

APPG on Debt & Personal Finance inquiry into the Rent-to-Own market

Response by the Money Advice Trust

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Contents

- ✓ Page 2 Contents
- ✓ Page 3 Introduction / About the Money Advice Trust
- ✓ Page 4 The Rent-to-Own Market

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money wisely.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

We help approximately 1 million people per annum through our direct advice services and by supporting advisers through training, tools and information. We give advice to around 200,000 people every year through National Debtline and around 40,000 businesses through Business Debtline. We support advisers by providing training through Wiseradviser, innovation and infrastructure grants.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Oral evidence sessions

Please note that we do not wish to be called to give oral evidence.

The Rent-to-Own Market

Rent-to-own companies are a growing segment of the market. We welcome this opportunity to input into discussion and engagement with the industry. In preparing this response, we have canvassed the views of advisers at our telephone advice services, National Debtline and Business Debtline. We have also drawn on constructive discussions we have had with the largest rent-to-own company, BrightHouse, as part of our creditor engagement and liaison programme. Unfortunately, we are not able to supply data on the number of our clients with rent-to-own agreements as we have historically grouped it with other types of hire purchase for recording purposes.

Information and awareness of contract terms: Our advisers report a general concern about clients' understanding of rent-to-own agreements. Clients are often unsure whether they have a rent-to-own agreement or are paying for goods through an unsecured loan agreement. They do not always appear familiar with the concepts of rent-to-own or hire purchase and lack awareness of the specific rights attached to their agreement. This issue is not unique to the rent-to-own sector and does not necessarily reflect any deliberate poor practice on the part of companies. However, it is particularly important that consumers understand their rights and obligations in the case of hire purchase, given the possibility of loss of goods. We hope this investigation will shed light on the steps rent-to-own companies take to ensure customers understand their statutory and contractual rights and whether further measures could be put in place to reinforce consumer awareness.

Recovery measures: Advisers recalled a number of previous cases in which rent-to-own companies removed goods from customers. However, we were not able to trace details of these cases to investigate further. We also heard reports that clients perceive rent-to-own companies as being generally flexible and prepared to explore reasonable alternatives to recovery of goods. In practice, rent-to-own companies may choose not to use the remedies available to them under a hire-purchase agreement or may offer additional protections over and above the statutory rights attached to regulated hire-purchase agreements. This is welcome, but companies need to ensure that they have clear policies and guidance in place so that consumers and advisers have a clear understanding of their options and standards they can expect from companies. At present there is often an element of doubt about what approach companies will choose to take.

Late fees: Additional fees for late payment are a general cause for concern. In the rent-to-own sector, these fees are typically applied weekly and per item. There is a considerable risk that fees will mount up rapidly, particularly where customers have multiple agreements, pushing already struggling consumers further into arrears. Unfortunately, we are not able to supply detailed or specific evidence on the impact of late fees on individual clients. Nor do we have information about how fees are applied in practice, including for example whether any discretion is exercised in cases of genuine financial hardship. We want to see protection for vulnerable consumers against excessive fees and charges, and protection against penalties for default in the rent-to-own market as in other markets. In particular, companies should not add charges where they are made aware that a customer is in financial difficulty and seeking independent advice.

Costs and consumer motivation: The overall cost of goods acquired through rent-to-own agreements is a cause for concern among advisers, although it is not typically raised as an issue by clients. Agreements typically bundle goods with services such as product cover, delivery, insurance and loan replacements. This practice of bundling makes it difficult for consumers to assess the costs of individual elements and may mask inflated prices. We would welcome more information about how rent-to-own agreements are put together and how transparent the costs of individual elements are made to consumers.

Advisers report that clients with rent-to-own agreements typically fall into lower-income groups and have limited access to credit. Such clients may be unable realistically to obtain goods through other, cheaper forms of credit. Our insight into customer-motivation is limited, but the impression gained from clients is that short term-affordability (weekly payments) and personal contact with a local store and its representatives are important factors. Rent-to-own companies are generally perceived to be relatively approachable, flexible and accessible in comparison with banks and other more traditional credit providers. There is little awareness among our clients of alternative sources of finance such as credit unions and other social lenders, e.g. My Home Finance, Smarterbuys or Moneyline.

Forbearance measures: From our discussions with BrightHouse, we are aware of the range of forbearance options which the company offers, for example, rewriting agreements, swapping existing goods for less expensive models, and temporary return of goods. We are unable to comment on other companies in the market as we do not have equivalent information. In practice, forbearance measures such as the above may mean that consumers are able to retain goods if their situation changes or they are unable to keep up

with existing payments. This flexibility is welcome, particularly where it means consumers avoid losing essential goods. However, forbearance options of this kind need to be used carefully to ensure that they do not simply mask underlying financial difficulty or lack of affordability. Rent-to-own companies will need to have policies in place to ensure that they identify and deal appropriately with financial difficulty where forbearance is insufficient and to avoid the continual 'churning' of consumers' agreements.

Money Advice Trust

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