

# Hire purchase: Higher prices

Problem debt in the rent  
to own market



Hamse Yusuf  
Joe Lane

# Contents

<b>Summary</b>	<b>2</b>
<b>Introduction</b>	<b>4</b>
<b>Methodology</b>	<b>5</b>
<b>The Rent to Own Market</b>	<b>6</b>
<b>How many people have rent to own debt problems?</b>	<b>10</b>
<b>Why do people have unmanageable rent to own debts?</b>	<b>13</b>
<b>Recommendations</b>	<b>19</b>
<b>Appendix</b>	<b>22</b>

# Summary

Since the introduction of a price cap on payday lending in January 2015, the number of people with payday loan debt problems has halved. In response to that success, the government and regulators need to be vigilant that those problems don't simply shift elsewhere. One market where we are now seeing growing numbers of similar problems is the rent to own market with consumers getting trapped in debt due to high interest rates, inadequate affordability checks and inflexible collection practices.

## The rent to own market

Rent to own companies sell household items such as televisions, fridge-freezers and washing machines through hire purchase agreements. The agreements typically require consumers to make weekly instalments, last for three years and have an interest rate of up to 99.9%. The industry is dominated by three companies, Brighthouse, Buy as You View, and Perfect Home.

Since 2008, the number of households using rent to own shops has increased rapidly and best estimates put the total number of consumers last year at 400,000. Rent to own shops are popular because they offer a service to people who can't afford to pay for products up front; 71% of rent to own consumers told us they use them because they can't afford to buy products up front.

## How many people have unmanageable rent to own debts?

The growth of the market means that more people are getting into financial difficulties. Last year, Citizens Advice helped people with over 11,500 hire purchase issues and in the first three months of this year, we have advised on 20% more hire purchase debt issues than in the same period last year.<sup>1</sup>

The people we have helped with hire purchase debts, which include rent to own debts, reflect the problems rent to own consumers have more generally. Our survey of nearly 2,000 rent to own consumers found:

- A third have missed one or more payment
- A quarter has struggled with payments for two or more weeks
- More than half have taken on other debts to make their payments; 28% have borrowed from a doorstep lender, 24% have used a credit card and 20% have taken out a payday loan
- A quarter have not been able to pay other bills such as their rent, council tax, or television licence after falling behind on their weekly rent to own payments

Rent to own debt problems are particularly concerning because they cause severe detriment. In particular, the debts tend to be large. In 2014/15, the average rent to

---

<sup>1</sup> Hire purchase issues are a broader category than rent to own shops and includes vehicle hire purchase debts. Where the data refers to the broader category it will refer to 'hire purchase', the majority of evidence relates explicitly to rent to own consumers.

own debt client we helped had a debt of £1,309, compared to £532 for payday loan clients.<sup>2</sup>

## What causes rent to own debt problems

There are four primary reasons many rent to own consumers struggle to pay their rent to own debts:

- Rent to own shops are expensive. Due to a combination of inflated prices, add-on charges and interest rates of nearly 100%, rent to own consumers regularly pay two or three times more than consumers who can pay up front.
- Affordability checks are inadequate. A fifth of rent to own clients spend more than 20% of their income on rent to own purchases.
- Consumers experience poor treatment when they do fall into arrears. Seven per cent have their goods repossessed - even when they have already paid a significant sum for their products.
- The cost of buying from rent to own shops is unclear. Add-on charges and inflated prices make it difficult for consumers to compare prices across providers and calculate how much they are paying for the product itself.

## What can be done?

To help people avoid taking on unmanageable rent to own debts this report makes a number of recommendations to government, regulators and rent to own lenders:

- The FCA should investigate extending the total price cap on high-cost short-term credit to the rent to own market.
- Brighthouse should follow the example of the rest of the market and make their aftercare service optional. Alternatively, the CMA should investigate whether bundling the prices increases overall prices by limiting competition.
- Consumers should be given a 14 day cooling off period after purchase to enable them to shop around for aftercare and insurance.
- The FCA's affordability guidance should be applied as rules to rent to own lenders, as well as high-cost short-term credit lenders.
- Rent to own companies should introduce a formal spending cap so that no client spends more than 20% of their income on rent to own agreements.

---

<sup>2</sup> Based on data collected by advisers 2014/2015

## Introduction

Since the introduction of a price cap on payday lending in January 2015, meaning that people can't pay back more than twice what they borrowed, there has been a 53% reduction in clients accessing help from Citizens Advice with payday loan issues.<sup>3</sup> In response to that success, regulators and the government need to be vigilant that those problems don't simply shift elsewhere.

This report focusses on the rent-to-own market and is the latest in a series of reports looking at the problems consumers have in markets that are similar to payday lending. The rent to own market has grown in recent years, particularly in the wake of the payday loan price cap.

That growth has attracted justified attention from the All Party Parliamentary Group on Debt and Finance (APPG), the Financial Inclusion Centre and the Financial Conduct Authority (FCA).<sup>4</sup> The FCA has recently expressed concerns about price transparency, affordability checks and the treatment of consumers in arrears.<sup>5</sup> It has appointed 'skilled persons' at the three largest rent to own providers to oversee improvements in their practices.

We look in detail at those issues, as well as the reasons why rent to own consumers pay such high prices. The report begins by describing the rent to own market, examining the size of the market and its growth and describing who uses rent to own stores and why. The second section highlights the number of people who struggle with rent to own debts. The third section looks at the reasons so many rent to own consumers take on unmanageable debt. Finally, it makes ten recommendations to improve the market and provide better protection for consumers.

---

<sup>3</sup>Citizens Advice. (2016). Debt problems with high cost credit products on rise as payday loan issues fall. Retrieved from <https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/debt-problems-with-high-cost-credit-products-on-the-rise/>

<sup>4</sup>All Party Parliamentary Group on Debt and Finance. (2015). *APPG on Debt & Personal Finance – Report from the inquiry into the Rent to Own sector*. London: All Party Parliamentary Group on Debt and Finance, Pages 3-7

<sup>5</sup>Financial Conduct Authority. (2016). *Rent to own*. London, <https://www.fca.org.uk/firms/rent-own>

# Methodology

The report uses a combination of Citizens Advice data and primary research:

- A survey of 1,936 rent to own consumers who had purchased a product from either Brighthouse, Perfect Home or Buy as You View on their experiences with rent to own companies. The survey ran from 16 August to 22 September 2016 and was promoted on the Citizens Advice website and social media pages and externally by MoneySavingExpert and directly to Brighthouse consumers through a marketing SMS.
- Analysis of our statistics from the local Citizens Advice network relating to rent to own products in the last 3 financial years including data from local Citizens Advice services that used our electronic case recording system for complex debt casework
- Analysis of anonymised evidence forms submitted by local offices which contained a reference to the rent to own market and/or one or more of Brighthouse, Perfect Home, Buy as You View, or hire purchase between the 1 July 2014 - 1 November 2016. Any reference to hire purchase on a car was excluded from the analysis which left a total of 153 qualitative cases eligible for analysis
- Secondary market analysis of the rent to own sector
- Analysis of the Wealth and Assets Survey

# Part 1 - The Rent to Own market

## What is a Rent to Own Agreement?

Rent to own shops sell products through hire purchase agreements.<sup>6</sup> Hire purchase agreements are a form of credit where a consumer borrows money to buy a particular product, typically household furniture, appliances, or electrical goods. The consumer then pays regular instalments to hire the item. The consumer takes ownership of the product when they pay the final instalment at the end of the hire period.<sup>7</sup>

The rent to own market in the UK is dominated by three companies; Brighthouse, Perfect Home and Buy as You View. Based on analysis of the agreements they offer, a common rent to own agreement:

- Is paid in weekly instalments
- Lasts for 3 years, although there are agreements which last between 1 - 4 years
- Has an annual percentage rate (APR) of between 68.9% and 99.9%
- Often includes aftercare, which is similar to a warranty, either as an option or, in the case of Brighthouse, as a mandatory add-on<sup>8</sup>
- Requires insurance which can be bought from the rent to own company or elsewhere

Our survey of rent to own consumers provides more information on how people use rent to own shops:

- The majority of consumers pay between £5 and £25 a week, although nearly a fifth (17%) pay over £50 a week
- The 3 most popular items bought are televisions, fridge-freezers and washing machines
- 84% of consumers pay for more than one item with 28% paying for 5 or more
- More than two-thirds (69%) buy their insurance in store
- Where given an option, 3 in 4 consumers bought aftercare<sup>9</sup>

Figure 1 highlights the typical costs of a rent to own agreement at each of the three major providers.

---

<sup>6</sup> In a recent APPG investigation, all three firms stated they use Hire Purchase agreements

<sup>7</sup> Consumer Rights Act, section 7, (2015)

<sup>8</sup> Brighthouse, the largest company, include their service, 5\* Service Plus as a mandatory add-on in all agreements

<sup>9</sup> Buy as You View and Perfect Home consumers are given a choice, Brighthouse aftercare is compulsory

**Figure 1 - Example of a rent to own agreement - Beds<sup>10</sup>**

<b>Brighthouse<sup>11</sup></b>	<b>Perfect Home<sup>12</sup></b>	<b>Buy as You View<sup>13</sup></b>
Cash Price: £497.86 Delivery and Installation: £30 5* ServicePlus: £139.40 <b>(Mandatory add-on)</b> <b>Amount lent: £667.26</b>	Cash Price: £545 Delivery and Installation: Details not given Aftercare: £120.12 <b>(Optional)</b> <b>Amount lent: £545</b>	Cash Price: £549.99 <sup>14</sup> Delivery and Installation: Details not given Aftercare: £170.04 <b>(Optional)</b> <b>Amount lent: £549.99</b>
<b>APR: 69.9%</b> Length: 156 weeks Weekly payment: £8.50	<b>APR: 69.8%</b> Length: 156 weeks Weekly payment: £6.99	<b>APR: 68.9%</b> Length: 156 weeks Weekly payment: £7.02
<b>Total payable (without insurance): £1,326</b>	<b>Total payable (without insurance): £1,090.44</b>	<b>Total payable (without insurance): £1095.12</b>
Insurance from store: £159.12	Insurance from store: £157.56	Insurance from store: Details not given

### **Insurance and aftercare**

A unique feature of rent to own agreements is the provision of aftercare and insurance services by providers. Because the product does not belong to the consumer until they have paid off the full credit amount, rent to own stores require that all consumers have insurance against accidental damage, fire and theft. This is often bought in store along with the products.

Aftercare policies are similar to warranties and mean consumers can have faulty goods replaced or repaired without charge. The rationale given for providing aftercare is that as consumers don't take ownership of goods for up to three years, the service gives them peace of mind that their products will be in good condition when their agreement comes to an end. All the major rent to own companies sell an aftercare policy alongside the product and insurance though only Brighthouse's aftercare policy, 5\* Service Plus, is sold as a compulsory add-on. Despite that, 77% of consumers bought aftercare when given the choice. As shown in Figure 1, the cost of aftercare and insurance can make up a significant proportion of the total of a rent to own agreement.

<sup>10</sup> All prices correct as of 22/09/2016

<sup>11</sup> Adapted from Brighthouse. (2016). Oregon 5' Bed, from <http://www.brighthouse.co.uk/beds/oregon-5-bedstead/>

<sup>12</sup> Adapted from Perfect Home. (2016). Vegas 5" Bed. Retrieved from <https://www.perfecthome.co.uk/furniture/bedroom-furniture/alc-vegas5ftbdv2/product>

<sup>13</sup> Adapted from Buy as You View. (2016). York 5" Bed. Retrieved from <https://bayv.co.uk/buy-york-king-size-bed-with-mattress-p2bj>

<sup>14</sup> Bed also includes mattress



## How big is the rent to own market?

Best estimates put the total number of rent to own consumers at 400,000 last year, an increase of 131% since 2008.<sup>15</sup> Analysis of the Wealth and Assets Survey, while suggesting a more modest picture - with the number of households saying they have bought goods on rent to own agreements increasing by nearly 40% since 2006/08 - also shows significant growth.

The market is almost entirely made up of three rent to own providers, Brighthouse, Perfect Home and Buy as You View. Brighthouse had 277,400 consumers in 2015 and has 298 stores across the UK.<sup>16</sup> Perfect Home was estimated to have 61,932 consumers in 2015 and has 67 stores largely concentrated in the North of England.<sup>17</sup> Buy as You View, was estimated to have 66,485 consumers in 2015.<sup>18</sup> Uniquely, Buy as You View attach a coin meter to consumers' televisions, even if they bought the TV elsewhere and can restrict viewing if the account is in arrears for an extended period.

19

In addition to the growing number of consumers using rent to own, financial reports filed with Companies House show that the three largest rent to own companies have increased their turnover substantially since 2009:

- Brighthouse had a turnover of £351.7 million in 2015, an increase of 106% since 2009<sup>20</sup>
- Perfect Home had a turnover of £90.1 million in 2015, an increase of 363% since 2009<sup>21</sup>
- Buy as You View had a turnover of £79.3 million in 2015, an increase of 135% since 2009<sup>22</sup>

## Who uses rent to own shops?

Analysis of the Wealth and Assets Survey shows that:

- 45% are in the bottom 20% of earners
- 55% have dependent children
- 77% are renting
- 43% are disabled or have a long-term illness

When that is compared to the overall population, as shown in Figure 2, rent to own consumers are significantly more likely to live in less secure situations.

---

<sup>15</sup> Evans, G., & Christine, A. (2016). *Better and Brighter? Responsible rent to own alternatives*. London: Financial Inclusion Centre.

<sup>16</sup> Brighthouse. (2015). *Annual Report 2014-2015*. Watford: Brighthouse.

<sup>17</sup> Evans, G., & Christine, A. (2016). *Better and Brighter? Responsible rent to own alternatives*

<sup>18</sup> Evans, G., & Christine, A. (2016). *Better and Brighter? Responsible rent to own alternatives*

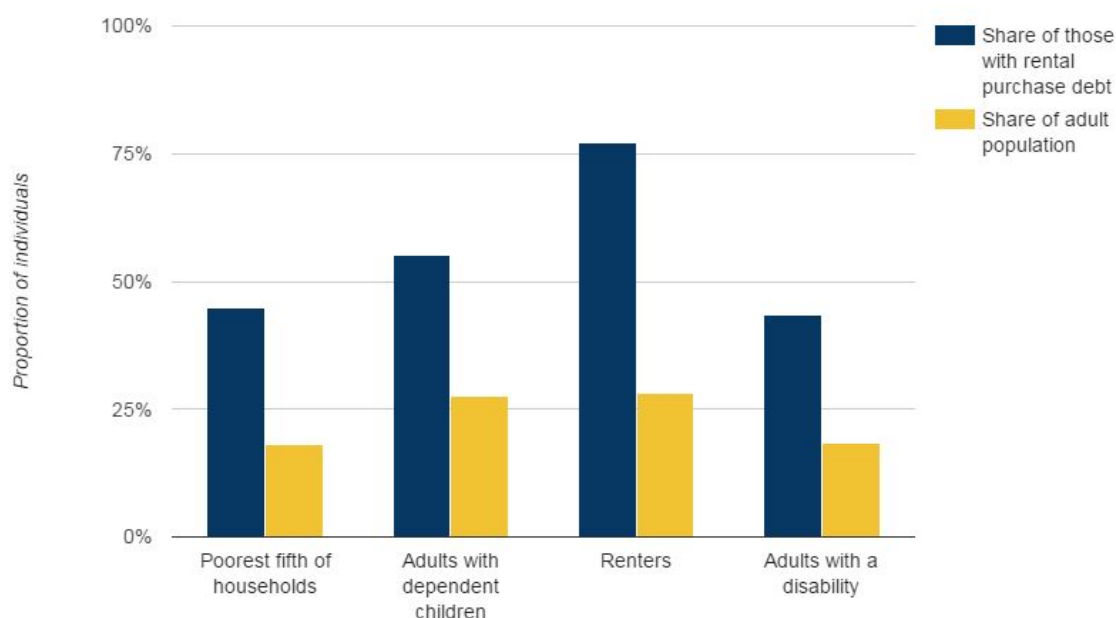
<sup>19</sup> Buy as You View website, <https://bayv.co.uk/help/meter> accessed 20/10/16

<sup>20</sup> Brighthouse Limited. (2015). *Brighthouse Limited - Report and Financial Statements (2014-2015)*. London: Companies House.

<sup>21</sup> Temple Retail Limited. (2015). *Financial Statements - Temple Retail Limited (2014-2015)*. London: Companies House.

<sup>22</sup> Dunraven Finance. (2015). *Dunraven Finance Limited - Annual Report for the year ended 31st March 2015*. London: Companies House.

**Figure 2 - Rent to own consumers compared to the adult population**



Source: Citizens Advice analysis of the Wealth and Assets Survey

### Why do people shop at Rent to Own shops?

Rent to own shops are expensive with consumers often paying two to three times more than they would elsewhere. Despite their cost, there are a range of reasons why consumers choose to buy products through rent to own agreements.

By far, the most common reason is that people cannot afford to pay for a product up front. Nearly three-quarters of respondents (71%) said they used rent to own shops because they couldn't afford to pay for a product up front. Second, rent to own consumers have been turned down for retail credit elsewhere - 30% of rent to own consumers use rent to own shops because they had been refused other forms of credit. As well as those negative reasons, consumers also chose to buy products from rent to own shops for positive reasons. A third of rent to own consumers like the ability to pay weekly, 16% say they chose a rent to own shop because they had used the service before and 8% said they had the product they wanted.

It is important to recognise that parts of the rent to own model, such as the ability to pay weekly, are very attractive to consumers. However, the majority of rent to own consumers buy products from rent to own shops because they have little choice. That lack of choice is exacerbated by the low number of firms in the market and the relative dominance of one firm.

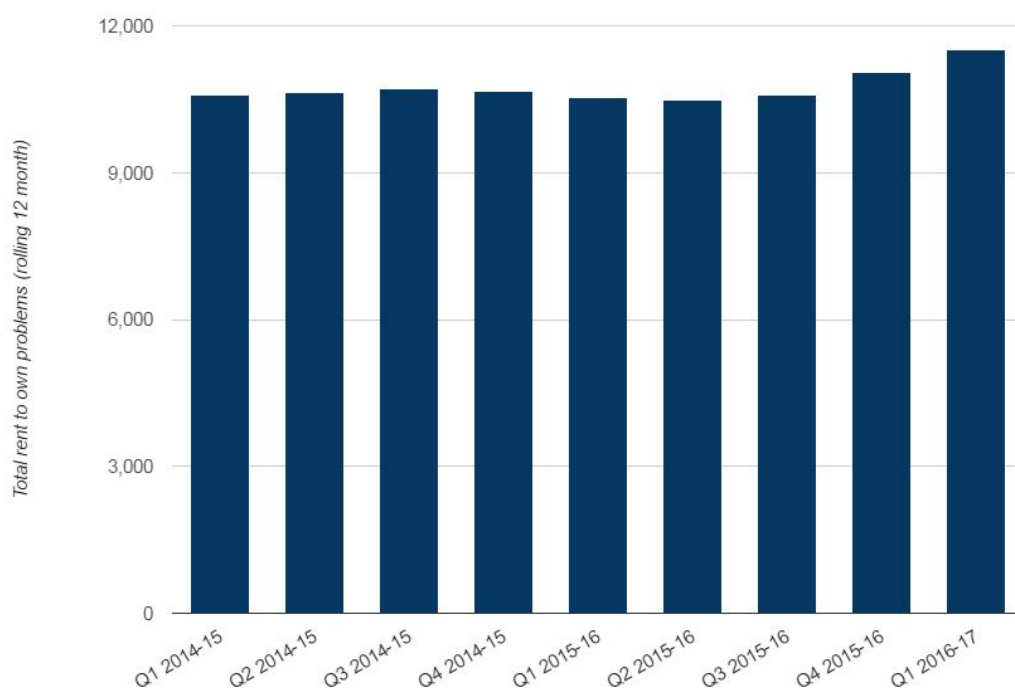
## Part 2 - How many people have problems paying for rent to own products?

The growth in the use of rent to own companies has been reflected in the number of people coming to Citizens Advice for help with rent to own debts. The second part of this report looks at the extent of debt problems caused by the rent to own market.

### How many people come to Citizens Advice for help with hire purchase debts?

Last year, Citizens Advice helped people with over 11,500 hire purchase debt problems, a 4% increase since 2014-2015, which includes rent to own debts as well as vehicle hire purchase debts.<sup>23</sup> This upward trend has continued into 2016/17; in the first quarter of this year, we helped people with 2,871 hire purchase problems, 20% more than in the same period last year.

**Figure 3 - Quarterly hire purchase issues seen by Citizens Advice (12 month rolling)**



Source: Citizens Advice

<sup>23</sup> Hire purchase debts record a broader category of debt than rent to own debts in Citizens Advice data and includes vehicle hire purchase debts

## How many rent to own consumers have debt problems?

The growing number of people coming to Citizens Advice for help managing hire purchase debts reflects problems in the rent to own market more specifically. When looking at rent to own consumers more broadly:

- 50% have taken out other debts to keep up with rent to own repayments; 28% have borrowed from a doorstep lender, 24% have used a credit card and 20% have taken out a payday loan
- A third said they had missed one or more payments with their rent to own company and 7% of those who missed payments had their goods repossessed
- A quarter were unable to pay other bills, such as their council tax, rent, or television licence after falling behind on their rent to own payments<sup>24</sup>
- Just under a quarter (24%) said that they had struggled with rent to own payments for 2 or more weeks

**Figure 4: How many people have problems paying rent to own debts?**



<sup>24</sup> All figures are from our survey of 1,936 rent to own consumers who had purchased a product from either Brighthouse, Perfect Home or Buy as You View. The survey ran from 16 August to 22 September 2016.

## The high detriment of rent to own debt problems

The growing number of people with rent to own debt problems is particularly concerning for a number of reasons.

### I. Rent to own debts are often large

Rent to own debt problems are often for substantial sums of money. In 2014/15, the average rent to own debt of a client who came to Citizens Advice for help was £1,309.

<sup>25</sup> That was nearly 2.5 times more the average payday loan debt of £532.<sup>26</sup>

### II. People with rent to own debt problems face a range of challenges

To add to the amount people owe, people who are struggling to pay their rent to own debts also face complex debt challenges. Last year 81% of people needing help with hire purchase debt had at least one other debt issue. Looking at the other types of debt people who have hire purchase debt problems struggle with; 42% had a personal loan debt, 32% had council tax debt and 16% had a fuel debt.

The growing number of people coming to Citizens Advice with hire purchase debts and a range of other debt challenges highlights the use of rent to own shops by people who are already facing financial difficulties. The high cost of buying goods through from rent to own shops can place a further strain on their finances.

### III. People who have rent to own debt problems are more likely to be vulnerable

People who use rent to own shops are also more likely to be more vulnerable. Our survey of rent to own consumers found that:

- 82% have children
- Three-quarters are between 25 and 49 years old
- 75% of rent to own consumers earn under the UK average salary<sup>27</sup>
- A third are unemployed
- 62% live in social housing
- 30% are disabled or have a long-term illness

---

<sup>25</sup> based on local Citizens Advice services that used our electronic case recording system for complex debt casework

<sup>26</sup> Average rent to own debt based on 1,163 debts to rent to own lenders. Average payday loan debt based on 17,801 payday loan debts.

<sup>27</sup> figure is based on ONS average UK salary in 2015

## Part 3 - Why do people have unmanageable rent to own debts?

A third of rent to own consumers have been in arrears on their rent to own agreements. This section looks in more detail at the reasons so many people take on unmanageable rent to own debts focussing on the high cost of rent to own agreements, inadequate affordability checks, poor treatment of consumers in arrears and rent to own agreements being unclear.

### The high cost of rent to own agreements

The primary reason that such a high proportion of rent to own consumers get into problem debt is the high cost of rent to own agreements. There are three elements of rent to own agreements that make them expensive compared to other providers.

#### I. Inflated cash prices

First, rent to own companies sell goods at inflated prices, relative to the rest of the retail market. Even before the additional costs of insurance, aftercare, or interest payments are taken into account, rent to own consumers pay over the odds. For example, Buy as You View sell a fridge freezer, with a suggested retail price of £254.99,<sup>28</sup> for £309.99.<sup>29</sup> The majority of rent to own consumers cannot afford to pay for their products up front, meaning there is less competition in the rent to own market.

#### II. Expensive add-on features

Second, rent to own shops are expensive because of the cost of add-on features, in particular insurance and aftercare. All the major rent to own companies sell an aftercare policy and insurance alongside products. While only Brighthouse provide their aftercare policy, 5\* Service Plus, as a mandatory add-on, a high proportion of rent to own consumers take out insurance and aftercare services alongside products:

- Of those who were given the choice, 77% bought aftercare services from their rent to own provider
- 69% of consumers bought insurance alongside their product

The high proportion of consumers taking out insurance and aftercare is partly due to the nature of rent to own agreements and the fact that consumers don't take ownership of their goods until the end of the agreement. However, it is also driven by the fact that consumers don't feel like they are given a choice:

- Of the 77% of rent to own consumers who bought aftercare, 56% said that they felt like they were not given a choice
- Of the 69% who bought their insurance in store, 55% of them said that they did not feel like they were given a choice as to where to buy their insurance from

<sup>28</sup>Montpellier MS148W product page (2016),

<http://www.montpellier-appliances.com/product-details/montpellier-ms148w-static-50-50-combi-fridge-freezer/>

<sup>29</sup> Buy As You View website, October 2016, <https://bayv.co.uk/buy-montpellier-50cm-fridge-freezer-white-v931>

For aftercare, that perceived lack of choice, and in the case of Brighthouse, lack of choice, means rent to own consumers pay over the odds for the service. Those high costs are further magnified when the cost of aftercare is included in the credit agreement. In the example given in Figure 1, Brighthouse charges aftercare at a cash price of £139.40. When the interest is added the final price of the aftercare is £277.02, alone adding more than 50% onto the cash price of the double bed.

#### **£129 to get a television delivered**

Other add-on costs such as delivery charges are also amplified by being included in the credit agreement. For example, Brighthouse charges a cash price of £65 for the delivery and installation of a Baird 32" TV. Over the course of the credit agreement, that cost rises to £129.18.

A further cause of the increased cost is the need for insurance. Like with aftercare many rent to own consumers feel they are given little choice but to buy insurance from the rent to own company, meaning they are less likely to shop around and so to pay over the odds. In particular, where consumers have multiple items, general home contents insurance would often be cheaper than insuring individual items.

### **III. High interest rates**

Third, the high cost of rent to own goods is amplified by the high interest rates charged by rent to own companies. Brighthouse, the largest rent to own company increased their standard interest rate from 29.9% to 64.7% in 2013 and more recently to 69.9%, although they charge up to 99.9%.<sup>30</sup> This is in line with the other rent to own companies, who charge between 68.9% and 99.9%. Over the course of a rent to own agreement, which vary in length between one and three years, that means consumers regularly pay up to twice as much they borrowed.

For example, a 32" HD TV with the three rent to own stores ranges in price from £309.99 to £353. At interest rates between 68.9% and 69.9%, over three years, the total the consumer pays ranges from £617.76 to £702. A television with similar specifications costs just £189.99 in Argos and £319 in Harrods.<sup>31</sup>

Rent to own consumers are a high risk group to lend to. They are likely to have a higher risk of missing payments than average consumers and prefer to make weekly payments which adds to the administrative costs of providing loans. However, those costs place an additional burden on often already stretched household finances.

---

<sup>30</sup> Lunn, E. (2013). Weekly payment store Brighthouse doubles APR. Love Money (accessed at <https://www.lovemoney.com/news/22852/brighthouse-doubles-apr-weekly-payment-store>)

<sup>31</sup> Prices correct as of 5th September 2016



## A high cost for faulty products

As well as helping rent to own consumers in problem debt, Citizens Advice also provides help to rent to own consumers who have been sold faulty products. In one case:

A consumer bought a refurbished washing machine from a rent to own store. Since they bought it, they have had 4 or 5 replacements due to persistent problems. Their washing machines had broken, flooded their kitchen and once had to be switched off after overheating. The client does not know what the washing machine should have cost but had paid over £600 by the time they came to Citizens Advice for help. The client has had their current machine for less than one year and it has flooded their kitchen again. When the client called the company to tell them they were happy to keep paying but questioned whether it was legal to sell products that put her two children in danger, the client said the company's response was that they should buy a new washing machine.

## Poor affordability checks

One of the reasons so many people come to Citizens Advice for help with unmanageable rent to own debts is a lack of thorough affordability checks on borrowers.

The Financial Conduct Authority's Consumer Credit Sourcebook (CONC) outlines the expectations on firms carrying out affordability checks to assess borrowers' creditworthiness. Under the rules and guidance, companies should do more than assess a borrower's ability to repay the credit. The guidance indicates that the check must be based on information obtained from the borrower and where necessary a credit reference agency, taking into account factors such as the borrower's income and expenditure, financial situation, credit history, future financial commitments and potential vulnerability. The guidance makes reference to the types of evidence and information the firm may want to use to make the assessment. However, the rules stop short of being prescriptive and leave this open to interpretation.

Our survey shows that there are still significant gaps in the way rent to own companies are carrying out affordability checks on potential rent to own consumers. While just 12% of rent to own consumers did not feel that they were properly asked about their ability to make repayments on their rent to own agreement, a large number are still taking on unaffordable debts. One fifth of the rent to own clients we surveyed spend 20% or more of their annual household income on rent to own repayments despite two of the three rent to own firms claiming to the APPG on Debt and Finance that they have a 20% income cap. In extreme cases, clients can be spending significantly more than that on large numbers of agreements. The case below illustrates the impact of unaffordable lending on clients and their families.



One adviser saw a client who was a single parent with three children aged 7, 8 and 9. The client received seven different benefits and was totally reliant on the state. The client came for help with rent to own arrears totalling just under £10,000 over 19 separate agreements taken out over a period of 28 months. It was clear that the client's creditworthiness had not been looked into, despite the company's apparent awareness of the client's financial situation.

## Poor treatment of consumers in arrears

A third reason rent to own clients have debt problems is due to the way they are treated when they get into financial difficulties. A fifth of people who came to Citizens Advice with hire purchase debt problems last year needed help dealing with poor treatment. Our survey of rent to own consumers found evidence of three key ways that rent to own consumers are treated badly when they get into financial difficulties.

### I. A lack of forbearance

The FCA requires that 'companies must establish and implement appropriate policies and procedures for dealing with consumers whose accounts fall into arrears' and that 'companies must treat consumers in default or in arrears difficulties with forbearance and due consideration'.<sup>32</sup> Despite that, many rent to own consumers are not shown forbearance when they fall behind on payments. Of rent to own consumers who have missed payments:

- Over 90% were not given a payment holiday, a key forbearance tactic
- More than a third (34%) were not able to agree an affordable repayment plan
- Half said they felt they were not treated fairly
- Two in five (41%) said that the company were not understanding of their situation

### II. Creditor Harassment

A large number of people also come to Citizens Advice for help dealing with harassment by rent to own lenders when they fall behind with their payments. Citizens Advice saw an increase of 15% in hire purchase issues related to dealing with creditor debt collection practices in the first quarter of 2016/17 compared to the same period in 2015/16.

While it is reasonable to expect that rent to own companies will take measures to recover payments that have been missed, an increasing number of consumers are experiencing action beyond what can be considered reasonable. These include calling constantly to demand payment, visiting properties at inappropriate times and using threatening tactics in order to get consumers to pay more than they can afford. The case study below details the negative effect that creditor harassment can have on consumers.

---

<sup>32</sup> Financial Conduct Authority. (2015). *Submission to the All Party Parliamentary Group on Debt and Personal Finance inquiry on Rent to Own*. London.

A client who was a disabled single parent of a 4 year old daughter had inherited several rent to own debts from a previous abusive relationship. The client had left the items at her previous address. She felt harassed and intimidated by the actions of the rent to own company who would telephone her relentlessly and threaten her with police action. The client felt like she couldn't answer her phone or door.

### III. Repossession

Finally, the most extreme outcome when a consumer can't afford their rent to own repayments is that their goods are repossessed. One in ten of the hire purchase problems we helped people with last year were about repossession of goods. Looking at the market more broadly, our survey found that 7% of rent to own consumers who have missed payments have had goods repossessed.<sup>33</sup>

Under current legislation, rent to own companies need a court order in order to repossess items from people's homes if they have paid more than a third of the agreement.<sup>34</sup> However, poor knowledge of legislation means that consumers allow repossession agents into their homes willingly, not realising that they have the right to refuse entry if the agents do not have a court order. Repossession is particularly detrimental when a consumer has paid a significant amount of the credit owed, leaving the consumer with the double detriment of being out of pocket and without the item.

A client who lived in housing association accommodation with dependent children had several items on rent to own agreements. The client had a visit from a debt collector on behalf of a rent to own company, who claimed that he was a bailiff and who was insistent on repossessing a washing machine because of missed payments. After three hours, the client felt intimidated into signing a form to allow an agent to repossess the washing machine.

The threat of losing goods or repossession means that people prioritise rent to own repayments over other bills, including priority bills like council tax or their rent. Three-quarters of those who missed payments (25% of all rent to own consumers) were also unable to pay off other bills due to the threat of repossession. The most frequently cited missed bills by those surveyed were council tax, rent and TV licence payments.

## The cost of rent to own agreements is unclear

In our survey, 20% of rent to own consumers felt that the total amount they had to pay was not clear to them. That is partly a result of the difficulty consumers have in interpreting and understanding interest rates and the cost of credit more generally,

---

<sup>33</sup> The APPG on Debt and Finance (2015) found that in one in ten of all rent to own agreements goods were repossessed or taken back by rent to own providers, p. 18.

<sup>34</sup> Consumer Credit Act 1974, section 90.

but it is compounded by problems that are unique to the rent to own market. There are three main reasons the cost of buying products from rent to own providers is unclear.

### **I. Add-on services make it difficult to compare prices**

The main reason the cost of buying goods from rent to own shops is unclear is that the provision of add-on services makes comparing prices difficult. For most rent to own consumers, insurance and aftercare are part of their purchase. More than three-quarters of rent to own consumers bought aftercare services and more than two-thirds bought insurance from their rent to own provider. In both cases, less than half felt they were given a choice when making their purchase. Those costs, which are presented as either optional or additional, make it difficult for consumers to compare the additional cost of buying a product from a rent to own store.

### **II. The benefit of add-on services is unclear**

The Advertising Standards Authority estimated that 33.5% of Brighthouse consumers may have been sold insurance despite them previously having adequate insurance for rent to own products.<sup>35</sup> That misselling is a result of the requirement to have insurance for rent to own agreements and the way insurance is sold by rent to own providers alongside products. The way insurance is sold means that rent to own consumers often feel obliged to take out insurance. Our survey found that less than half of consumers who bought insurance in store felt they were given a choice.

Additionally, it is highly likely that for many consumers, paying for aftercare services duplicates protection they already have. The Consumer Rights Act gives consumers protection against the breakdown of products, with the burden of proof on the retailer for the first six months. For most consumer's needs, the protection they buy when they purchase aftercare merely duplicates the protection they receive under the Consumer Rights Act.

### **III. The cost of credit is unclear**

The difficulty of comparing the additional cost of using rent to own shops is compounded by the lack of clarity over the cost of credit. As seen above, rent to own providers charge high cash prices even before any interest or additional charges are added. One possible reason for inflated prices is that some of the credit risk is incorporated into the cash price making it more difficult for consumers to calculate how much they are paying for the product and how much they are paying for credit.

---

<sup>35</sup> Advertising Standards Authority. (2015). ASA ruling on Caversham Finance LTD. [https://www.asa.org.uk/Rulings/Adjudications/2015/12/Caversham-Finance-Ltd/SHP\\_ADJ\\_314950.aspx#.WDwDGeCLTMg](https://www.asa.org.uk/Rulings/Adjudications/2015/12/Caversham-Finance-Ltd/SHP_ADJ_314950.aspx#.WDwDGeCLTMg)

## Part 4 - Recommendations

This report has presented evidence of the growing number of people getting into problem debt as a result of using rent to own shops. Those problems are primarily due to the high cost of rent to own agreements, but they are compounded by the practices of rent to own companies and the common structure of rent to own agreements.

In this section we make a number of recommendations to limit the number of consumers taking on unmanageable rent to own debts. Some of those are for the Financial Conduct Authority or the Competition and Markets Authority, others focus on the practices of rent to own companies themselves. We make recommendations in four areas.

### Reducing the high cost of rent to own agreements

The high cost of rent to own agreements is a result of a number of features of the rent to own market; inflated prices, expensive add-on services and high interest rates. One way consumers could be protected from the high cost of rent to own agreements is by building on the success of the total price cap for high-cost short-term credit, implemented in 2015.

#### **Recommendation 1 - The FCA should extend the total price cap on high-cost short-term credit to the rent to own market.**

A second way consumers could be protected from the high cost of rent to own agreements is by ensuring they don't pay a high price for unnecessary add-on aftercare and insurance services. Aftercare and insurance services can increase the price paid by rent to own consumers

The bundling of aftercare services into the credit agreement by Brighthouse dramatically increases the price paid by their consumers and acts to limit competition for aftercare services. Brighthouse are currently the only major rent to own company which still bundles their 5\* Service Plus aftercare service.

#### **Recommendation 2 - Brighthouse should follow the example of the rest of the market and make their aftercare service optional. Alternatively, the FCA should investigate whether making aftercare a mandatory condition is fair to consumers and whether it increases prices by limiting competition.**

#### **Recommendation 3 - The FCA should ensure that rent to own companies allow consumers to pay for on-going and one off services, such as aftercare and delivery, outside of the credit agreement.**

A further issue related to the provision of aftercare services by rent to own companies is the uncertainty over their benefit to consumers.

**Recommendation 4: Further research should be conducted around whether aftercare services replicate consumers' rights under the Consumer Rights Act (CRA).**

According to the Advertising Standards Authority, there is a broader problem of the misselling of insurance. While clearly it benefits some consumers to have the option to buy insurance at the time of purchase, the high level of take up and the number of consumers who say they didn't feel like they were given a choice on whether or not to buy insurance, suggests this hinders competition and increases prices.

**Recommendation 5 - The FCA should investigate how rent-to-own consumers can be encouraged to shop-around when buying add-on services. At the very least, all consumers should be given a 14 day cooling off period after purchase in order to shop around for aftercare and insurance.**

**Recommendation 6 - All rent to own companies should ask consumers whether or not they have existing home contents insurance before they buy insurance.**

**Recommendation 7 - For consumers with more than one rent to own agreement, companies should highlight the total cost of insurance and allow consumers to switch to a different insurance provider. That would allow consumers to easily compare the cost of policies with other providers and get the best deal.**

## **Strengthen affordability checks**

Our survey of rent to own consumers highlights that a key driver of rent to own debt problems is a lack of adequate affordability checks. One fifth of rent to own consumers spend more than 20% of their income on rent to own agreements. The low income of rent to own consumers and the fact that the vast majority use rent to own shops because they cannot afford to pay for products up front means it is crucial that rent to own companies conduct thorough affordability checks.

**Recommendation 8: The FCA's affordability guidance should be applied as rules to rent to own lenders and creditworthiness assessments should require, as a minimum, proof of income and expenditure.**

**Recommendation 9: Rent to own companies should introduce a formal spending cap so that no consumer spends more than 20% of their income on rent to own agreements.**

## **Improve the treatment of consumers in arrears**

More than a fifth of the people who come to Citizens Advice with hire purchase debt problems need help dealing with poor treatment by rent to own creditors when they fall into arrears. More than half (52%) of clients in our survey who missed payments said they were treated unfairly and 45% said their treatment made it more difficult to repay their debts.

More severe problems are caused when rent to own lenders repossess consumers' items when they fall into arrears. The nature of rent to own agreements, where the consumer only takes ownership of an item at the end of the agreement, means that consumers can have their goods repossessed when they have paid for a significant proportion of the agreement.

**Recommendation 10: Rent to own companies should be required to treat clients who have paid back more than a third of their agreement with additional forbearance. The FCA should produce guidance for rent to own firms on how to treat consumers in that situation.**

# Appendix

## Fridge-Freezer

### **Brighthouse: Hotpoint LEX85N1W Frost-Free<sup>36</sup>**

Product, Delivery and Recycling: £471.99

Service Plus: £116.76

TOTAL PAYABLE (156 weeks): £1170 (£7.50 per week)

### **Very: Hotpoint LEX85N1W Frost-Free<sup>37</sup>**

Product, Delivery and Recycling: £376.97

3 Year Extended Warranty: £29.99 (Optional)

TOTAL PAYABLE (52 Weekly Payments at 0% APR): £376.97 (£7.25 per week)

## Television

### **Brighthouse: Baird 32" Full HD LED TV<sup>38</sup>**

Product w/ delivery: £290

ServicePlus: £63.05

TOTAL PAYABLE (156 weeks): £702

### **Harrods: Samsung 32" Full HD LED TV**

Product w/ delivery: £319

TOTAL PAYABLE: £319

## Cooker

### **Perfect Home: Indesit 50cm Electric Cooker<sup>39</sup>**

Product, Delivery and Recycling: £404

PerfectCare (Optional): £1.67 per week

TOTAL PAYABLE: £809.64

### **John Lewis: Beko 50cm Electric Cooker<sup>40</sup>**

Product, Delivery and Recycling: £220

3 Year Added Care: £55

TOTAL PAYABLE: £275

<sup>36</sup> BrightHouse. (2016). Hotpoint 60 cm Fridge Freezer - White. Retrieved from <https://www.brighthouse.co.uk/refrigeration/hotpoint-60-cm-fridge-freezer-white>

<sup>37</sup> Very. (2016). Hotpoint 60 cm Fridge Freezer - White. Retrieved from <http://www.very.co.uk/hotpoint-extra-lex85n1w-60cm-frost-free-fridge-freezer-white/1600001820.prd>

<sup>38</sup> BrightHouse. (2016). Baird 32" full HD DLED TV. Retrieved from <https://www.brighthouse.co.uk/televisions/baird-32-full-hd-dled-tv>

<sup>39</sup> Perfect Home. (2016). Indesit 50cm Electric Cooker. Retrieved from <http://www.perfecthome.co.uk/appliances/electric-cookers/ind-i5eshw/product>

<sup>40</sup> John Lewis. (2016). Beko BS533A electric cooker. Retrieved from <http://www.johnlewis.com/beko-bs533a-electric-cooker-white/p2847395>

# Free, confidential advice. Whoever you are.

We help people overcome their problems and campaign on big issues when their voices need to be heard.

We value diversity, champion equality and challenge discrimination and harassment.

We're here for everyone.



**[citizensadvice.org.uk](https://citizensadvice.org.uk)**

Published November 2016

Co-authored by Hamse Yusuf & Joe Lane

Citizens Advice is an operating name of The National Association of Citizens Advice Bureaux. Registered charity number 279057.