All Party Parliamentary Group

Debt and Personal Finance

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APPG on Debt & Personal Finance – Report from the inquiry into the Rent to Own sector

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Executive summary and recommendations

Summary – The APPG issued a call for evidence on the Rent to Own Sector in September 2014 amidst long-standing concerns about poor treatment of customers that developed under the previous regulatory regime. The APPG received written evidence and held an oral evidence session on 9 December 2014 hearing first-hand the experiences of customers, consumer groups, the regulator and the firms themselves. We here present a summary of our main concerns and recommendations.

The APPG has seven main concerns

ONE: RTO agreements are expensive and price transparency is poor. The separate cost of extra warranties and insurance is often not made clear. Interest rates of 94.7% and charges for bolt-on cover can double the cost of essential household goods.

TWO: The market structure makes customers vulnerable to over-charging – Cash-poor customers seeking ownership of goods through a long-term credit-lease are a largely captive market. The lack of direct alternatives for households seeking to own means they are vulnerable to over-charging.

THREE: Concerns over the way insurance is sold: Rent to own agreements are almost impossible to obtain without compulsory added extras. We are concerned that firms may have mis-sold protection to customers who already had adequate contents cover.

FOUR: Poor value insurance – It can be cheaper to insure goods against fire, theft and damage though a single home contents policy – this will almost certainly be the case where multiple items are being leased.

FIVE: Firms may not be providing an adequate explanation of whether RTO is appropriate for a customer's financial circumstances. For some customers a credit agreement may be unsuitable and a pure rental option more appropriate.

SIX: Over 10% of customers have goods taken back or repossessed. Customers are having essential items removed such as a cooker or a washing machine. **FCA rules provide few specific safeguards** for customers experiencing financial difficulties – in particular there is a lack of protection for customers who may have made substantial payments towards ownership.

SEVEN: There are a lack of mainstream alternatives allowing poorer households to obtain essential items. Emergency support from local councils has reduced by half[1] since the introduction of local welfare schemes. More ethical RTO providers from the social enterprise and not-for-profit sectors do not have extensive reach.

[1] Where now for local welfare schemes? Centre for Responsible Credit (2015)

Recommendations

1 – Price transparency and health warnings

1.1 Separate and transparent pricing – The FCA should work with RTO providers to ensure the separate pricing of additional service agreements, warranties and insurances so that each individual cost is clear to the consumer.

1.2 Health warnings for RTO financial promotions – The FCA should mandate new ‘health warnings’ for RTO agreements so that financial promotions make clear that ownership of goods will not pass to the consumer until the last payment and that failure to pay can result in repossession.

1.3 Highlight the total cost – Firms should be required to give equal prominence to all relevant costs and risks of the agreement, rather than simply focusing on the weekly payment amount.

1.4 Cost comparisons should be easier – To aid price comparisons, RTO firms should disclose the manufacturer’s model number for the goods they sell. Where products are store ‘exclusives’, information should be provided by firms allowing a ‘closest match’ comparison to be made.

2 – Investigation into over-charging

2.1 Investigate over-charging – The FCA should review high interest rates and bolt-on cover charges for evidence of overcharging. Where customers are being charged above market rates, the FCA should use its powers to cap prices.

2.2 Better explanation of a customer’s statutory rights – Customers should be provided with a clear explanation of their statutory rights to repair and replacement of faulty goods – and how these compare with benefits that may accrue from additional service agreements.

2.3 Monitor high value sales – The FCA should monitor sales patterns to identify if unsustainable credit agreements are being granted for high value goods.

3 – Crackdown on unfair insurance sales

3.1 Ban compulsory warranties and insurance – The FCA should use its product intervention powers to ban expensive warranties and insurances from being a condition of RTO credit agreements.

3.2 Insurance mis-selling review – The FCA should carry out a review into possible mis-selling of insurances looking at whether customers have been sold services they already had or did not need.

4 – Advice on cheaper insurance options

4.1 Firm should be required to advise customers when there may be cheaper insurance options available – The FCA should require RTO firms to advise customers whenever a single home contents policy may be a cheaper option, in particular when customers may be taking out a second or third agreement.

5 – Tighter affordability criteria and better explanation of alternatives

5.1 Promote better affordability assessments – The FCA should tackle inadequate affordability assessments in the sector. In particular, we urge the FCA to make sure that sales incentives do not drive bad practice.

5.2 Require firms to explain the possible advantages of renting instead – RTO firms should be required to explain the possible advantages of a pure rental product as opposed to a RTO agreement.

5.3 Firms should offer the option of a shorter term agreement – RTO firms should offer agreements over shorter periods of time alongside their standard 3 year term. The benefits of a taking out an agreement over a shorter period – in terms of total cost savings – should be made clear.

5.4 Publish data on how often RTO agreements fail – The FCA should publish data on how often RTO agreements are overdue and how often goods are surrendered or repossessed. This should include how far into the agreement problems occur.

6 – Safeguards for customers in financial difficulty

6.1 Safeguards against loss of essential items – The FCA should introduce new safeguards to protect customers in financial difficulties from loss of essential items. When a customer has made substantial payments towards ownership, and it is evident they cannot pay, it should be deemed unfair to pursue the remaining debt.

6.2 Sector specific protections for customers in financial difficulties, including stronger liability protection and 'Time to Pay' – The FCA should introduce sector specific rules to guarantee consistent protection for RTO customers who get into payment difficulties. There should be a new 'Time to Pay' guarantee placing specific duties on firms to provide periods of payment relief for customers in financial difficulties. The FCA should strengthen existing liability protections so that customers have a right to return goods at any time with nothing further to pay.

6.3 Late payment waivers and mandatory signposting to independent debt advice – The FCA should consider rules to stop late payment fees being levied on RTO customers who are experiencing financial difficulties. RTO firms should be required to refer customers in financial difficulties to independent debt advice.

6.4 Monitoring of debt collection activity – The FCA should make sure that debt collection rules are adhered to and that RTO collections staff are not incentivised in ways that could lead to harassment or hardship.

7 – Support for alternative provision of essential household goods

7.1 Maintain funding of local welfare provision – Central Government should maintain existing levels of funding for local welfare provision. Local authorities should make sure that funds and grants in-kind get through to people in desperate need of furniture and basic household appliances.

7.2 Support for more ethical RTO providers – The Government should work with Big Society Capital and other social investment agencies to support the expansion of alternative RTO providers from the social enterprise and not-for-profit sector.

Introduction

Rent to Own (RTO) stores have become an increasingly common sight on our high streets in recent years, particularly in less affluent areas. They specialise in supplying furniture, TVs and basic household goods such as washing machines. The business model is broadly hire purchase[2] – the customer has a credit agreement with the firm but does not own the goods outright until the last payment is made.

The market is dominated by three retailers with a combined customer base of more than 350,000 households. *BrightHouse* is the biggest, with 291 stores nationwide, followed by *PerfectHome*, which has 67. The third, *Buy as you View* is a non-store-based RTO, making most of its sales online and collecting payments in the home. All three have recently engaged on significant expansion plans.

RTO customers come from low-income households, with many significantly or wholly reliant on benefit income. The typical customer is young, female and with children, and almost all live in rented accommodation. Failure to prioritise RTO debts means customers face losing goods – this may put pressure on monies available for food or other household bills. The average RTO customer is substantially worse off than the average borrower using payday loans.

RTO customer profile: Information from the firms provides an insight into the circumstances of a typical customer.

- 50% of customers are wholly or partly reliant on benefit income[3]
- Customers are usually aged 22-49[4]
- Up to 78% of customers are female[5]
- 60% have children[6]
- 94% live in rented accommodation[7]
- On average, RTO customers have £19 per week to set aside for one-off costs[8]
- Only 1% of RTO customers have used a payday lender[9].

Finding the cash for one-off purchases is hard if not impossible for this demographic. These are people without many options. The RTO model is appealing because weekly or monthly instalments give customers the ability to spread costs over two or three years. The ability to spread payments is valuable for people on low incomes who do not have access to more mainstream credit (credit cards, overdrafts) and lack the savings to afford the cash price upfront.

[2] Rent to Own agreements are made either though a 'conditional sale' agreement or HP. The differences here are not significant so terms here-in are used interchangeably. The three firms say they all use HP.
[3] "50%" quote from BrightHouse chief executive, Leo McKee – 'BrightHouse shows vigour', Financial Times (5 July 2009). BAYV submission.
[4] PerfectHome submission
[5] BAYV submission
[6] PerfectHome submission
[7] BAYV submission
[8] PerfectHome submission
[9] PerfectHome oral evidence to the Inquiry

However, RTO deals are risky and expensive. The total cost of an RTO deal with interest is usually two or three times the retail price. This includes extra charges for insurances and service cover – which BrightHouse makes a compulsory part of the deal [see below]. At the same time, customers behind on payments face the threat of having essential goods repossessed – or forfeiting items – no matter how much they have already paid.

Stockton community group Thrive asked residents about why they go to RTO stores:

> *"There are two reasons: one, there are no other options for credit elsewhere, because of maybe limited income or poor credit history. The second one is [the low weekly payment] for example, you might be paying something like £11 a week. Based on our benefit system or certain wages, that is how people, unfortunately, have to plan how they spend their finances."*

***The high cost of RTO**:* BrightHouse, Buy as You View and PerfectHome charge annual interest rates ranging from 49.9% APR (BAYV) to 94.7% APR (BrightHouse). Interest is charged over a period of two or three years, not just on the price of the item but also on expensive warranty-style service agreements and additional insurances. The figures below show how charges at RTO stores compare with prices at other high street retailers.

In December 2014, a 7.5kg Hotpoint Tumble Dryer cost **£229** at Curry's, **£249** at the Co-Op and **£279** at Argos. At BrightHouse, the total cost with interest, including compulsory insurance and service cover was **£780**.

In September 2014, a Samsung freezer and five-year service plan cost **£644** at John Lewis, according to report submitted to the Inquiry by Which?. This includes a five-year John Lewis service plan. At BrightHouse, the total repayable over three years is **£1,716** – three times the price at John Lewis.

The failure of voluntary commitments

In 2011, Stockton community group Thrive teamed up with the Centre for Responsible Credit to demand firms lower their costs and improve their practices. In response, the firms made a number of commitments codified in voluntary customer charters. Details can be found in the Centre for Responsible Credit report, 'Improving Practice in the Rent to Own Market".

However, the evidence suggests firms have failed to live up to all their commitments. For instance, Brighthouse customers no longer have a choice but to purchase additional service cover as part of an agreement. For the Centre for Responsible Credit, this "showed the failings of a voluntary approach". [10]

[10] Centre for Responsible Credit submission

Regulation of the RTO Sector

Since April 2014, RTO providers, like all consumer credit lenders, have been subject to regulation by the Financial Conduct Authority (FCA). The FCA has an enhanced regulatory toolkit and is well placed to tackle the unfair business practices that developed under the previous regulatory regime. The FCA can for example make specific rules for specific sectors of the market, as it has done recently to tackle problems in the payday lending sector.

In the coming months, RTO firms will be required to demonstrate their business models are not detrimental to consumers in order to continue to trade (the FCA's 'authorisation' requirements). At our evidence session in December, **the FCA told us poor practices in the sector "rang alarms bells" for the regulator**. As a result, the FCA is bringing forward this process of intense scrutiny to summer 2015[11]. The APPG has welcomed this announcement and believes the FCA now needs to make clear how it will act against the unfair business practices identified in this report.

In the meantime, RTO firms have to abide by the FCA's Principles for Businesses, consumer credit sourcebook ('CONC') and detailed requirements in the Consumer Credit Act (CCA). This includes compliance with general provisions related to advertising, APRs, pre-contract information, affordability, and forbearance.
In addition, there are two important protections in the CCA related to hire purchase. These are:

- Protected goods status: A court order is required for lenders to take possession of goods after a third of the agreement has been paid.
- Voluntary termination: A customer has the right to return goods with no further liability after half of the agreement has been paid.

[11] APPG Debt & Personal Finance evidence session on the RTO sector, 9 December 2014 – transcript available at www.appgdebt.org

1 – Price transparency and health warnings

Cash-constrained households taking out a RTO agreement for essential household items pay **significantly higher prices than at other retailers.** Over a 3 year term, customers pay several times the normal retail cash price. High costs arise from the interest charged on the agreement and the additional charges for premium insurances and extended service cover[12]. Figures on page 7 of this report show how total RTO charges compare with prices at other high street stores.

BrightHouse and PerfectHome suggest such comparisons are unfair. They argue the service cover they provide is designed to "covers all eventualities… and offer [an] intensive level of service." Firms say they work to tight repair deadlines and offer loan replacements when repairs are not possible within a certain timeframe. The argument made is that the price of the goods and services provided should only be compared on a like-for-like basis.

However, **failings in the way firms advertise** make it difficult – if not impossible – for households to perform like-for-like comparisons.

- **Neither BrightHouse nor PerfectHome gives customers information about the separate costs of added extras like warranties and insurances**. Agreements typically include one or more of these added extras in the price, but as Damon Gibbons from the Centre for Responsible Credit explains: "There is no separation of what each of those is worth or how it contributes towards the overall price". For example, BrightHouse fails to disclose what its 'Five Star Service' actually costs and the same is true for PerfectHome's 'CoverPlus'.

- **BrightHouse in particular has traditionally sold a high proportion of 'store exclusives'** – products that vary slightly from standard models and are therefore impossible to compare on price.

- In evidence to the Inquiry, BrightHouse says that it now benchmarks the price of its agreements against Curry's, Littlewoods, John Lewis and Argos. This should have been a first step towards greater price transparency. However, the evidence we were provided fails to show what BrightHouse is comparing itself against. BrightHouse told the APPG it finds it "difficult to put a value upon" the additional services it provides.

The APPG is concerned that the firms' financial promotions downplay or ignore relevant costs and risks. Full ownership of goods is the target for the vast majority of RTO customers, yet advertising focuses on the low weekly payment sum and fails to draw attention to the risks of renting (i.e. goods may be taken back) and the total cost of credit due. The FCA told the APPG it shares our concerns about the way firms advertise deals based on the prominence of the weekly repayment. Emphasis on the low weekly cost may be an important reason why so many customers – 50% according to the FCA – get into difficulties on their RTO commitments.

[12] The base "cash" price of goods may also include a mark-up.

The APPG is making several recommendations to remedy deficiencies around price transparency.

- **Transparent pricing of additional warranties and insurances** – The APPG is calling on the FCA to work with RTO providers to ensure additional service-agreements, warranties and insurances are separately priced so that each individual cost is clear to the consumer.

- **Health warnings for RTO financial promotions** – We want the FCA to mandate new ‘health warnings’ for RTO agreements so that financial promotions make clear that ownership of goods will not pass to the consumer until the last payment and that failure to pay can result in repossession.

- **Highlight the total cost** – We believe firms should be required to give equal prominence to all relevant costs and risks of the agreement, rather than simply focusing on the weekly payment amount.

- **Cost comparisons should be easier –** To aid price comparisons, RTO firms should disclose the manufacturer’s model number for the goods they sell. Where products are store ‘exclusives’, information should be provided by firms allowing a ‘closest match’ comparison to be made.

2 – Market structure and customer vulnerability

One of the most striking features about RTO stores is their focus on high-end goods. Despite a cash-strapped clientele, **few utility options are available**. Prices start high and keep rising. For example, in January 2015, the Centre for Responsible Credit discovered that the lowest cost washing machine available at BrightHouse cost a total of £1092 (the base 'cash' price being £568.96). By contrast the same machine is sold by Co-op Electricals for £295.

A captive market

A 2010 review of the high cost credit sector by the Office of Fair Trading found a high degree of dependency on this source of credit amongst RTO customers[13]. There are few alternative ways for cash-constrained households to acquire essential items like fridges and washing machines so demand-side pressures on prices are weak.

Overcharging concerns

The structure of the RTO market makes customers vulnerable to over-charging. Price transparency in the sector is poor and firms typically add-in expensive service cover as part of the agreement. Both firms told us it is "difficult to put a value on" the extensive service cover they provide.

Both BrightHouse and PerfectHome, for example, require customers to take out expensive service deals designed to "cover all conceivable eventualities". As PerfectHome explained:

> "We include loan products in our service package… and include a high level of call-outs for reasons other than genuine product failure. For example, re-tuning of TVs and unblocking of washing machine filters… [N]ormal warranties do not include the[se] extensive features."

Firms exact a premium price for this cover – in 2011, the charity Barnardos showed how service cover provided by BrightHouse added up to almost half the cost of a typical agreement[14]. In 2015, we estimate that the cost of added extras can still double the total cost of essential household goods.

Expensive service cover is sold of a compulsory part of the agreement by both PerfectHome and BrightHouse, raising concerns that customers are being over-charged. We believe this kind of premium service cover should be genuinely optional if customers are to get a fair deal.

The APPG is concerned about the total cost of RTO agreements.

- We believe the FCA should review high interest rates and bolt-on cover charges for evidence of over-charging. Where customers are being charged above market rates, the FCA should use its powers to cap prices.
- **We believe the FCA should prevent expensive service cover from being a condition of the RTO credit agreement.** Firms should do more to explain how their services compare to the warranty provided by the manufacturer

[13] High Cost Credit Report, Office of Fair Trading (2010)
[14] A vicious cycle. The heavy burden of credit on low income families, Mathers & Sharma (2011)

(and repair and replacement rights customers have under the Sale of Goods Act 1979) and give customers the ability to make an informed decision.

- We are asking the FCA to monitor RTO sales patterns to identify if unsustainable credit agreements are being granted for high value goods.

3 – Expensive add-ons: insurance and service cover

RTO deals are almost impossible to obtain from the leading firms without expensive added extras. Firms vary as to whether extras are compulsory or optional – but in all cases linked insurance and service cover are being sold alongside the item at point of sale.

Insurance per se is not an option. All three firms require customers to have protection against fire and theft to cover the rented item – whether through the firm or through a separate home contents policy. This is not in itself unreasonable.

However, RTO customers feel pressured by sales staff and are unhappy about the way add-ons are sold. A poll of almost 300 RTO customers found almost four in ten felt RTO insurance was forced upon them[15]. RTO customers tend to lack existing cover. So while in theory a firm's insurance may be optional, many customers are in a difficult situation – and under pressure, most buy from the firm.

Firm	Service Cover	Insurance
BrightHouse	Compulsory – added to every agreement	Compulsory – added to every agreement
PerfectHome	Compulsory – added to every agreement	Optional (take-up rate unknown)
Buy as you View	Optional (57% take-up)	Option (68% take-up)

The APPG is concerned that customers who do hold an existing policy may have been mis-sold unnecessary RTO insurance when they already had adequate home contents cover.

- **The APPG is calling on the FCA to carry out a review into possible mis-selling of insurances by RTO firms looking at whether customers have been sold services 'they already had or did not need'**[16]. This applies for all firms, whether or not insurance is provided 'optionally' or as a compulsory part of purchase.

The APPG is particularly concerned about BrightHouse's compulsory insurance policy that requires customers to pay for the firm's provision regardless of their existing level of protection. This means that while BAYV has 68% take-up for its insurance product – with 32% covered by a home contents policy – the take-up rate for BrightHouse's insurance is now 100%. The APPG finds it difficult to see how BrightHouse is treating customers fairly by asking households with an existing home contents policy to either walk away or pay twice.

[15] StepChange Debt Charity poll of 273 RTO customers, October 2014

[16] This is the FCA's own phrasing in its submission to the inquiry. The FCA told us: "We are concerned about levels of transparency in relation to add-on products and services, and whether customers are in effect paying for services they may already have or do not need".

Consumer groups like the Centre for Responsible Credit share our concern as do fellow RTO bosses who explained to the APPG why they do not pursue a similar policy. PerfectHome finance director Alaric Smith told us:

> "We thought that [making insurance compulsory] would potentially be a [cause of consumer] detriment… [T]here are plenty of insurance products available in the market which customers could choose as an alternative"

At the same hearing, Graham Clarke, chief executive of BAYV said:

> "[T]he fact [is] a lot of our customers don't have household insurance. But… at the end of the day, it should be left to the individual to make an informed choice".

The APPG agrees that it is particularly important for low income households to have a choice over how to insure a rented item.

- **We call on the FCA to use its product intervention powers to ensure that additional warranties and insurances are not a compulsory part of RTO agreements**. Customers should be able to choose policies that work for them and not have to pay twice.

<u>4 – Poor value insurance</u>

The cost of insurance from RTO firms is particularly high. Insurance on an RTO agreement covers only a single item against fire, theft and damage. It does not cover anything else. By contrast, a single home contents policy may cover any number of items up to a value of £50,000 – as in the following example from 2012 (when BrightHouse actually disclosed the cost of its insurance):

> "With BrightHouse, a £490 double bed would cost £55 a year to insure against fire, theft and damage. Cover for a £725 fridge-freezer would cost £80. By comparison, [both] these items – and others up to a total value of £50,000 – could be insured through a Direct Line contents-only policy costing £118 a year".[17]

The example shows that the value of the two items being insured by BrightHouse is over 40 times less than the coverage provided by an alternative general contents policy. The alternative general policy also costs less.

There are very few circumstances when a customer will get better value from a firm's insurance than though a single home contents policy. Where multiple items are being leased, RTO customers are likely to receive particularly poor value.

We believe it is unfair that households are forced to pay for such poor value cover.

- **The APPG is calling on the FCA to investigate whether RTO insurance policies are fundamentally bad value.**

[17] Stores in the great hidden price hike: How opaque product details and add-ons could affect your purchases, Richard Dyson, Financial Mail on Sunday. (2012)

- As a first step, the FCA should require RTO firms to advise customers whenever a single home contents policy may be a cheaper option. This will help to ensure that customers are able to make an informed choice about the best option for them, in particular when they are taking out a second or third agreement.

5 – Affordability assessments and explaining the alternatives

Affordability

RTO agreements typically last 3 years which perhaps make customers of RTO firms more likely to encounter financial difficulties compared to borrowers taking out shorter term loans. This is because over a longer term a greater proportion of borrowers are likely to experience periods of financial difficulties that are unforeseen.

However, tough affordability checks and sustainability criteria are the best way to stop RTO loans falling overdue. The APPG is concerned by new evidence suggesting that payment problems among RTO customers are significant:

- 20% of customers get into more than a month's arrears according to information we received from BrightHouse[18]; and
- Half of customers are experiencing some degree of late payment and therefore failing to repay to term according to the FCA.

The APPG is also concerned by constituency casework suggesting that a small number of customers are making payments far in excess of the firms' 20% weekly income caps. Some customers end up with payments worth 70% or 80% of weekly income[19]. It is clear that something somewhere is going wrong.

For some firms, there may be problems with sales incentives. The following statement from the chief executive of PerfectHome failed to provide us with reassurance.

> "We can incentivise our staff, because our staff cannot go above the maximum allowable weekly payment for that individual customer."

The APPG does not share the view that a weekly payment cap is a sufficient counterbalance to an incentivised sales staff to ensure that loans are made in a sustainable manner.

The FCA suggests firms "may not be using enough information" to make adequate affordability assessments. The evidence from BrightHouse suggests this may be part of the reason why so many customers are experiencing repayment problems of over a month.

- ➢ The APPG is calling on the FCA to tackle inadequate affordability assessments in the sector. In particular, we urge the FCA to make sure that sales incentives do not drive bad practice.

[18] BrightHouse said: "80% of our customers never fall one month behind with their payments throughout their agreement"

[19] Buy now, regret later? The secret of BrightHouse's success, Amelia Gentleman (2013)

Explanation of alternatives

The APPG believes that RTO firms may be providing credit inappropriately for people who would be better off with a rental product. For instance, the inquiry was troubled by evidence from PerfectHome chief executive Mike Sweetland, who told us: “Some [RTO] customers have absolutely no intention of going to ownership; they… simply need a product now… [which] after some months [they can] give back”.

We need the FCA to take strong action to make sure that RTO agreements are only provided when they are sustainable. The FCA should look at limits on charges and the total amount of credit (as well as improving how customers in arrears are treated as we suggest in the next section of this report). To improve the sustainability of RTO agreements, we recommend:

- **Require firms to explain the possible advantages of renting instead** – RTO firms should be required to explain the possible advantages of a pure rental product as opposed to a RTO agreement. The FCA and Money Advice Service should work with RTO firms so that customers can easily compare the costs and risks of using RTO as opposed to a same or similar rental.

- **Firms should offer the option of a shorter term agreement –** RTO firms should offer agreements over shorter periods of time alongside their standard 3 year term. The benefits of a taking out an agreement over a shorter period – in terms of total cost savings – should be made clear.

- **Publish data on how often RTO agreements fail** – The FCA should publish data on how often RTO agreements are overdue and how often goods are surrendered or repossessed. This should include how far into the agreement problems occur.

6 – Treatment of customers in financial difficulties

The APPG has found that a high proportion of RTO agreements are failing completely. The FCA told us that 22% of customers in arrears have their goods taken back or repossessed. This is equivalent to more than 1 in ten of all agreements.

We are concerned that firms are failing to do enough to help customers in times of need. Instead, customers in financial difficulty are having essential households items removed from their possession even when they may have already have paid hundreds or thousands of pounds towards ownership. RTO firms can then sell the goods again, 'quality-refurbished' – or 'pre-loved'.

Second-hand goods: Figures from all three main RTO firms reveal that many goods are being sold time and time again. For BrightHouse, one in three sales is for a 'quality refurbished' (or 'pre-loved') item. For BAYV the proportion of 'secondary sales' is one in six and at PerfectHome, one in five. PerfectHome chief executive Mike Sweetland told the APPG that giving up goods on a rent to own agreement may "actually be **the very outcome the customer always intended**". The APPG has seen no evidence to support this claim.

The FCA needs to provide better safeguards for RTO customers who get into payment difficulties. Half of customers fall behind with payments at some stage of the agreement. Yet while firms have a range of policies to relieve pressure for hard up families, the new regulatory regime provides a lack of specific guarantees.

The FCA's immediate challenge is to make sure firms are using their existing tools appropriately.

- Since the announcement of this inquiry, BrightHouse has commenced "a review [of its] forbearance options". This is welcome. A poll of almost 300 RTO customers found 26 percent were unhappy with how they were treated when they were not able to make a payment.
- The Money Advice Trust has raised concerns that the way RTO firms reschedule agreements can "mask a lack of affordability or underlying financial difficulties". Debt advice charities have seen cases where 3-year agreements have been rescheduled so many times they have taken 6 or 7 years to pay off.

Forbearance tools: Rent to own firms told us they used several different forbearance tools:

- Temporary payment holidays (for up to 6 weeks)
- Payment plans to help clear arrears
- Rescheduling agreements (extending the term but reducing the weekly payment)
- Swapping goods for less expensive models
- Temporary return of goods for up to a year

Regulations are not specific enough to ensure that customers in financial difficulties are protected in a consistent way. RTO firms can make a wide range of – better or worse – interpretations of high level principles set out by the FCA. The way RTO customers in financial difficulty are treated is too much a matter of the firm's discretion.

The APPG is calling on the FCA to introduce sector specific rules to guarantee consistent protection for RTO customers who run into payment difficulties[20]:

- There should be a new **'Time to Pay' guarantee** placing specific duties on firms to provide periods of payment relief for customers in financial difficulties. This would give customers the opportunity to make reduced or token payments for a specified period of time.
- The FCA should strengthen existing **liability protections** so that customers have a right to return goods at any time with nothing further to pay
- The FCA should consider rules to stop late payment fees being levied on RTO customers who are experiencing financial difficulties.
- There should be a requirement on RTO providers to refer customers in financial difficulties to independent debt advice.

Safeguards against loss of essential items

The APPG believes new safeguards are needed to protect customers in financial difficulties from loss of essential items.

- When customers have made substantial payments towards ownership of an item, the loss of which would result in hardship (for example, a cooker or a child's bed), and it is evident they cannot pay, the FCA should have rules that deem it unfair to pursue the remaining debt.

- The APPG is calling on the FCA to make sure that debt collection rules are adhered to and that RTO collections staff are not incentivised in ways that could lead to harassment or hardship.

[20] Sector specific rules have been backed by the Centre for Responsible Credit and at least one firm, PerfectHome, which asked the FCA to "specify and elaborate on existing guidance".

7 – Alternatives to RTO for low income households

Local welfare schemes

The abolition of community care grants and cuts to local welfare provision have considerably reduced the ability of poorer households to access essential items in an emergency. This has pushed many into the hands of high-interest lenders like BrightHouse. There is continued uncertainty over the future funding of local welfare assistance, with a Government announcement due later this month

- We urge the Government to maintain existing levels of funding for local welfare provision. Local authorities should make sure that funds and grants in-kind get through to people in desperate need of furniture and basic household appliances.

Affordable credit for low-income households

Credit Union membership has doubled to 1.5 million in the last decade yet there is much more to do to improve access to affordable credit provision for millions of low income households. To make sure low-income households can access low-cost household items, we need to foster the development of alternative RTO providers from the social enterprise and not-for-profit sector.

- The Government should work with Big Society Capital and other social investment agencies to support the expansion of alternative RTO providers from the social enterprise and not-for-profit sector.

In particular, we commend initiatives such as Fair for You – a not-for-profit low-interest RTO provider with roots in the credit union sector – and The Store, a RTO social enterprise based in County Durham, as models for local and mainstream provision that deserve support.

Inquiry Panel

Members of the Inquiry Panel

Yvonne Fovargue MP

Paul Blomfield MP

Jonathan Edwards MP

Robin Walker MP

List of witnesses and written submissions

The Inquiry took oral evidence from the following witnesses:

Thrive campaigners, Tracey Herrington, Kath Carter, Corrina Eastwood

Centre for Responsible Credit director, Damon Gibbons

Fair for You chief executive, Angela Clements

FCA director of consumer lending (supervision), Linda Woodall

BrightHouse company secretary, David Harwood and chief risk officer, Dave Poole

PerfectHome chief executive, Mike Sweetland and finance director, Alaric Smith

Buy as you View chief executive, Graham Clarke

List of written submissions

Written evidence was submitted to the Inquiry by the following organisations:

BrightHouse

Buy as you View

Centre for Responsible Credit

Citizens Advice

Financial Conduct Authority

Money Advice Trust

MoneySavingExpert

PerfectHome

StepChange Debt Charity

Which?