers from over-extending themselves by taking on too much debt which they cannot afford to repay.
- There are three types of search: inquiry, application and quotation. Each type of search reveals the same information—the difference lies in the way each search is recorded on the consumer’s file and made visible to others making a search of that file. Inquiry searches are visible only to the consumer. Quotation searches are similarly not visible to other lenders. The rules require an application search to be carried out every time a consumer makes a formal application for credit (as opposed to an inquiry about what rates might be available). A record of that search is then left on the consumer’s file and is visible to other lenders.
- There has been much comment in the press to the effect that multiple credit searches will have a detrimental effect on an individual’s ability to obtain credit and that the manner in which lenders undertake these searches is exacerbating the problem. Multiple searches are just one factor which is taken into account when lenders assess an applicant’s credit-worthiness. If present in conjunction with other high-risk characteristics, multiple search records may have an impact on the applicant’s credit score. It would be very unusual for a mortgage application to be rejected purely on the grounds that the credit file showed the existence of multiple searches. It is not in lenders’ interests to turn down good business.
- Lenders will base their decisions on the information held by the credit reference agencies. Sometimes, that information may be inaccurate and the lender will, through no fault of its own, make a decision which the applicant considers to be wrong. Given the reliance on data held by credit reference agencies, and the proliferation of credit in recent years, consumers would be well-advised to check that the information about them is accurate and has not been affected by an error made by another lender, or as a result of fraudulent use of the applicant’s identity, of which he or she may be unaware.

What are the rules governing the sharing of credit data?

3. The Data Protection Act 1998 requires that when a consumer’s credit file is accessed an audit trail is created. An individual’s consent must be obtained before a search can be carried out.

4. Credit data is held by three main credit reference agencies (CRAs)—Experian, Equifax and Call Credit. The Experian data file is known as *CAIS* (Credit Application Information System), the Equifax system as *Insight* and the Call Credit system as *Share*. The three CRAs and participating lenders have agreed rules governing the process by which data is shared and the types of searches which may be undertaken. The basis on which lenders interrogate the data held by the CRAs is governed by the “principles of reciprocity”—which means that lenders receive data back on the same basis that they provide it to the CRA: they can’t choose to opt out of providing certain types of data and then expect to see the data provided by other lenders. Lenders pay a fee when carrying out a search. The fee is the same, irrespective of which type of search is being requested.

Why do lenders carry out credit searches?

5. Lenders carry out credit searches so that they can find out more about the credit-worthiness of the consumers who apply to them to borrow money. Each lender’s underwriting process will take many factors into account. Where a very significant factor emerges, such as evidence that the consumer has previously defaulted on a mortgage and had possession proceedings taken against him, then the majority of mainstream lenders would not continue with the application. There might be some specialist lenders who would have been prepared to lend in those circumstances but the current market for adverse credit mortgages has been severely affected by the economic situation.

6. There will however be a wide spectrum of other, less extreme, factors which lenders will take into account. Some of these factors will reflect the lenders’ current risk appetite and available funding and will therefore vary between individual lenders. The information which lenders obtain from credit searches will be less critical to the decision-making process than other specific factors which are relevant to the current lending policy and criteria, but is used for “fine-tuning” and may make a difference to cases which would otherwise be borderline. Its value can be mathematically proven (the Committee may wish to ask the CRAs for further information on this) but needs to be considered holistically and not taken out of context.

7. When a search is carried out it shows the consumer’s recent payment record in respect of credit commitments such as mortgage(s), other secured loans, and unsecured loans such as credit cards and credit obtained for the purpose of purchasing a variety of consumer items. This enables the lender to see how

reliable the consumer is in terms of making regular repayments in accordance with a contractual agreement. The vast majority of consumers always pay their contractual amounts every month: for mortgages an estimated 95% pay the full amount on time as per their contract.

8. The search data also lets the lender undertaking the search see whether the consumer has applied recently for credit elsewhere. This information is relevant because there may be several reasons why consumers make multiple applications:

- They may be “shopping around” to get a good deal—as recommended by consumer organisations and the consumer press. The Financial Services Authority explicitly introduced the Key Facts Illustration (KFI) into its regulated mortgage regime with the aim of encouraging consumers to compare products and prices in the interests of finding the most suitable deal.
- They may be having difficulty obtaining credit because of a poor record of previous payments—and may have applied to a number of lenders and been turned down. Clearly this will be of concern and lenders will want to guard against lending to individuals who are highly likely to have difficulty in making regular repayments.
- They may be making multiple applications with fraudulent intent: unless lenders are on their guard, it would be too easy for an individual to obtain numerous loans, credit cards and even mortgages—and then run up significant debts on each card/account, and abscond, with no intention of paying. By being able to see the recent applications made, lenders can judge whether the number and variety are reasonable, together with the applicant’s actual credit record.

9. When lenders see the results of a credit search, they will see that the customer has applied for “secured” or “unsecured” credit. They will not see the name of the lender to which the consumer has applied for credit, nor will they discover the purpose of the loan being applied for, or the amount.

TYPES OF CREDIT SEARCH

10. There are three types of credit search. Each provides the same information to the lender—the difference between them lies in how the search is recorded on the consumer’s credit file, and who may then see that record.

- Inquiry searches—these can be made by an individual, or person acting on an individual’s behalf. They can also be made by lenders, although in practice this type of search is not carried out by lenders as often as the other types. The main reason for this is that, although a record of the fact that the search has been made is recorded on the consumer’s file, it is visible only to the consumer.
- Application searches—according to the rules already referred to above, which are agreed between the CRAs and participating lenders, an application search must be carried out when an application is made for credit. In the context of mortgages, this means when a specific application is made to a mortgage lender for a particular product and a particular amount. A record of the fact that the search has been made is then left on the individual consumer’s file and is visible to all other lenders and potential lenders.
- Quotation searches—these were introduced in 2002 to deal with the specific issue of mortgage products which were “priced for risk”. In some cases, a consumer might not be in a position to apply for a particular mortgage product and a particular amount before first being aware how much that product will cost. The cost of a product which is “priced for risk” will vary according to the consumer’s risk profile—and it is therefore necessary for the lender to establish that risk profile before being able to quote a price. Before the quotation search was introduced, where a consumer wished to shop around for a product which was priced for risk, lenders needed to run an application search in order to quote the price, even though the consumer had not committed to making a formal application for that particular product. The application was then, in accordance with the rules, recorded on the consumer’s file. In some cases this may have given the impression that multiple applications for mortgages had been made, even though this was not the case. The quotation search gives the lender the information it needs to provide the quotation, but does not leave a record which is visible to other lenders. The record will be visible only to the consumer and to the lender which requested the search. As and when the consumer decides to make a formal application for a particular mortgage product and particular amount, if the lender in question has carried out a quotation search it will, in accordance with the rules, notify the CRA that the status of the search should be amended from “quotation” to “application”. At that point the record of the search will become fully visible to other lenders. Depending on the length of time which has elapsed between the quotation search being obtained and the status of the record being changed to that of an “application” search, the lender may be required to refresh the data submitted. This would not normally be necessary if the period of time was three months or less. If it was more than three months, and the data needed refreshing, the lender would be required to pay another fee to the CRA.

THE IMPACT OF “MULTIPLE FOOTPRINTS” ON CONSUMERS

11. Concern has been expressed about the impact on consumers of lenders making multiple searches of their credit files and leaving “footprints” which could then have a detrimental effect on their ability to obtain credit. Some of this concern may be justified, but it needs to be put into context.

12. First, as explained above, there may be very good reasons why a lender would be cautious if it discovered that a consumer had already made numerous applications for credit to other lenders, whether for similar types of credit (mortgages) or other types (unsecured loans, credit cards and so on).

13. Second, the fact that a consumer may have multiple applications recorded on his credit file will be taken into account in many lenders’ scorecards and, indeed, the scorecards which are developed by the CRAs and marketed to lenders on a commercial basis. Information about multiple searches is included in scorecards because experience has shown that it is a reliable predictor of a consumer’s propensity to default on a loan in circumstances where there are also other high-risk characteristics present.

14. However, this point must be emphasised: multiple searches are in themselves only one factor amongst many which are taken into account, and members have advised that it would be extremely unlikely that an applicant would be rejected for a mortgage solely on the grounds that a credit search revealed multiple application search records. Indeed, when asked that specific question, the vast majority of members told us that they had not rejected any applications in the last year solely on the grounds that multiple application searches were recorded on the applicant’s file. One lender replied that it had rejected fewer than 0.1% of all applications on this basis.

15. If, however, there are other high-risk characteristics present, the existence of multiple search records is more likely to be taken into account.

16. At any time, an estimated 20–25% of mortgage applications may be rejected by lenders. This will be for variety of reasons, the most likely being that the applicant has insufficient income. In the current economic climate, lenders are also looking to balance their risk in terms of exposure to certain types of loan and types of property. Their internal policy rules will therefore dictate which applications are accepted and which rejected to a greater extent than was the case—say—two years ago. Loan-to-value limits have fallen, for example, so where it was previously possible for first-time buyers to obtain loans of up to 95% LTV, this will have dropped in many cases to 75%, meaning that many first-time buyers will simply not qualify for loans on affordability grounds.

17. Some lenders may have found themselves over-exposed to certain types of property such as new-build flats—and in order to reduce that exposure may have imposed an LTV of 60% on such properties. Once all the relevant current policy rules have been taken into account, the majority of mortgage applicants who fail to achieve the required credit score will be likely to fail to reach it by a substantial margin. For them, the fact that they may in addition have a number of credit applications recorded on their credit file will not tip the balance—they will not be anywhere near eligible for the loan.

18. The existence of multiple credit search records will only affect a very small proportion of applicants who are already “borderline” cases—and for these, it is in theory possible that the existence of multiple checks could tip the balance and cause their application to be rejected. However, it has been put to us by one major lender that this is likely only to affect around 1% of mortgage applicants, if that. It is of course open to such applicants to challenge the fact that their application has been rejected—and they may well seek copies of their credit files to find out whether this has had any bearing on the rejection. If this happens, lenders may at that point manually over-ride the (generally automated) decision-making process and investigate further. In the current climate, however, lending rules have tightened to such an extent that “borderline” cases may well not be accepted, given that there will be other much stronger applicants available.

ACCURACY OF CREDIT FILES

19. Some of the press comment we have seen reveals that the information held on some consumer files is inaccurate. We are aware, for example, of one story, published in the *Times* (8 August 2009) which reported that an individual had been refused a mortgage because her credit file showed that she had allegedly missed a payment on her mobile phone. When she requested a copy of her credit file she realised that a mistake had been made, and took steps to have a notice put on the file correcting the error.

20. The *Times* report illustrated an important point: that consumers who are considering applying for credit would be well-advised to check the accuracy of the information held about them before applying, given that so many lenders will rely on the data held by the CRAs. Consumers should also be aware of the number of occasions on which their credit record will be checked: ten years ago the number of such checks would have been much less frequent. Today, it is all too easy to forget that one may have entered into a new mobile phone contract, or leased some computer equipment, or opened up a new bank account with a credit card facility—and that each of these transactions is likely to have been subject to a credit search. Access to credit file data is not free, but consumers can obtain it by contacting any of the CRAs and paying a fee of £2. The information can also be obtained on-line (though the £2 fee still applies). It may be that the Committee would want to consider recommending the abolition of this fee as it does seem unfair that consumers have to pay for access to their own data.

CONSUMER CHOICE AND INFORMATION

21. It is important that consumers understand the implications of permitting a credit search to be carried out, and the type of search being undertaken. When making inquiries about possible mortgage arrangements, some consumers want the certainty of knowing that the lender in question will lend the required amount of money at the price quoted. In order to obtain this degree of certainty, the consumer is in effect asking for a “decision in principle”—and in order to give the consumer that degree of certainty, the lender will have to make a decision whether to lend—in which case, according to the rules, it is required to carry out an application search. It must obtain the consumer’s consent before it can do this, and it should also explain to the consumer that an application search will leave a record on the credit file, which will be visible to other lenders. Consumers who do not wish such a record to be left must decide whether they are content to continue their discussions with the lender or lenders concerned without obtaining a firm decision in principle. It is possible that, having been given an illustration by a lender, once a consumer decides to make a formal application, and the lender requests an application credit search, the information returned could cause the application to be rejected. But, as stated above, it is highly unlikely that any rejection would be caused by the existence of multiple application searches.

14 October 2009

Written evidence submitted by the UK Cards Association and the British Bankers’ Association

EXECUTIVE SUMMARY

1. The UK credit industry is committed to responsible lending. Credit searches are an important factor in the assessment of risk, and indeed the identification of attempted fraud. Credit searches in isolation will not generally have a material impact on an individual’s credit rating and/or their ability to access credit on favourable terms.

2. Credit searches become increasingly predictive when the applicant already has significant borrowing and/or displays other characteristics analytically proven to be high risk, such as overdue credit commitments.

3. Multiple credit searches in a very short period can be indicative of individuals whose purpose is to commit fraud. Credit searches therefore help the credit industry to counter this challenge to the UK consumer.

BACKGROUND/CONTEXT

4. Lenders are obliged to and committed to lend responsibly. A key factor in this commitment is to make a comprehensive and effective assessment of an applicant’s ability to repay the credit sought. As outlined below, a credit search is just one of a number of elements used by lenders to assess credit-worthiness.

5. The Data Protection Act 1998 requires that an audit trail is retained of all instances where an individual’s credit file is accessed. Credit reference agencies record credit searches. The audit trail will record how often the customer is applying for credit, including the amount and term of the credit being sought. Lenders are obliged, under the Act, to obtain the consent of the data subject before undertaking a credit search and to notify them how their data will be used.

LENDERS’ USE OF “SEARCHES”

6. To deliver on the industry’s strong commitment to lend responsibly, lenders’ decision systems are highly sophisticated. Credit decisions, whether at the point of application, or when managing the accounts of existing customers, will analyse a wide range of factors, including data provided on application forms, any information relating to existing accounts held with that organisation and data provided by one or more credit reference agencies.

7. Through analysis over many years, credit searches have consistently shown to be predictive of risk. The extent to which they are predictive, and thus their “weight” in any given credit decision, will depend on the nature and depth of other available information.

8. It is important to recognise that, as with all other data which feeds into an overall credit decision, credit searches alone are not necessarily predictive. However, if an applicant already has significant borrowing and/or displays other characteristics analytically proven to be high risk, such as overdue credit commitments, then credit searches could become very predictive in the decision whether to extend further credit.

9. Lenders’ typically either use credit reference agency scores/data within their own decision systems, or create their own internal scores using all available predictive data. These models will be redeveloped and/or recalibrated on a regular basis, where the significance (ie the “weighting”) of various items of data will be re-assessed. An otherwise “good” applicant would not be materially impacted if they had, for example, five or more credit searches in a short time. On the contrary, very large numbers of applications within a very short period could be indicative of possible fraud, or a consumer who appears to be desperate for credit, and is likely to attract further scrutiny through an application referral.

SEARCH TYPES

10. CRAs and the industry have worked closely to ensure that appropriate search types are used across credit decisions. In those industries where it is very common for consumers to shop around, such as insurance and mortgages, we understand that large numbers of quotation searches are being recorded. It is important to note that quotation searches will only provide the consumer with the price of credit and is not a guarantee that the application will be accepted.

CONSUMER RIGHTS

11. Consumer rights are well protected in this area:

- Lenders must only record one credit search for a credit application.
- The Guide to Credit Scoring requires lenders to advise the applicant of a core reason for decline and whether credit reference agency data contributed to the decision.
- Consumers can then, as they wish, request their credit file in order to review the content and to check that the information is correct.

CONCLUSIONS

12. Searches in isolation have little material impact on credit decisions, but become more predictive when used in conjunction with other data characteristics, particularly those which identify that further borrowing could lead to the consumer becoming over-indebted.

13. The number of customer complaints seen by our Members relating to searches is very small and we have not seen evidence that there is a consumer issue to address.

14. Well established processes already provide robust protections for consumers.

14 October 2009

Written evidence submitted by the Office of Fair Trading (OFT)

1. The Office of Fair Trading (OFT) is a non-Ministerial government department with responsibility for the licensing and control of businesses that offer credit or credit services to consumers in the UK. As part of its role, the OFT licences, among others, credit reference agencies (CRAs) and businesses that offer unsecured or secured second charge loans to consumers. Licences are issued to businesses which satisfy the OFT that they are “fit”—this means that they have the necessary integrity and competence to provide credit or ancillary credit services without causing harm to consumers. The statutory regime which the OFT operates is set out in the Consumer Credit Act 1974 (the Act) as amended in 2006. Legislative responsibility for the Act and for any changes in the law on consumer credit rests with the Department of Business, Innovation and Skills (BIS).

2. The OFT believes that consumers should be able to shop around for credit without suffering a penalty in terms of an adverse effect on their credit rating. We welcome changes made by the main credit reference agencies in 2004 which allow lenders to undertake “quotation searches” as distinct from “application searches”. This facility helps inform responsible lending decisions by enabling lenders to differentiate between consumers who are sensibly shopping around for the best deals as opposed to those who are making multiple applications for credit.

3. Multiple application searches could be indicative of the consumer having some difficulty in obtaining credit or could be a warning that there may be an attempt to fraudulently obtain credit. It is clearly important, therefore, that the “footprints” left by such application searches should be capable of being taken into account by lenders as appropriate, prior to making lending decisions. Consequently, multiple application searches could impact on a borrower’s ability to obtain credit and/or the cost of that credit.

4. The OFT has not received consumer complaints about the negative impact of searches on individual credit records as a result of shopping around by consumers. We have been in contact with the Information Commissioner’s Office (ICO), the Financial Ombudsman Service, consumer groups and business representatives on this matter. None of these organisations has provided hard evidence of problems where consumers have been unfairly refused credit or have been offered credit on the basis of an incorrect risk assessment due to footprints resulting from enquiry rather than application searches.

5. Despite this lack of evidence, our awareness of this issue has led us to take further steps to establish whether there is a problem which we need to address. As part of our Financial Services Strategy, published earlier this year, we announced we would carry out a review of consumer credit. An informal consultation on the scope of the review, launched in April 2009, presented us with an opportunity to consider a number of issues in this sector. One of the issues considered during this informal consultation was the flow, interpretation and access to information gained from, and provided to, lenders. Specifically, the review team sought information in response to the question, “Credit reference agencies play a role in informing responsible lending decisions. In your view, are there any issues we should consider?”

6. Which? raised the specific “footprint issue” in its response to our consultation, but as one of many concerns. A number of the 24 respondents raised relatively high-level concerns pertaining to lenders’ interactions with CRAs more generally, but the focus of the comments received included:

- a need for general improvement in the quality and accuracy of information held by CRAs (17 respondents),
- mixed views on the desirability or otherwise of greater access to data and data sharing (18 respondents), and
- smaller lenders in particular not supplying information to CRAs (17 respondents).

7. Our analysis of the responses to the informal consultation indicated that there were more significant issues for the review to consider than CRA/information issues. Consequently, a decision was taken to prioritise our resources towards the area where the impact was considered likely to be most significant: a broad assessment of the high cost credit sector.

8. We are still alive to this issue and the potential for consumers’ credit ratings to be unfairly affected by sensible testing of the market—or shopping around—and welcome the inquiry being conducted by the Treasury Select Committee. We are keen to consider the evidence that the Committee collects and stand ready to take necessary action should that evidence show that we need to do so.

14 October 2009

Written evidence submitted by the Finance and Leasing Association (FLA)

INTRODUCTION

1. The FLA is the leading trade association in the consumer credit, motor and asset finance sectors in the UK, with members including banks, building societies and other finance organisations. FLA members provide over 30% of all consumer credit finance in the UK via credit and store cards, unsecured loans and instalment credit. They also finance over 50% of all new car registrations each year via hire purchase and conditional sale agreements and account for around 85% of all second charge mortgage lending.

2. We welcome the opportunity of providing evidence as part of the Treasury Committee’s inquiry into credit searches. FLA members are committed to responsible lending and take into account a broad range of information when assessing credit applications. This helps to ensure, as far as possible, that a customer will be able to meet the repayments and avoid the potential for fraud and bad debt. This evidence provides an overview of responsible lending criteria in the UK and how credit searches are treated as part of the credit scoring and underwriting process.

EXECUTIVE SUMMARY

- Search data is one of a number of important factors which lenders take into account in making responsible lending decisions.
- Except where there are a significant number of searches (indicating the potential for over indebtedness or fraud), search data does not adversely affect a customer’s credit rating or ability to access credit.
- Lenders are constantly reviewing their credit scoring and underwriting procedures to ensure they are reliable and reflective of customer behaviour.
- Customers are able to obtain a copy of their credit reference file and challenge the data included.
- New statutory requirements for responsible lending support the use of credit searches by consumer credit lenders.

RESPONSIBLE LENDING

3. FLA members take responsible lending very seriously. This involves not only robustly assessing credit applications at the outset, but also how they manage an account and work with the customer during the life of a loan—together with extending forbearance should the borrower subsequently fall into financial difficulties. Our members also comply with the FLA Lending Code. This sets good practice standards and requires that all loans go through a sound and proper credit assessment. In the majority of cases, this will include a search of information held by a credit reference agency.

4. The recession has resulted in an increased focus on the need for responsible lending across all financial services products. In the consumer credit sector, reform is being specifically influenced via both regulators and the European Commission.

(i) *Guidance on Irresponsible Lending*

5. The Office of Fair Trading is currently preparing statutory guidance on what constitutes “Irresponsible Lending” and what action lenders should take to avoid it. All lenders will need to comply with the guidance if they are to be deemed “fit” to hold a consumer credit licence and lend in the UK. The guidance will be introduced in January 2010 and sets out the information lenders must take into account when assessing whether a customer would be able to afford a credit product. This includes reference to evidence of income and expenditure; a credit score; a credit reference search and information obtained from the borrower.

(ii) *Consumer Credit Directive (CCD)*

6. The CCD will be introduced to the UK in June 2010 and provides a number of new consumer protection measures. The Directive also includes a statutory requirement on lenders to assess a prospective borrower’s creditworthiness. The assessment would be made both at the application stage and each time the amount of credit is increased, for example, a credit limit increase on a credit or store card. When looking at creditworthiness, the lender will refer to information obtained from the customer, as well via a credit search. The Directive reflects existing good practice already undertaken in the UK.

CREDIT SCORING AND THE UNDERWRITING PROCESS

7. A cornerstone of the underwriting process is credit scoring, which is used by lenders to predict a wide variety of outcomes including whether a credit application is fraudulent or the likelihood of a customer falling into serious arrears in the future. Credit scoring also plays an important role in improving the speed and accuracy of lending decisions and it allows lenders to fully assess and weight all the risks.

8. The statistical analysis that underpins credit scoring helps lenders identify the true predictors of credit risk from among information gathered about applicants. These predictors are in turn “weighted” with either positive or negative points, which reflect their relative importance in identifying risk. The scorecard essentially describes the relationship between score and risk. The score is usually divided into a number of ranges (typically 10) and the risk is calculated within each band.

9. A comprehensive scorecard will make use of an applicant’s characteristics from a variety of sources, while at the same time focussing on those attributes which are highly predictive for the type of lending undertaken. The average number of characteristics is usually around 20. A typical score card used for credit applications would include:

- time at address
- time in employment
- marital status
- age
- income
- past performance on other credit accounts (eg, arrears history, amount of credit outstanding)
- credit reference data (county court judgments, number and value of current active credit accounts, amount of any arrears and details of previous credit enquiries or searches).

10. Scorecards must also be fully compliant with any legislation and must not discriminate on the grounds of race, religion, disability or ethnic origin. Lenders will check their credit scoring methods on a regular basis to make sure that they continue to be fair, unbiased and recognise consumer behaviour. For example, in recent years consumers have become more used to actively shopping around for all services, including credit. This would feed through to reducing the weighting applied to the number of credit searches identified, in the majority of cases.

11. The “cut-off” score is the score below which a lender will not offer credit finance to a customer. This is set by each lender, based on their individual operating and risk model. If an applicant’s score is above the cut-off score and the customer also meets other risk criteria set by the lender, then the credit application will generally be accepted. Where the cut-off score is not met, the application would either be rejected or, in certain cases, may be referred to an experienced underwriter within the lending organisation for a manual assessment. As lenders each have their own lending criteria and scoring systems, applications will be assessed differently by different lenders.

12. In addition to using credit scores in the application process, lenders will also use them as part of the on-going management of a credit account. This reflects lenders’ commitment to responsible lending and it can predict a number of likely outcomes, for example, if the customer might struggle with repayments if their credit limit was increased.

13. The Office of Fair Trading has been very supportive of credit scoring and has recognised the important role it plays in consumer credit lending. The FLA, together with other leading financial services trade associations have published a *Guide to Credit Scoring*, which provides an overview of how it operates in practice.

USE OF SEARCH DATA IN CREDIT DECISIONS

14. How lenders weight “search” data in their credit scoring will differ between lending organisations, but overall it does provide a statistically important element in assessing new credit applications. In a typical scorecard development, the rate of default can be up to 50% worse on the very small number of customers with a high volume of searches. Lenders have also found evidence that the data adds value in identifying fraud.

15. A small number of additional searches is unlikely to create a major shift in a lender’s overall assessment of a customer, since this also incorporates other important risk factors such as how past credit products have been managed and any county court judgments. Therefore while search data remains an important element of a scorecard (and more so where there is a very high volume of searches), less emphasis is placed on it when the volume of searches is lower.

16. Some lenders have procedures in place where they can manually review and override scores, if they can see that any multiple searches are for the same purchase, for example, a new car. Where this has materially influenced the score and outcome of a credit decision pushing it beneath the cut-off, the lender may review the case on an exception basis.

17. The use of quotation searches arises mainly where lenders offer credit products which are risk based depending on the customer’s circumstances, for example in the mortgage and insurance markets. Quotation searches provide the customer with a price for the credit only and the full application process would still need to be completed.

CONSUMER INFORMATION

18. Under the Data Protection Act 1998, a record must be maintained of any access made to a person’s credit file and the credit reference agencies record the name of the firm accessing the file, when it took place and why. Only one search is recorded for each credit application. Lenders also use Fair Processing Notices as part of their application procedures, which put customers on notice that a search may be made.

19. In accordance with the requirements in the Lending Code and *Guide to Credit Scoring*, if a customer has their credit application turned down, the lender will tell the customer the main reason why they have not met the lending criteria. The customer can also ask the lender to reconsider their decision based on further evidence provided by the applicant. Attached to this evidence is a copy of a leaflet provided by FLA members to consumers *Your Credit Decision Explained* http://www.fla.org.uk/filegrab/1Yourcreditexplained_19_01_07.pdf?ref=20

20. Consumers also have the right to request a copy of their credit file and to challenge the data held in it.

16 October 2009

Written evidence submitted by Moneysupermarket.com

EXECUTIVE SUMMARY

Credit providers are preventing UK consumers from shopping around for consumer credit products. As a result of UK practices, consumers don’t shop around so may pay more for credit than they need. Consumers who do shop around for credit reduce their chances of being accepted for credit and therefore may end up paying more.

We would like the industry to move to a model whereby customers do not need separate applications and credit searches for every provider, and are penalised for each application. We have seen this work in Germany. Customers should know at pre-application about who will accept them, how much credit they will be offered and at what price for all providers in the market allowing them to make an informed choice.

Transparency can only be good for consumers and enables them to make better choices and get a better deal. It also creates a more competitive market by reducing operational costs for lenders.

ABOUT MONEYSUPERMARKET.COM

- moneysupermarket.com is the UK’s leading price comparison website. Our position in the market gives us two major strengths—firstly, we have an overview of the entire consumer credit market as we display virtually all credit card, loan and mortgage products on our website. Secondly, we have a unique insight into what consumers are doing as millions of UK consumers visit our site each month and we can track their search and buying habits.
- moneysupermarket.com is listed on the London stock Exchange and is included in the FTSE250. We are based in Flintshire, North Wales where we employ around 460 staff. In 2008 we had over 120 million visits to our website—which enables consumers to compare and buy products including mortgages, savings accounts, credit cards, secured and unsecured loans, car insurance, home insurance, utilities and broadband.

HOW WE WORK FOR CONSUMERS

- Moneysupermarket.com's impartiality enables consumers to search the whole of market for a product that suits their own needs. Where we cannot list a provider, for example when a provider asks not to be listed, we explain this on our site.
- Moneysupermarket puts the power of transparency in the hands of customers by showing the whole market by giving them information and tools to make an informed decision.
- Providers of credit products don't have to pay to be listed on the site.
- Moneysupermarket.com receives payment from providers for every application received through our site. This is a commercial arrangement between moneysupermarket.com and the provider; customers do not pay anything for using moneysupermarket.com.

EVIDENCE

1. Consumer credit providers advertise the typical rate for loans and credit cards they are quoting rates which are provided to at least 66% of customers are accepted for a product. However, many loan providers and some credit card providers operate a risk based pricing model which is dependent on the risk profile of the customer, which is determined through the consumer's credit rating (as well as other judgemental factors).

2. When a customer shops for a consumer credit product, they have to complete an application with a provider before they will know whether they have been accepted; what interest rate they will pay and what credit line they will receive. All but one UK providers (Nationwide is the exception) will perform a full credit search to ascertain the customer's circumstances and this is recorded on the customer's credit file. The more searches a consumer makes, the more detail is recorded on their credit file.

3. How each individual lender interprets a previous search on a consumer's record is a confidential internal policy. Suffice to say that all Banks will view a previous search as a negative attribute thus undermining their ability to get credit. To what degree it will affect their underwriting decision is unknown as it will vary by lender. However, it is clear that shopping around reduces consumer's ability to shop around.

4. Instead of lenders performing a "hard" credit search, which is recorded on the credit files, they could perform a "soft search" which enables the bank to assess a customer's application without leaving a footprint on their files. This system operates effectively in the mortgage market. To our knowledge only one lender, Nationwide, has taken the step to only "soft search" a consumer requesting a quotation for a loan.

5. Approximately 75–85% of consumers who apply for a loan will be rejected by a provider and 65% of credit card applications will be declined, although this is largely due to the bank's risk appetite, which is heightened due to current economic circumstances. This potentially forces consumers to look for alternative more expensive forms of credit elsewhere.

6. Whilst consumers are aware that credit of all forms has been more difficult to obtain during the last 18 months, we do not believe that their awareness of their credit score and its importance has increased. Conversely in the US, most consumers are aware of their FICO score (equivalent of credit score) and actively look to maintain it due to their understanding of its intrinsic link with their ability to obtain credit in the future.

7. In the small number of cases in the UK where a consumer requests their statutory credit report from one of the 3 credit reference agencies, their understanding is not helped by the format of the report. Originally designed and written for a lender underwriter to interpret, a statutory credit report is a difficult document for a consumer to interpret.

8. moneysupermarket.com launched Smart Search in 2005 as a tool for informing what their credit rating is by asking a series of questions about their credit background. This provides no detailed credit information on the customer. Acceptance rates using this tool increased to 45%. Trials conducted with a main financial provider saw approval rates increase to 55-75%.

OUR EXPERIENCE IN GERMANY

moneysupermarket.com launched a price comparison website, www.marktvergleich.de, in Germany in February 2009. The German market is very different to the UK. Firstly personal loan regulation allows lenders to advertise headline rates without the necessary laws to ensure a volume of applicants receive this rate creating an obscure marketplace. Secondly, the rules around credit searches allows a consumer to have a hard footprint, without it harming their credit profile thus allowing them to shop freely and obtain quotes from many banks without the fear that, with every search, valuable credit score points will be lost.

As a result of these market factors, www.marktvergleich.de, employs a model which allows a customer to input their details in one application form which is then sent to many banks. The banks then electronically respond to the applicant instantly with a personalised APR quote giving the applicant the full information and freedom to choose the best APR offered.

marktvergleich.de
Einfach. Schnell. Sicher.

HOME PAGE | LOANS

DEUTSCH | ENGLISH

START 1 | LOAN OVERVIEW 2 | FORM 3 | LOAN APPROVAL 4 | LOAN CONFIRMATION 5

Loan comparison
Click on "CHECK RATES" to compare your individual APR of all our partner banks – with immediate approval. The APRs shown here are promotional rates, i.e. it is not certain that you qualify for this rate. Your individual APR and your credit check can only be assessed by filling out our non-binding application form. Your application data will then be transmitted to our partner banks. You will see an online summary of all loan offers with immediate approval and individual APR.

Apply now!
→ Direct application with chosen bank
→ Individual APR
→ Fast payout

Loan Amount (€): 14.000 | Period: 72 Months | Purpose: Used Car | Recalculate

BANK / PRODUCT	AMOUNT / MONTH	APR	PAYOUT WAITING TIME
1 citibank Citibank	226.05 € Variable Rate	5.21 % Citibank is the market leader in the credit card and consumer credit business in Germany. more ...	2-3 Working Days
2 Barclaycard Barclays Bank	226.55 € Variable Rate	5.29 % Barclays Bank has existed for over 300 years and has over 27 million clients worldwide. more ...	2-3 Working Days

OUTCOMES

1. As a result of UK practices, consumers don't shop around so may pay more for credit than they need to.
2. Consumers who do shop around for credit reduce their chances of being accepted for credit and therefore may end up paying more.
3. Nothing technically stops lenders from changing their practice of performing hard searches—Nationwide has done so and this is the system which is used in the mortgage market.
4. The industry should be able to tell customers pre-application about who will accept them, how much credit they will offer and at what price for all providers in the market allowing them to make an informed choice. We see this working in Germany.
5. Transparency can only be good for consumers and enables them to make better choices and get a better deal.

WHAT WE WOULD LIKE

1. Increased customer education about credit scores and the impact of multiple applications.
2. Industry move to "soft" searches and indicative acceptance/pricing provided to customers without negative impact on future applications.
3. Industry move towards a single platform for customers to see accurate products and pricing available to them, removing the need for multiple applications and credit searches altogether.

I look forward to discussing this further with the committee on 27 October.

20 October 2009

APPENDICES EXAMPLES OF LOAN RATES

BASED ON A LOAN OF £7,500 TAKEN OUT OVER 48 MONTHS

<i>Provider</i>	<i>From %</i>	<i>To %</i>	<i>Representative/ Typical APR</i>
Bank A	8.9%	18.9%	8.9%
Bank B	8.7%	10.9%	10.9%
Bank C	11.9%	21.4%	12.4%
Bank D	9.9%	19.9%	9.9%
Bank E	8.7%	24.9%	11.3%

BASED ON A LOAN OF £7,500 TAKEN OUT OVER 48 MONTHS

<i>APR</i>	<i>Monthly Payment</i>	<i>Total Paid over Life of Loan</i>	<i>Total Interest Paid over Life of Loan</i>
7.9%	£182.75	£8,771.76	£1,271.76
15.0%	£208.73	£10,019.07	£2,519.07
25.0%	£248.68	£11,936.57	£4,436.57

Supplementary written evidence submitted by the British Banker's Association and the Finance and Leasing Association

INTRODUCTION

1. On 27 October 2009, the Treasury Select Committee heard oral evidence as part of its inquiry into the use of credit searches. The industry was represented by Eric Leenders, Executive Director, British Bankers Association and Fiona Hoyle, Head of Consumer Finance, Finance and Leasing Association.

2. This paper provides further information on a number of issues raised by the Committee and on which industry representatives undertook to respond. It focuses on the following questions:

- How many searches would it take to adversely affect a customer's credit record and does this restrict a customer's ability to shop around for the best deal?
- Do lenders really need to refer to the number of previous searches when assessing a customer's credit application?
- Do customers know that searches will be carried out and listed on their credit record?
- Why don't all customers get the interest rate advertised by a lender?
- Why don't all lenders use quotation searches?
- Can consumers trust the quality of information held about them and what happens if it is wrong?
- How can consumers improve their credit rating?

3. The evidence provided to the Select Committee reiterated the need for better consumer education, so that customers receive clear information about credit searches and the role they play both in the application process and in influencing a customer's credit profile. The industry already provides some information under the duties imposed under the Data Protection Act 1998, but lenders are keen to explore what more could be done to improve consumer understanding. Initial discussions have also been held with consumer groups to explore the development of a Consumer Forum, which would also look at how greater transparency can be achieved on how consumer data is used in delivering responsible lending decisions.

QUESTIONS

Do lenders really need to refer to the number of previous searches when assessing a customer's credit application?

4. Search data has consistently demonstrated that it is a strong risk indicator of both consumer over-indebtedness and fraud.

5. A distinction should be made between *transactional lending* and *relationship lending*. Relationship lending models, where a lender already maintains a relationship with the applicant (eg personal current account), typically rely far more on behavioural data (the way in which the account was maintained) to determine approvals and pricing.

6. Searches data has a far more important role for transactional credit in a basket of multiple other data that has been proven to demonstrate a propensity to repay credit and as such also serves to maintain a competitive balance between relationship and transactional lending. In all circumstances, search data has a direct correlation to possible fraudulent applications.

7. With increased Government pressure on lenders to deliver responsible lending decisions, search data remains one of a number of important factors which lenders will take into account when assessing credit applications.

8. If lenders were no longer able to refer to search data, it would severely undermine the quality of credit decisions. It would also result in a rise in problem debts from customers with multiple searches and it is in no-one's interest to provide credit where it cannot be repaid.

9. This outcome would also apply if search “footprints” were only recorded for approved credit applications. Lenders would no longer be able to identify cases where a potentially “credit hungry” consumer was repeatedly applying for credit unsuccessfully, with the real potential for over-indebtedness or fraud if credit was subsequently granted.

10. The Office of Fair Trading’s Guidance on Irresponsible Lending reinforces the important role credit searches play as part of a prudent underwriting process.

How many searches would it take to adversely affect a customer’s credit record and does this restrict a customer’s ability to shop around for the best deal?

11. Data used in credit scoring models is constantly reviewed for effectiveness to ensure it is best calibrated to drive appropriate credit decisions relative to the wider context in which the decisions is taken.

12. In recent years, lenders have adjusted their credit scoring models to recognise that customers are actively shopping around to find the best deals. This has ensured that scoring models reflect changes in customer behaviour. In the past, two or three searches within a short period of time could have adversely affected a customer’s credit score.

13. In 2009, this figure would be between five and eight searches and possibly even higher in the sub-prime market where some customers may have to shop around more extensively.

14. The weighting attached to searches will also diminish over time; they are at their most powerful up to three months after the search is made—when they are six to 12 months old they reduce in importance in determining risk.

15. In practice, customers may be turned down for credit for a number of different reasons and decline rates across lenders range typically from 20% to 70%. This reinforces lenders’ commitment to responsible lending and to only providing credit to customers who can afford it.

16. Other risk factors taken into account include how customers have adhered to other financial commitments and whether they have any County Court Judgments.

Do customers know that a search will be carried out and listed on their credit record?

17. All customers will be informed that a search will be undertaken as part of a credit application; that a record of the credit search will be placed on their credit file and that a large number of applications within a short period could affect the customer’s ability to obtain credit. Lenders are required to provide this information to comply with the legislative requirements for the “fair processing” of a customer’s information under the Data Protection Act 1998.

18. Under the industry’s *Guide to Credit Scoring*, if a customer has their credit application turned down, the lender must tell them the main reason why they have not met the lending criteria. The customer can also ask the lender to reconsider their decision based on further information the customer provides.

Why don’t all customers get the interest rate advertised by the lender?

19. The interest rate used by lenders in their advertising is regulated by the Consumer Credit (Advertising) Regulations 2004. The APR quoted in the advertisement has to be typical of the business that it is expected to generate. This means that the advertisement must quote the highest APR that at least 66% of the eventual number of consumers formally accepting a credit agreement in response to the advertisement are expected to be given. This is known as the “typical APR”.

20. Where a lender does not undertake risk-based pricing, all the customers who successfully apply for the credit product will receive the advertised rate.

21. If risk-based pricing is used in, for example credit cards, lenders will confirm this in a Summary Box as part of the application. Risk based pricing is an established principle in financial services pricing, not just for credit but also, for example, general insurance where higher risk drivers pay higher premiums than lower risk drivers. This avoids cross subsidy within a portfolio and apportions risk costs to sources of risk.

22. This form of pricing also ensures that customers are considered based on their individual circumstances and can benefit if they have managed their finances carefully. Customers also avoid having to pay a higher price due to the bad debts of others.

23. On being advised of the interest rate, a customer always has the option of deciding not to progress the application further.

Why don’t all lenders use quotation searches?

24. The real issue is how customers can find out the likely cost of credit. Quotation searches are only one of a number of approaches adopted by lenders when liaising with customers on the price of credit. In some cases, lenders may sit down with the customer to discuss their individual circumstances before confirming the price. Therefore quotation searches should not be seen as the only route, especially where extensive consumer demand or consumer detriment have not been proved.

Can consumers trust the quality of information held about them and what happens if it is wrong?

25. Lenders and credit reference agencies are committed to ensuring that customer data is accurate and high quality, as this is the basis on which they have to make responsible lending decisions. Poor quality data would result in inappropriate credit approvals, generating increased bad debt and fraud.

26. All customers have a statutory right to obtain a copy of their credit file and to request that any inaccurate data is amended within a 28 day period. If the changes cannot be made within that period, the data will be removed until the position is resolved. This ensures that customers have swift recourse if they think information about them might be wrong and means that they are not disadvantaged should there be any delay in dealing with the matter.

How can customers improve their credit rating?

27. While the Committee's inquiry has focussed on credit searches, there are a number of very constructive measures customers can take to improve their overall credit rating. This will help customers when applying for credit and could influence the interest rate applied. These include:

- Keeping up-to-date with existing credit.
- Being patient and not persistent—this does not mean not shopping around but if a customer is being declined credit, it is better to look into the reasons why rather than continue to make further unsuccessful applications.
- Being on the Electoral Register.
- Not leaving out previous addresses.
- Being honest about your credit history.
- Settling bad debts.
- Looking at your credit file to see where improvements could be made.
- Disputing any inaccuracies in the data.

28. Promoting this message will be an important feature of an improved consumer education strategy, which goes wider than credit searches alone and looks at all the factors affecting a customer's credit file.

INDUSTRY ACTION

29. Improved consumer education and greater transparency would make a real difference in ensuring that consumers readily understood how credit searches worked in practice. The industry is willing to rise to the challenge of delivering this solution in consultation with consumer groups.

Supplementary written evidence submitted by Moneysavingexpert.com

HIGHER RATE THAN APPLICATION POLL

On the back of the enquiry MoneySavingExpert.com put a poll out to users which we think would be a useful appendix.

The poll was titled

“Ever been given a different rate to the credit applied for?”

It's important to understand that the poll is therefore self-selecting and likely to be heavily skewed towards those people who have been affected by this—rather than just rejected.

Therefore the proportions should be taken with a pinch of salt, yet it is indicative of the scale of the problem.

The exact question asked was...

“In the last three years have you ever been given a higher rate than you applied for?”

The poll was started on Tue 3 November and ended on Tuesday 10 November. It had 3,726 votes as follows:

- A. Yes—on many occasions. 25% 942 votes
- B. Yes—once or twice. 32% 1208 votes
- C. No—usually been rejected. 4% 137 votes
- D. No—usually been given the correct rate. 23% 853 votes
- E. I haven't applied for a loan/card. 16% 586 votes

13 November 2009

Supplementary written evidence submitted by Experian

1. *Purpose of this additional evidence*

1.1 To provide the Treasury Select Committee Inquiry into Credit Searches with additional information in response to questions, statements and comments made at the Oral Hearing on 27 October 2009.

1.2 This note covers:

- The distinction between quotation and application searches, and why quotation searches have no impact on the granting of credit.
- Why lenders grant credit and why application searches tend to play a very small, but nevertheless important, part of that decision.
- An assessment of the evidence provided by Moneysavingsexpert.com: why credit searches are irrelevant in all but one of the cases cited.
- How consumers can view and change their credit bureau data.
- The German system—why the UK compares favourably today.

2. *The distinction between quotation and application searches, and why quotation searches should have no impact on the granting of credit for Experian's clients*

2.1 The Committee raised the question of whether an individual who shops around for mortgages, credit cards, telephone providers etc is disadvantaged by the fact that they have done so. The answer is no, because there are a number of ways that a consumer can be advised of the likely price of credit, with many lenders that offer products with a variable rate not actually using credit reference agency data to calculate the rate to be charged. Furthermore, where credit reference agency data is required, the industry has developed a mechanism to allow consumers to shop around to compare prices without having any impact on their credit report.

There are effectively two types of searches, shared and unshared. Shared searches are application searches (which are shared with lenders) and unshared (which are only shared with the consumer) will cover a range of other purposes one of which is quotations. Originally unshared searches were all covered by one general search type but following the agreement between the industry and the Information Commission (the ICO) in 2001, Experian developed new sub types within the enquiry type search one of which is a quotation.

The distinction between the two is laid out below:

- (a) Quotation search: A quotation search should be recorded to show a consumer that their credit reference agency file has been accessed by a lender and is only used when a consumer wants to know how much (the rate) it will cost to take out a mortgage, or unsecured loan. A quotation search cannot be used in credit decisioning by Experian's clients and therefore cannot affect an individual's credit score because it is not shared with them—as agreed with the ICO. Over 233 lenders use quotation type searches through Experian, primarily in the arena of mortgages, unsecured loans and credit cards where consumers typically shop around, and where rates vary based on the risk of the consumer and bureau data is used. From our client systems we have identified a ratio of two quotation searches for each application for both mortgages and personal loans.
- (b) Application searches. Application searches take place when a consumer goes on to apply for the credit ie, answer the question of “can I have?” rather than “what will my rate be?”. Consumers will typically first check the cost which will be a function of the rate and then go on to apply. Applications that are successful result in firm offers which can only be withdrawn if crucial information changes. A consumer applying for and getting offers of 10 or even 20 or 30 credit cards could then activate them all. This could lead to an explosion in credit, often to those least able to manage it.

This system was put in place to ensure that consumers who wanted to know how much a product might cost would not be disadvantaged if the lender needed to access credit files to give a quotation. In reality, a minority of them actually do, they determine the risk and thence the rate on other information, often gleaned from the applicant themselves.

3. *Why application searches tend to play a small, but important part in lenders' decisions decision whether to grant credit*

3.1 In granting credit, lenders are seeking to answer the following questions: (1) is this person in a position where they can pay back the credit without over-committing themselves or coming close to doing so? (2) Would the additional credit enable them to meet the needs that they have to manage their lives? It is not in the interest of lenders or consumers to lend to people who will not be able to make their repayments. Indeed, consumers who borrow more than they are able to repay are proven to suffer in many ways apart from the obvious financial impact. People's health and personal relationships can be severely hit by financial difficulties.

3.2 Consequently, it is generally agreed that there will always be consumers whose situation is such that additional lending is not the right answer; in fact to do so would disadvantage them.

3.3 There are up to 400 characteristics which could indicate payment (positive) behaviour as well as indications of over commitment, credit hunger and non payment (negative) behaviour. It is critical for financial inclusion objectives that positive data is taken into account, and the UK is advanced in deploying it.

3.4 Typical lender application scorecards will include demographic information (time at address; time in employment; marital status; age; number of children; income), past performance of other credit accounts with the lender (arrears history, the amount of credit outstanding and the amount of available credit) and credit bureau data (number, value and recency of previous County Court Judgments or defaults, number and value of current active credit accounts, arrears history of previous accounts, the amount of credit outstanding and available credit and records of previous credit applications searches).

3.5 For example, an individual who might have a weaker credit score would be one who has a mortgage of £200k, plus unsecured a combination of unsecured and hard core credit card debt of £18k, accrued in the recent past and a declared income of £25k. He/she has also been applying for additional credit cards over the past three months. The score result would depend on the combination of the first factors and then exacerbated by his/her application activity

3.6 Application searches are one of those 400 characteristics. Recent (within the last three or six months) and frequent (more than five) applications have been proven to be linked to consumers who are less able to repay credit; often they tend to be the ones that are looking for extra credit because they are already overcommitted—but it won't be the only factor.

4. An assessment of the evidence provided by Moneysavingexpert.com; and why application searches were irrelevant in all but one of the cases

Moneysavingexpert.com suggested that the use of application searches (rather than quotation searches) in credit scores might be disadvantaging consumers because lenders were not recording quotation searches when they should.

4.1 Firstly, we can exclude 44 of the 68 cases as having been impacted by application searches. 37 of the cases did not mention application searches at all but were concerned with the process and the rate they were charged. What rate is charged is a question for lenders not credit reference agencies who do not determine the rate in any way.

Questions about the rate itself often turned on a belief that they were a good risk, sometimes despite having disclosed information that most lenders would deem to be a risk characteristic. A further seven were general comments only.

4.2 Of the remainder, we assessed the 24 cases which suggested that the consumer concerned had or might have been impacted by the number of application searches on their credit file. Of these, only one of those cases actually might have been impacted. In that one case they had made three applications in a week.

4.3 The other 23 assumed either on their own "knowledge" or in three cases, on the advice of "experts", either at lenders or intermediaries, that they had been impacted by the number of application searches on their credit file. Based on the information that was provided, searches will not have been the reason and, in one case, the consumer thought that just one search would have had a detrimental effect when, in many cases, one search actually has a positive effect on a score.

4.4 Clearly a better assessment of these cases could be carried out with full access to the information but the other factors include: large numbers of credit cards with high balances, missed or late payments, and short term self employment or a lack of income.

5. How consumers can view and change their credit bureau file

5.1 There is a clear process for viewing and changing credit bureau data by consumers. The quality of data at the credit reference agencies is continually checked but consumers are encouraged to check their credit report before applying for credit to make sure it is correct and up to date. A consumer can obtain their report from any of the credit reference agencies for £2 which is £8.00 less than a data subject access request from any other organisation. Lenders are provided with application forms which can be downloaded from the Experian website too. Consumers can be directed to this service from the Experian home page for example (see Appendix A), they can order their report by telephone or they can use our CreditExpert service which offers a 30 day free trial.

5.2 When a consumer obtains their file from a credit reference agency they are also provided with a detailed guide on the data and what to do if they want to make any query about it. They have access to trained advisors either by e mail, post or telephone as part of the service. This is all included in the £2.00 fee for those that choose the statutory file route and free for the first 30 days for those that use Credit Expert.

5.3 If a consumer is turned down for credit and the data from the credit reference agency contributed to that decision then the lender must make that clear and advise them to obtain a copy of their file, who from and tell them how to do it. The consumer also has the right to appeal a decision at a lender and ask for a manual reassessment if the decision was made by automated means.

5.4 If a consumer queries an item of data it is marked with a “D” (for disputed) and this is provided to organisations that search on that consumer and they must take it into account. At the same time the query is raised with the lender concerned and they have 28 days to resolve the issue.

5.5 If the query is upheld the record will be changed and the consumer will be provided with a new and revised copy of their credit report at no extra cost.

5.6 If the lender confirms the data to be correct the consumer can then speak to them directly, or alternatively reach out to the Financial Ombudsman, and the Experian process will provide them with direct contact details for both of those. In addition, for cases where the data is correct but the consumer feels it does not fully reflect their situation, they have the opportunity to add a statement to the item of data by way of explanation and lenders are obliged to read and consider the content of that statement.

6. The German system and why the UK compares favourably today

6.1 In Germany the market is very different. Much less data is shared, (eg, much less positive data), there is less choice and less competition and most consumers still go to their main banker for credit. In short, it is similar to the UK 15–20 years ago.

6.2 There are indeed two types of search similar to the UK’s application and quotation searches and the quotation search is not shared. It can result in an offer of sorts but it is less binding than that in the UK and can be more readily withdrawn if information changes.

6.3 Application searches are recorded when a consumer decides which potential offer to apply for but they can still be refused. Application searches are still used in scoring for up to one year but, the German credit bureau advises that whilst still predictive they are now less so than they were before this system was put in place. As a result, more consumers who should not be getting access to credit are almost certainly doing so.

16 November 2009

The screenshot shows the Experian website interface. At the top, there is a navigation bar with links for 'Business services', 'About Experian', 'Why Experian', and 'Careers'. A search bar is located on the right. The main content area features a large banner for 'GET YOUR FREE EXPERIAN CREDIT REPORT!' with a sub-headline 'THE UK'S NO. 1 CREDIT REPORT'. Below this, there are bullet points: 'Unlimited online access to your credit report', 'Understand and manage your credit score', and 'FREE 30-day trial with no obligation'. A prominent button says 'Get your FREE credit report NOW'. A callout box with a lightning bolt points to this button, containing the text 'Click on this to get to statutory credit report'. To the right, there is a 'Business Services' section and a 'Member login' link. Below the main banner, there are several informational sections: 'Did you know?' with a tip about checking credit reports, 'Check Your Credit Score Today', 'Experian Credit Score', 'Consumer advice', and 'Your Experian Statutory Credit Report'. The footer contains legal and contact information, including '© Experian Group 2009' and 'Local intranet'.

Supplementary written evidence submitted by the Office of Fair Trading

Following the oral evidence session held on Tuesday 27 October 2009 as part of your Committee's short inquiry into credit searches I am writing to update you and the Committee on the actions which the OFT is taking.

First, having now had the oral and written evidence which was put to the inquiry it is clear to us that some further guidance is needed. We are currently considering responses following consultation on our draft Irresponsible Lending guidance. We have decided to add a reference in that guidance explicitly covering the need to allow quotation searches as well as application searches where this is appropriate to the credit product. We will reinforce this by amending our licensing forms to gather information from lenders about the systems which they do or will have in place in order to ensure their searches can where appropriate be recorded as quotation searches.

Second, we are writing to Martin Lewis of moneysavingexpert.com and to the lenders' representatives and the credit reference agencies, using our formal information gathering powers, to investigate the particular examples of consumer complaints submitted to the Committee in order to determine the extent to which consumers have been harmed in these situations.

Last, we are looking further at the system in Germany to see what impact arises from their approach to credit searching. We are also looking at the information we already are gathering about the German system as a whole as part of our High Cost Credit Review in order to make comparisons between the two systems.

I hope that you and the Committee find this information helpful and look forward to letting the Committee know the outcome in due course.

6 November 2009
