

21 October 2014

Written Evidence to the *All-Party Parliamentary Group on Debt and Personal Finance* on the “Rent-to-Own” market

About PerfectHome

PerfectHome is a high-street, store-based “rent-to-own” company, offering a wide range of major household items such as domestic appliances, furniture and electronic goods. Founded in 2006, we now have 67 stores across the UK. We employ almost 700 people and have recently received accreditation from the Living Wage Foundation, the first household goods retailer to be awarded the mark.

We offer a clear and transparent model that enables customers to pay for an item in affordable weekly, fortnightly or monthly payments, without an upfront deposit. Our offering is local and personal, the level of engagement with our customers is high. From matching them to the right product for both their requirements and their budget, through to keeping them on track with weekly payments, we dedicate significant resources to looking after our customers.

We provide delivery, installation, service and repair of products locally through our own store teams and seven dedicated Service Centres. Maintaining and servicing electronic goods such as washing machines is a major part of the service we provide to customers and ensures that they are not left without essential items in the event of any mechanical failure.

Executive summary

PerfectHome welcomes the opportunity to support the APPG and its stakeholders on this important inquiry.

The rent-to-own sector is a complex one and often misunderstood or misrepresented. We are pleased to have the opportunity to explain how we work with our customers and believe that comprehensive scrutiny of the sector will help us to debunk some of the persistent myths about it.

Our submission of evidence makes the following key points:

- The rent-to-own sector has a long history in the UK, dating back more than 50 years to the days of companies like Radio Rentals and catalogue offerings like Grattan. The sector has changed to reflect changing consumer demands and now includes a diverse range of propositions including: catalogue-based weekly payment schemes; online-only shops; high street stores such as PerfectHome; local authority and housing association backed schemes; and, most recently announced, a potential charity-backed scheme, Fair For You.
- Customers want and value the opportunity to purchase goods on a rent-to-own basis. As the APPG has already recognised, the ability to pay in weekly instalments is a significant benefit for customers who, although in most cases working people, have to balance multiple demands on a limited income. Far from being an option of last resort, rent-to-own is valued by customers as a more acceptable and easily understood way of taking credit to buy household items than, for example, taking out home-collected credit or using a credit card.
- With roots in the TV rental sector, rent-to-own companies have a long tradition of working closely with customers to take them through to the end of their agreements and to full ownership of the product. To achieve this, a range of tools can be called on to support the customer towards ownership, including periods of extensive support or payment holidays. The rental element, the key premise of the model, means that customers should not get into financial difficulty because of it. If they cannot afford to pay, they can settle their

accounts by returning the product and walk away with nothing further to pay. In effect, the customer has rented the goods during the time they have had them in their home.

- While increasing competition in the sector is welcome and is driving consumer value, it presents a potential barrier for the APPG (and indeed the FCA) in scrutinising the sector as there are multiple offerings with different pricing structures. PerfectHome has included in this document detailed evidence of its pricing structure to assist in this area.
- Our customers view their weekly payment as being for the use of a working product as much as for the eventual purchase of it, meaning that service expectations are high. At PerfectHome, we deliver this high level of service locally through our own infrastructure. For example, we offer same-day repair service for essential items such as washing machines and dryers. Maintaining this responsive local infrastructure impacts on our operating costs which are high compared to other retailers, especially online, and results in slightly higher cash prices when compared like-for-like.
- PerfectHome is a responsible and accountable retailer. We have engaged in useful dialogue with charities such as Thrive and Church Action on Poverty and have drawn on that to improve our service to customers – including the introduction of a six week penalty-free payment freeze for customers who are having difficulty making repayments. We cap our lending at between 10% and 20% of gross income, which is significantly lower than the upper limit suggested by Church Action on Poverty (a third of gross income). The company has also taken steps to further simplify its pricing for customers and to train staff in support of this.

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General

1 What currently works well in the RTO sector and what does not work so well?

What works well:

- Increased competition in the sector from new entrants, including PerfectHome in 2006, has resulted in healthy competition and a high level of customer service. Newer entrants include charity and local authority backed providers, who are introducing additional competition and choice for consumers.
- The sector is regulated, until recently by the OFT, now by the FCA. PerfectHome is also a member of the Consumer Credit Trade Association, and like other rent-to-own businesses, has its own **Responsible Lending Charter** (see Appendix D).

What works less well:

- Complexity of the pricing structure and finding the right balance between simplicity and choice has been an issue in the market. This is something that has been or is being addressed in different ways by different companies.
- The current regulatory framework does not take into account some of the unique characteristics of the rent-to-own model. As the FCA prepares to further develop its consumer credit framework, it will gain a more in-depth understanding of the sector to inform regulatory practice (see Q21). We believe this document, as well as other contributions to the inquiry, will help build this knowledge base.

2 What do customers like/dislike about the products and services offered?

Customers like:

PerfectHome customers like the option of paying in small weekly payments for high-quality/branded household goods. They also like the comprehensive service offering with no hidden charges, ensuring long-term predictability of cost and a product that is kept working at all times.

Unlike pay-day lending or home collected credit, the rent-to-own model gives customers the benefit of a tangible product which enhances their home and lifestyle.

Mum-of-six Tina Wardle, aged 38, from Manchester, has used PerfectHome's Ashton store to furnish her family home since 2007. Over those seven years, she's had agreements for laptops for the kids to do their homework, a washer, dryer, TV and two sofas.

"If PerfectHome wasn't around and I couldn't pay for things weekly, my kids would miss out. But just because I'm paying for big things little by little, it doesn't mean I take out agreements for things I can't afford. I do some of my money planning weekly and some monthly so I know at the end of the day what I can really manage. That means I've been able to add treats for my kids' birthdays and Christmas presents to my payments, like a PlayStation or a TV for their bedroom. These are the kinds of things I didn't have when I was little but I don't want my kids to miss out on."

In our latest customer survey, 84% of customers said that they would buy from PerfectHome even if they had the money to pay cash up-front¹. This demonstrates that our offering appeals on a variety of levels, including quality and service, and not just the provision of credit on a weekly payment basis.

Overall, independent customer research has shown that 93% of customers are satisfied or very satisfied with their purchase. 95% have had positive experiences of PerfectHome and 93% would buy another product from us.²

Customers dislike:

PerfectHome customers increasingly prefer not having to visit the store to make a payment, and like to have a range of payment options to choose from, including online payment. Companies in the sector are striving to adapt to these changing preferences.

Customers also found our proposition too complicated, with the service package sold separately, and frequently referred to the much more straightforward proposition BrightHouse had introduced in 2013. Our response to this competitive challenge is detailed below (see Q3).

With regard to the product, furniture in particular, there were instances in the past, where customers struggled to find the right products for small homes. We have been working with our customers to make our products more suitable for smaller houses and flats.

3 What evidence is there that customers value the 'bundling' of goods with insurance/repair services? Are these packages appropriate? Are these services priced competitively?

Products differ across the market. The following shows the approach taken at PerfectHome.

We offer a straightforward product that includes a service plan to keep items in perfect working order. In response to previous negative customer feedback about the complexity of our proposition (see Q2), we looked at how to best simplify it, without taking away choice where it is necessary. The result is a sensible way of bundling to which our customers have responded well.

Our service package (called "PerfectCare") is now part of the product price (as it is directly linked to the item purchased and an equivalent level of service cannot be bought elsewhere).

Our insurance product ("TAD") remains entirely optional, allowing customers to shop around for a better deal, especially if they are buying more than one product, and acknowledging the fact that some customers may already have home contents insurance. The fact that alternative policies exist and may be more suitable in particular circumstances is signposted in our "Agreement Guide Presenter", which every customer is taken through as part of the sign-up process (page 26 of Appendix B).

Bundling valued:

Our cash price/service plan package offers a simple, transparent product. Our customers value the straightforward pricing, which shows the cost of product and service in one single figure.

Packages appropriate:

Feedback from our customer surveys shows that our service package and "being looked after" are key benefits to our customers, which they value highly. Our experience is that the vast majority of

¹ Telephone survey conducted by independent research company Relish, September 2014. Sample: 130 PerfectHome customers. Question: Would you pay weekly with PerfectHome, even if you had the cash to pay upfront?

49% - Yes, I prefer to budget that way;

32% - No, I would buy at PerfectHome and pay cash;

13% - No, I would shop around and buy outright without paying for a care plan;

3% - No, I would shop around and buy outright and choose a care plan;

3% - Yes, I prefer to use my savings for things I cannot pay for in weekly instalments

² Telephone survey conducted by independent research company Relish between October 2013 and September 2014. Sample: 2,876 PerfectHome customers.

customers have always purchased the service package and found previous separately priced arrangements unnecessarily complicated.

Services priced competitively:

Our service package offers complete, fast and local service with no hidden charges. It is priced to cover all eventualities and avoid any one-off expenses, and to offer the intensive level of service important to our customers. We include loan products in our service package, for the event that we are unable to repair the customer's product within 48 hours. This is important in households where a functioning washing machine is key to getting the kids to school in clean, neat uniforms, where family life is hectic and launderette facilities are not practical.

The rental aspect of the rent-to-own proposition means customers expect a working product for their weekly payment. Service expectations are high, 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 are part of our service package, but would be charged separately under any other form of warranty.

As a consequence, it is difficult to make direct pricing comparisons because normal warranties do not include the extensive features and benefits required by our customers.

As stated above, our insurance cover is sold separately and offers value for money for customers who do not have home contents insurance, prefer only to insure a single, high-value item, or to whom contents insurance is not available (some postcodes are not covered by insurance providers).

IT technician and software engineer Joe Armstrong, aged 36, took out his first PerfectHome agreements for a washer and fridge with his late wife in 2007. Since she passed away, the dad-of-four has continued to use the pay weekly model to help furnish the family home in Newcastle and has recently taken out agreements for entertainment products for his girls' Christmas presents this year.

"I could afford to buy some things outright but I choose not to because paying bit by bit really suits me. I like being able to spread the cost over time, because you never know what else is going to happen in life. Pay weekly means I'm able to pay the way I choose at an APR that I think is fair in return.

"It's not just that though, these days things always seem to break a day after the guarantee expires. That's the reason I really like repair cover in with the product, to me it's longer protection for my things and that means long-term value in my book. I'd taken out their insurance on my products as well but staff at the Newcastle store told me that I could save money if I took out my own home contents insurance, which I'm on to do. Now that's what I call honest customer service."

4 What are the most popular or highest selling goods?

Product sales split as follows:

- Furniture 40%
- Entertainment (TVs, disc players) 24%
- Technology (PCs, laptops, tablets, phones, game consoles) 19%
- Appliances (washing machines, dryers, cookers) 17%

5 What are the most typical payment time-scales and methods?

At PerfectHome, the most typical agreement is a pay weekly plan over two years. The maximum agreement length is three years, one year is also possible.

We also offer "12 Weeks Same As Cash", which allows the customer to buy the product at the cash price with no interest (less any payments already made, including any interest charges to date) at any time during the first twelve weeks of the agreement.

Customers who opt for "12 Weeks Same As Cash" still benefit from the service package for the duration of the standard agreement for the product.

6 What is the socio-economic profile of customers?

The socio-economic profile of customers varies across the sector and it is important not to stereotype. Rent-to-own appeals to a broad cross section of society. PerfectHome's customers are typically equipping a family home, whereas a competitor may attract a slightly different customer demographic.

According to data from our latest customer survey, the majority of PerfectHome customers could put aside between £5 and £19 per week to save for one-off purchases³, which shows the range of our customers' economic circumstances, including people who would struggle to save up for big ticket items and those who could save but choose not to (see Joe Armstrong example above).

Our customers are predominantly female (67%) and aged between 22 and 49. There is an even split between customers being married/with partner and single. 60% have children.

The majority (68%) of our customers are employed or live in an employed household, mainly in privately rented or council housing. But our offering equally appeals to an older demographic (see Jan Jackson's example below).

Retired telephonist Jan Jackson, aged 72, from Birmingham, lives with her husband Terry, her full-time carer. Over the years the couple have used PerfectHome to furnish their home with a washer, fridge freezer, tumble dryer, TV and most recently, a new sofa and swivel chair.

"We've needed to get new things for the house but we couldn't afford to pay for something big all in one go, week by week works right with us. Every Tuesday we go down to the shopping centre and make our payments, it's part of our weekly routine and it suits us. The staff are lovely, we know the manager and the girls and it's a pleasure to call in. They really went the extra mile recently. My osteoarthritis causes problems in my back and I couldn't get out of my new chair easily because it was a bit too low down, they've had an extra cushion made for me so I am higher up and all the material matches. How lovely is that?"

7 How well does competition work in the RTO market?

Recent years have seen increased competition in the market, with new entrants like PerfectHome, Homebuy, Smarterbuys, Own Your Own, as well as charity-backed organisations such as the recently announced Fair For You.

These new entrants demonstrate the considerable need for rent-to-own offerings: a model where customers are able to pay in small instalments or withdraw from the contract, treating it like a rental, should their circumstances change.

Healthy competition has improved choice for the customer, with rent-to-own retailers responding to each other's product prices and adjusting their services in order to gain custom. For example, PerfectHome guarantees lowest weekly prices and, across the board, tends to have the lowest total payable of the three main players in the sector.

Within today's rent-to-own sector, different customer needs are met by a wide range of solutions – including store-based, locally operating businesses and online-only or catalogue businesses.

³ Telephone survey conducted by independent research company Relish in September 2014. Sample size: 130 PerfectHome customers. Question: What is the maximum amount you could put aside per week in order to save up for one-off household expenses?

- 6% - Less than £5
- 17% - £5-£9
- 18% - £10-£14
- 23% - £15-£19
- 18% - £20-£29
- 5% - £30-£39
- 8% - £40-£50
- 5% - More than £50

Customers are able to prioritise what is most important to them - for example, having a local store which is easy to access and where there are friendly and sympathetic staff, or simply using an online provider if that suits them better. Below is an overview of the main rent-to-own providers in the UK.

Table 1: Rent-to-own offerings in the UK⁴

	APR	Delivery, service & repair	Insurance
BrightHouse	64.7% APR (94.7% for technology products)	Free delivery Service plan included in cash price	Included in cash price
Buy As You View	49.9% APR	Free delivery Service plan sold separately	Insurance sold separately
Fair for You (announced)	42.6% APR	No information	No information
Homebuy	49.9% APR	Free delivery Service plan sold separately Deposit required	Insurance sold separately
Own Your Own	No information (APR not displayed on website) Pricing example iPad Air 16 GB, £756.08 over 104 weeks	No information (no detail on website - "We promise to be open about our repairs and replacement policy - We will provide customers with detailed information about our service standards and how to report faults.")	No information
PerfectHome	59.9% APR	Free delivery Service plan included in cash price	Insurance sold separately, alternative options sign-posted
Smarterbuys	Credit offered through credit unions – maximum APR 26.8%	Free delivery Manufacturer's guarantee/warranty, service hotline	No information

The table above shows that different companies package their products in different ways. For example, there is a range of Representative APRs charged and some companies, such as BrightHouse and PerfectHome, include their service plan in the cash price of the goods. BrightHouse also includes its insurance product in the price of the goods.

The table below shows a selection of price comparisons based on a customer choosing the same range of options on equivalent products.

Comparisons are made between the principal rent-to-own companies on products which are comparable. No furniture items are included from Buy As You View as the range offered by this company is not directly comparable to those of BrightHouse or PerfectHome.

⁴ Figures as available on company websites September 2014.

Table 2: Pricing examples for main rent-to-own companies⁵

		Cash Price	Weeks	Total weekly rate, including service	Insurance
Technology					
Sony PlayStation 4 Bundle	PerfectHome	£630.00	130	£8.19	Optional, £1.47 per week
Sony PlayStation 4 Bundle	BrightHouse	£636.99	130	£10.00	Included
Sony PlayStation 4 Bundle	Buy As You View	£696.99*	104	£11.98	Optional, price unknown
Tablets					
Samsung Galaxy Tab 4 10.1" 16GB Bundle	PerfectHome	£452.00	104	£6.67	Optional, £1.20 per week
Samsung Galaxy Tab 3 10.1" 16GB Bundle	BrightHouse	£491.51	104	£8.50	Included
Samsung Galaxy Tab 4 10.1" 16GB Bundle	Buy As You View	£619.99*	104	£11.87	Optional, price unknown
Televisions					
Laurus 32" Smart	PerfectHome	£487.49	156	£5.79	Optional, £0.93 per week
Baird 32"	BrightHouse	£568.96	156	£7.00	Included
Finlux 32" Smart	Buy As You View	£499.99*	156	£7.55	Optional, price unknown
Washing					
Indesit Washer – 6kg 1,200 spin	PerfectHome	£441.99	156	£5.25	Optional, £0.74 per week
Hotpoint Washer – 7kg 1,150 spin	BrightHouse	£487.68	156	£6.00	Included
Beko – 6kg 1,200 spin	Buy As You View	£329.99*	156	£5.06	Optional, price unknown
Fridge Freezer					
55cm Fridge Freezer Indesit	PerfectHome	£420.00	156	£4.99	Optional £0.70 per week
55cm Fridge Freezer Beko	BrightHouse	£406.40	156	£5.00	Included
55cm Fridge Freezer Candy	Buy As You View	£499.99*	156	£7.05	Optional, price unknown
Furniture					
Sofa Chaise (Fusion)	PerfectHome	£1,117.98	156	£13.29	Optional, £1.86 per week
Sofa Chaise (Joelle)	BrightHouse	£1,300.00	156	£16.00	Included
2-seater Sofa (Perez)	PerfectHome	£739.99	156	£8.79	Optional, £1.23 per week
2-seater Sofa (Nina)	BrightHouse	£975.35	156	£12.00	Included

*NOTE: Pricing for existing customers. Buy As You View charges new customers an arrangement fee of £75.00 for the first purchase.

⁵ Prices as available from company websites on 26 September 2014.

Pricing and value

8 Are pricing structures for goods and related services clear?

Yes. PerfectHome price tickets clearly list the following:

- weekly price
- standard duration of agreement
- cash price
- representative APR
- total payable

Pricing information also highlights the requirement to cover the item against theft and accidental damage, if not already covered by an existing home contents policy.

It's all included with PerfectCare

<p style="text-align: center; font-weight: bold; font-size: 1.1em;">Indesit 1200RPM Washing Machine</p> <p>6kg load capacity</p> <p>16 Programmes</p> <p>Special Wash Programmes</p> <p>Energy rating A+</p>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Cash price including PerfectCare service</td> <td style="text-align: right; padding: 2px;">£441.99</td> </tr> <tr> <td style="padding: 2px;">Length of Credit</td> <td style="text-align: right; padding: 2px;">156 weeks</td> </tr> <tr> <td style="padding: 2px;">Weekly Payment</td> <td style="text-align: right; padding: 2px;">£5.25 per week</td> </tr> <tr> <td style="padding: 2px;">Total Payable</td> <td style="text-align: right; padding: 2px;">£819.00</td> </tr> </table> <p style="font-weight: bold; font-size: 0.9em;">It's all included with PerfectCare...</p> <ul style="list-style-type: none"> • Installation & set up* • Rapid in-home service • Parts & labour • Repair or replacement • FREE loan products • No hidden charges <p style="font-weight: bold; font-size: 0.9em;">...providing complete peace of mind!</p>	Cash price including PerfectCare service	£441.99	Length of Credit	156 weeks	Weekly Payment	£5.25 per week	Total Payable	£819.00
Cash price including PerfectCare service	£441.99								
Length of Credit	156 weeks								
Weekly Payment	£5.25 per week								
Total Payable	£819.00								

Representative
59.9% APR

*Excluding cooker installation & connection which is chargeable.
We may require you to take out theft and accident cover if you do not have home contents cover.



During the credit application process in store, our customer presentation (known as the “**Agreement Guide Presenter**” - see Appendix B) takes the customer through the following:

- total amount of credit
- total amount payable
- weekly/monthly payment
- duration of agreement
- late payment fees
- instalments for theft and accident cover, if chosen

In addition, before any new customer is allowed to sign a credit agreement, the sales person hands over to a manager who completes a checklist (known as the “**Agreement Close**” - see Appendix C), which is a check that the customer has understood what they have been told by the sales person.

9 How do prices compare with other retail and online outlets?

At PerfectHome we aim to offer the lowest weekly prices, so are mainly benchmarking prices against other weekly offerings.

Our cash prices tend to be higher than those of large retailers, reflecting economies of scale with regard to overheads and operating costs. We are a relatively small retail chain offering a highly local service.

When looking at pricing in the rent-to-own sector, it is important to compare like-for-like in order to capture a realistic picture of the market. The majority of household goods retailers offer care plans or extended warranties for appliances as well as delivery and installation, but only rent-to-own retailers include the level of service required by customers in our sector (see Q3).

At PerfectHome, the service package (PerfectCare) is included in the cash price, which has to be taken into account when comparing prices.

For example, a 6kg/1200 spin Indesit washer has a ticket price of £229.99 at Currys. A care plan, delivery and installation are available at extra cost, resulting in a final cash price of £393.99. At PerfectHome the same washer has a ticket price of £441.99, with a comprehensive service package, delivery and installation included.⁶

10 Are non-credit customers offered the same packages?

Yes. PerfectHome's service package is a care plan with a duration of up to three years that is part of the product and available to any customer.

11 Is it appropriate to charge interest on the costs of delivery, insurance and repair cover?

At PerfectHome, we do not charge interest on delivery or insurance.

We do charge interest on our service package (unless paid in cash), as it is part of the product price.

This is in line with common practice in retail and insurance and reflects the cost of offering the service on credit. For example, Currys offers a washing machine care plan at £119 for three years, the same plan is available monthly for £4.50, resulting in £162 paid over the three years⁷.

⁶ Prices as available from www.perfecthome.co.uk and www.currys.co.uk on 26 September 2014.

⁷ Care plan pricing depends on product cash price tier, a £4,50 plan is offered for example with [this washing machine](#) (see right-hand side of web page).

Lending

12 Are the circumstances when customers might lose goods clear?

At PerfectHome, all rights and obligations are explained to the customer in detail during the application process (see “Agreement Guide Presenter” – in Appendix B), and the various options for customers with payment issues are clearly set out.

Customers’ understanding of their rights, obligations and possible outcomes is tested by a manager using the “Agreement Close” (Appendix C) prior to the signing of the credit agreement to be absolutely sure that customers are fully informed as to what they are taking on.

13 What actions do firms take to identify and help customers at risk of financial difficulty?

Firms in the rent-to-own sector are regulated and are required by law to lend responsibly. This starts with thorough affordability assessments, but also includes the everyday management of customer relationships throughout the agreement period, as well as forbearance.

Beyond the legal requirement, it is directly in a firm’s commercial interest to ensure a customer can afford a payment plan, as the cost of collecting payments is high compared to the amount owed. Being able to accurately assess a customer’s ability to pay is very important in our market, as well as being in the interest of the customer.

Keeping customers on track with weekly payments and managing their changing requirements is an important part of what we do at PerfectHome. Our objective is to work with our customers to get as many of them as possible through to owning their product.

We have robust processes and comprehensive checks in place to assess a customer’s ability to sustain payments over the agreed period.

As part of our pre-purchase process, we have an in-depth conversation with the customer in store, to map their requirements against their income and establish what they can afford (for example, we look at bank statements where possible to establish other outgoings). This may involve directing the customer to a refurbished or more affordable product than they came into store for.

In addition, we share and use credit data to inform our lending decision. A score based on this data allows us to assess whether a customer is not eligible at all, higher-risk, medium-risk or lower-risk. For medium and lower-risk customers, this in turn informs the maximum weekly, fortnightly or monthly amount suitable for a customer’s individual circumstances. We work with a cap of between 10% and 20% of gross income, depending on risk level. This is more restrictive than Church Action on Poverty’s suggested third of gross income.

As set out in our answer to Q16, we offer our customers a payment holiday of up to six weeks in the event that they are temporarily unable to pay. We will also, by agreement with the customer, re-schedule their entire account to reduce their weekly payments and, if all else fails, will accept the product back in full and final settlement. In this circumstance, the customer walks away with nothing further to pay.

14 How often do customers have multiple agreements with RTO firms and when might this not be appropriate?

The majority of PerfectHome customers have more than one agreement with us, often because, for example, mattresses are sold over a shorter term than beds, so a bed with mattress will be classed as two agreements. This is similar with, say, a TV and BluRay/DVD player.

We therefore do not cap the number of agreements, but rather the “Maximum Allowable Weekly Payment” (MAWP) as a percentage of a customer’s gross income (10% - 20% depending on risk level).

Following the introduction of data sharing between different retailers, we can now see hire purchase agreements a customer may hold outside PerfectHome. We use this information to make an informed decision about a customer's ability to pay, using the thresholds referenced in Q13. If these additional outgoings impact on our affordability assessment, it will result in a negative decision for the customer.

In turn, if the credit agreement is granted, we share this positive data, creating a credit history for the customer and allowing them to build and enhance their credit record over time.

Treatment of customers in arrears

15 How many customers fall behind on payments?

At any point in time, around 6% of our customers are in arrears, which means they have not made their weekly payment by the Monday following their preferred payment day.

16 How are customers who fall behind on payments treated?

We understand that customers' circumstances can change during the course of a one to three-year period, and we treat customers who get into financial difficulty sympathetically and offer solutions to help.

There is a range of tools we use to solve payment issues. Following our work with the charity Thrive last year, we revised these tools and have reduced the use of re-scheduling and moved to a six-week payment freeze as an alternative. During the six weeks, no payments are due and no interest is charged, giving customers who are temporarily unable to pay a break to catch up, and then restart their payments without penalty. The importance of the switch to this methodology is that it is, in effect, a "payment holiday" with no additional fees or interest – once the customer catches up with where they were before going into arrears, they carry on with the agreement.

If a customer feels they will be permanently unable to make their payments, the store manager will work out a solution with the customer, which could include a re-scheduling of the customer's agreement to reduce the weekly payments and collect them over a longer period, or which may result in us accepting the product back and writing off arrears in full and final settlement.

17 Are debt collection practices in the sector appropriate?

PerfectHome's practices are appropriate and tightly monitored. There are two stages of addressing missed payments:

1. If a customer misses a payment on their agreed payment day, the store team will contact them by phone in the first instance to see what happened (more often than not, there is a practical reason) and encourage them to make the payment and avoid a late payment fee. All contact is logged and strict rules are in place regarding the frequency and type of messages/calls.
2. Arrears problems can only be managed by dialogue between customer and store. If contact cannot be made by phone or letter, a Relationship Manager or Area Accounts Manager may make a home visit. The purpose of home visits is to establish communication in order to find a solution – including the option of accepting the product back.

PerfectHome staff making home visits are instructed to adhere to rules and guidance provided by the FCA and the Administration of Justice Act 1970, both relevant sets of which are clearly set out in our Store Operations Manual.

18 What proportion of goods are seized and resold?

We never seize goods. Around 22% of products are returned by the customer in order to conclude an agreement.

Goods which are returned are refurbished in one of our seven service centres and are subsequently resold. Recycled goods then provide an affordable alternative to a brand new product for customers with particularly tight budgets.

Compliance and scope for further action

19 How effectively are firms and trade associations monitoring compliance with charters and codes of practice?

At PerfectHome, we monitor compliance through mystery shopping, monthly phone surveys (carried out by an independent research company) and annual customer questionnaires.

Responding to customer issues is very important to us. If a customer raises an issue as part of the independent research, they are provided with a dedicated contact in PerfectHome's customer services department at Head Office and encouraged to call, so the issue can be investigated. (Data protection prevents the customer's details being passed directly to PerfectHome).

To ensure staff compliance with regulations and our Responsible Lending Charter, we are also looking to introduce recording of customer calls, with permission of the customer.

To support both customers and staff, we have successfully trialled body-worn video cameras for staff visiting customers at home. We aim to roll out the use of this technology soon across all of our stores.

Finally, healthy competition in the market has led to a level of self-regulation, for example with regard to advertising price claims.

20 What actions could RTO firms and trade bodies take to improve the customer experience?

PerfectHome has engaged with consumer groups such as Thrive and the Centre for Responsible Credit to help us improve customer experience. This resulted in the introduction of the Responsible Lending Charter and changes to our practices and processes.

We value feedback from consumer groups and customers and welcome dialogue with them to discover areas of improvement and address issues.

21 What actions could the regulator take to improve practice in the RTO sector?

Rent-to-own is an important part of the credit market. It provides solutions to customers who might not otherwise be able to access credit that works for them, from a regulated lender and with extensive customer support.

As the emergence of charity-backed rent-to-own companies such as Fair For You shows, there is a considerable demand for rent-to-own services.

We believe that ongoing dialogue with the FCA will allow the current regulatory framework to be more closely adapted to the requirements of the rent-to-own customer and the ways in which the sector responds to these requirements.

The regulator could specify and elaborate on existing guidance to provide a framework that recognises the unique characteristics of the sector.

APPENDIX A: Customer profiles & voices

Here, a cross section of customers from across the country, talk about their experiences of shopping with PerfectHome.

IT technician and software engineer **Joe Armstrong**, aged 36, took out his first PerfectHome agreements for a washer and fridge with his late wife in 2007. Since she passed away, the dad-of-four has continued to use the pay weekly model to help furnish the family home in Newcastle and has recently taken out agreements for entertainment products for his girls' Christmas presents this year.

"I could afford to buy some things outright but I choose not to because paying bit by bit really suits me. I like being able to spread the cost over time, because you never know what else is going to happen in life. Pay weekly means I'm able to pay the way I choose at an APR that I think is fair in return.

"It's not just that though, these days things always seem to break a day after the guarantee expires. That's the reason I really like repair cover in with the product, to me it's longer protection for my things and that means long-term value in my book. I'd taken out their insurance on my products as well but staff at the Newcastle store told me that I could save money if I took out my own home contents insurance, which I'm on to do. Now that's what I call honest customer service."



Retired telephonist **Jan Jackson**, aged 72, from Birmingham, lives with her husband Terry, her full-time carer. Over the years the couple have used PerfectHome to furnish their home with a washer, fridge freezer, tumble dryer, TV and most recently, a new sofa and swivel chair.

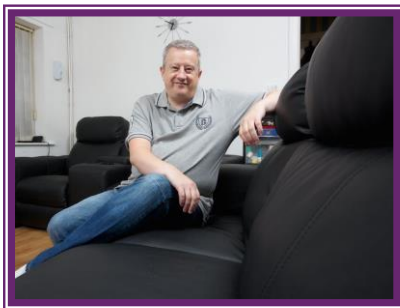
"We've needed to get new things for the house but we couldn't afford to pay for something big all in one go, week by week works right with us. Every Tuesday we go down to the shopping centre and make our payments, it's part of our weekly routine and it suits us. The staff are lovely, we know the manager and the girls and it's a pleasure to call in. They really went the extra mile recently. My osteoarthritis causes problems in my back and I couldn't get out of my new chair easily because it was a bit too low down, they've had an extra cushion made for me so I am higher up and all the material matches. How lovely is that?"

Mum-of-six **Tina Wardle**, aged 38, from Manchester, has used PerfectHome's Ashton store to furnish her family home since 2007. Over those seven years, she's had agreements for laptops for the kids to do their homework, a washer, dryer, TV and two sofas.

"If PerfectHome wasn't around and I couldn't pay for things weekly, my kids would miss out. But just because I'm paying for big things little by little, it doesn't mean I take out agreements for things I can't afford. I do some of my money planning weekly and some monthly so I know at the end of the day what I can really manage. That means I've been able to add treats for my kids' birthdays and Christmas presents to my payments, like a PlayStation or a TV for their bedroom. These are the kinds of things I didn't have when I was little but I don't want my kids to miss out on."



Paul Hibbert, aged 50, from Salford, Greater Manchester, works for the probation service. The dad-of-four has furnished his family home through PerfectHome.



“I’m proud of my house, I’ve got it really nice with things like sofas, a fridge freezer and dining table that are hardwearing, reliable and built to last. Paying weekly also means I can keep up with modern technology in a way that I can manage. I couldn’t afford to pay out massive amounts in one go for these kind of big things, and with four kids, saving up is hard because something always comes round the corner. Paying weekly means I can make a nice home for my sons but in a way that works for me financially. It takes longer but I’m clear about what I’m paying overall and that’s the way I want to do it.”

Clare Brook, aged 32, from Wakefield, who lives with her husband and daughter, turned to PerfectHome when their washing machine died out of the blue.

“The washer is on every day, two or three times a day. We couldn’t be without it to keep things going in our home. We couldn’t afford to buy a new one outright and knew that paying weekly would suit our budget. We had two sofas from PerfectHome already and rang them to ask if we could add another agreement.

“The new washer was with me after a couple of days, so my backlog of washing hadn’t got too out of hand. It’s an Indesit Innex, that’s good quality, not a rubbish cheap brand that you’ve never heard of. You get quality for your money and friendly customer service, the Wakefield staff are brilliant. The price works for me, even at the end of the agreement with the APR, I’m happy because at the end of the three years I’ve got good brands in my home.



“And I like how the product and the repair plan are grouped together, you know where you are with things. The washer had a blockage recently, I wasn’t sure if it was my fault but you can just ring them and they came out and fixed it no problem. That’s value for money to me, it’s a simple system and it makes sense, there’s less hassle. Then you can choose whether to take out insurance, which I liked because some places you have to have it but it was up to me to decide.”

APPENDIX B: Agreement Guide Presenter

Please see .pdf file provided separately.

The “Agreement Guide Presenter” is a presentation used by sales staff alongside the credit agreement document. It covers all key aspects of the agreement with regard to price, credit and the customer’s rights and obligations.

It is laid out to accompany the conversation with the customer; talking through agreement and presentation with the customer takes around 20 minutes and is followed by a separate conversation between a Manager and the customer (“Agreement Close” – see Appendix C), ahead of signing the credit agreement.

Please note the “Agreement Guide Presenter” is commercially sensitive and not intended for publication.

APPENDIX C: Agreement Close

Please see .pdf file provided separately.

The “Agreement Close” document accompanies the in-store conversation between a Manager and the customer ahead of signing the credit agreement. It serves as a final test, to ensure the customer has fully taken in all the terms of the agreement and is of sound mind and clear understanding.

As part of the conversation, the customer is asked to initial against each separate item on the document as they are being explained to them. Only after this final check is the customer allowed to sign the credit agreement.

Please note the “Agreement Close” document is commercially sensitive and not intended for publication.

APPENDIX D: PerfectHome Responsible Lending Charter

Please see .pdf file provided separately.

PerfectHome's Responsible Lending Charter was developed following dialogue with charities Thrive and Church Action on Poverty.

The charter features on the walls of Relationship Managers' offices and consultation rooms in our stores, serving as credo and guidance for our store teams. It is also publicly available for download from our website.



RESPONSIBLE LENDING CHARTER

PerfectHome is committed to treating customers fairly and making responsible lending decisions at all times. This charter is a written statement, which outlines our position when dealing with customers.

We believe in responsible lending to all customers. We will:

- Assess creditworthiness and the ability to sustain payments over the agreed period and we will only lend if the customer meets the appropriate criteria.
- Provide the customer with a clear explanation of the terms of the agreement(s) and also explain their rights and obligations under the agreement(s).
- Keep existing agreements on the original terms when customers take out further agreements.
- Provide multiple payment methods including weekly, fortnightly, monthly. These can be by cash, direct debit or debit card.
- Employ mystery shoppers to test how well all elements of our proposition are explained.

We believe in supporting our customers. We will:

- Ensure our product pricing is competitive against other companies in the sector.
- Treat all customers who get into financial difficulty sympathetically and work with them to come up with solutions to the problem.
- Direct customers in financial difficulties to independent free debt advice agencies.
- Ensure that default charges do not exceed the actual costs incurred and only make one charge per agreement during any continuous period of default.
- Never make a charge for delivering goods or taking away the packaging.
- Never charge more than 1 week's payment when a customer signs up.
- Install all products free of charge with the exception of Gas and Electric Cookers.
- Provide a published complaints process including resolution time scales. We will ensure the customer is aware of their right to complain to the Financial Ombudsman service if they have a complaint that has not been resolved to their satisfaction.

We believe in being open, honest and transparent with all customers. We will:

- Ensure that our prices are fully transparent, providing clear information on the full cost of ownership, including optional warranties and where appropriate our Theft and Accidental Damage Insurance.
- In any warranty or insurance material provide clear guidance on customer statutory rights.
- Provide customers with an Annual Statement for each credit agreement, detailing payments and outstanding balances.
- Provide customers with clear information concerning their rights to repair and replacement of faulty goods.