# High Cost Credit: Rent-to-own

Citizens Advice response to CP18/35

citizens advice

**Executive Summary**

In 2017-18, Citizens Advice saw nearly 5,000 clients with hire purchase debts. Commonly, these consumers are vulnerable, single parents, on a low income, heavily indebted, and have a disability or long term health condition.

**The rent-to-own (RTO) market is currently a bad deal, with consumers paying 3, 4 or more times the cost of the same good purchased upfront, and the total cost cap will be a beneficial remedy**. We think the cap will bring two key benefits by:

- Preventing low-income rent-to-own consumers overpaying for household goods.
- Bringing greater clarity to the price of rent-to-own goods.

**However, the details of the cap need to be significantly strengthened** if this measure is to mitigate the majority of detriment experienced by rent-to-own consumers. The process of introducing the cap will need to:

- **Include arrears charges. Allowing rent-to-own firms to charge late payment fees undermines the clarity of the cap, and does not address the harm this causes.** Roughly 3 in 5 customers who purchase rent-to-own products miss payments, and the resulting late payment fees pose an additional financial burden. Not only would a total cost cap reduce the burden of these fees, reducing the weekly cost of the good would also decrease the likelihood that customers miss payments.
- **Expand the proposed approach to benchmarking, which only requires benchmarking against 3 retailers.** Within the FCA's proposal there is little restriction on how these retailers are chosen. We recommend the FCA raise the size of the comparison set to **5 retailers and including more guidance on how these may be chosen**.
- **The FCA should ask firms to benchmark warranties and TAD cover with at least 3 other single item product insurance products** to control the costs of add-ons on RTO products. Add-ons to RTO products increase the average cost of a rent-to-own product from 2.7 to 3.7 times an off-the-shelf item. It's therefore vital that these costs are controlled.[1]
- **Align the implementation period across existing and new products to prevent consumers being disadvantaged.** As with late payment fees, the implementation of this cap across a staggered 3 month period reduces the clarity of the cap for the consumers it aims to help.

Alongside improvements to the structure of the cap, **we think the FCA should introduce two further measures to protect consumers in the rent-to-own market:**

- **All consumers should be given a 14 day cooling off period after purchase to shop around for aftercare and insurance.** A two week cool off period is standard practice across insurance and consumer credit products, and would prevent rent-to-own customers being canvassed for insurance during the delivery of the item.
- **Strengthening the rules around the affordability of rent-to-own products would be a welcome measure in addition to a rent-to-own cap.** The FCA's insistence on a light touch approach to affordability means checks continue to fall short, as they fail to take full account of client expenditure as well as income. This leads to worse long-term outcomes for those who are financially vulnerable.

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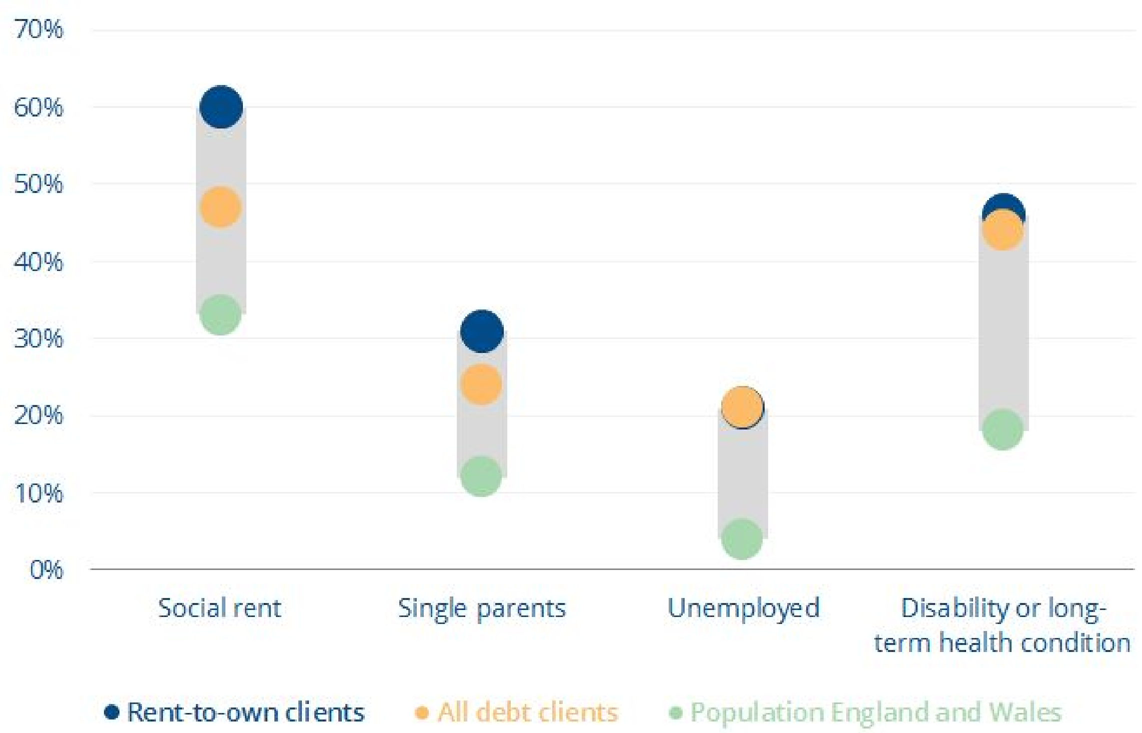
[1] FCA, Rent-to-own and alternatives to high-cost credit: feedback on CP18/12 and consultation on a price cap, November 2018.

## Q1: Do you agree with our assessment of harm to consumers from high prices?

**Citizens Advice agrees with the assessment of harm to consumers from the high prices of rent-to-own goods.** The detrimental effects of rent-to-own products result from a combination of factors including: the characteristics of the people who tend to use rent-to-own, the behavioural responses of this low-income group, and the particular features of this credit product.

**People who use rent-to-own products are highly likely to be vulnerable, on a low income and heavily indebted**. Our data suggests that a number of other indicators of vulnerability are more common amongst clients with rent-to-own debt. The median income of a rent-to-own consumer is £16,100 per year, which places them in the bottom 25% of earners.[2] 7 in 10 rent-to-own consumers purchased these products because they 'couldn't afford to pay upfront'.[3] Other indicators of vulnerability are also common. People who purchase rent-to-own products are disproportionately likely to be single parents.[4] And nearly half (46%) of clients struggling with rent-to-own debts are disabled or have a long-term health condition, compared with one in six of the population as a whole. Rent-to-own users tend to be heavily indebted, with average debts of approximately £8,000 owed to six different lenders.[5]

**Figure 1: Demographics of rent-to-own debt clients compared with debt clients and the UK population as a whole**




**Competition is not effective in controlling the prices of rent-to-own goods.** As the FCA has set out, competition between rent-to-own providers and other credit providers has not effectively controlled the cost of rent-to-own goods. This is because low-income consumers

[2] Before tax, according to Table 3.1a, HMRC statistics in 2016.
[3] Citizens Advice Survey, August-September 2016.
[4] 41% are single parents, compared with 12% of the population as a whole, Gingerbread (2018) 1 in 4: A profile of single parents in the UK.
[5] Median number of creditors and level of indebtedness, Citizens Advice Money Advice Recording Tool Data 2017.

who tend to use rent-to-own goods face a number of barriers which makes it hard for them to secure more competitive deals.

**Rent-to-own users tend to focus on the weekly rather than total cost of the goods.** We agree that the superficially low weekly cost of rent-to-own goods leads consumers to overlook the total cost of the products. This emerges from a lack of alternative credit, and - often - an urgent need for a replacement item, in addition to the 'myopic' effects of financial vulnerability and low levels of financial literacy. This shortage of financial literacy can lead consumers to overlook the total cost of the weekly payments and the cost of interest on the price of the good. The FCA's finding that more than half of RTO consumers said they could afford to pay more back each week, but most didn't understand the link between paying more per week and paying less interest over time is indicative of this. Such an effect is clearly influenced by the 'fixed' package form of the rent-to-own agreement which does not incentivise early repayment.

**Rent-to-own items are often essential household products.** A focus on the weekly cost of RTO may be intensified by the fact that many people urgently require rent-to-own goods. A considerable proportion of RTO products are essential household items such as cookers or washing machines. The 'tunnelling' effects of financial vulnerability may be a logical response to the urgent need for a household good, for example if a family faces 'going without', or turning to more costly and labour intensive alternatives, such as using public laundries.

**Rent-to-own users lack access to other forms of credit.** As the FCA found, only 4% of RTO consumers had enough available credit on revolving lines of credit to cover the cost of their RTO purchase at the point they bought it. This builds upon an underlying perceived shortage of access to credit - which affected approximately 1 in 3 of the rent-to-own users surveyed by the FCA.[6]

**The excessive cost of rent-to-own goods is the ultimate harm which emerges from these circumstances.** The eventual cost of rent-to-own goods - which can lead to consumers paying 3, 4 or more times the cost of the same good purchased upfront - is the ultimate problem with rent-to-own items. A price cap to contain these exorbitant prices is therefore necessary to address the core harm of RTO products.

**More concerningly still, people often do not get to keep the items which they pay for.** Alongside the high ultimate cost of rent-to-own products, the fact that many consumers struggle to meet payments over the course of the loan means that roughly 50% of rent-to-own consumers do not get to keep the products which they pay for.

## Q2: Do you agree with our assessment that other measures will not be fully effective in reducing harm from high prices?

**Yes. High levels of vulnerability, high indebtedness and low credit scores all restrict consumer choice, preventing the effective operation of competition in this market.** In particular, clients are unlikely and unable to shop around, meaning that there is little downward pressure on prices in the rent-to-own market.

**Stronger disclosure requirements on the cost of rent-to-own goods would not address the harm of this product.** Because RTO consumers are focussed on the weekly cost, may

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[6] FCA, Rent-to-own and alternatives to high-cost credit: feedback on CP18/12 and consultation on a price cap, November 2018, p17.

need the product urgently or feel that there is a lack of alternative options, stronger disclosure of the eventual cost would be unlikely to reduce the harm in this market.

The small number of providers in the rent-to-own market further reduces the likelihood that price disclosure would lead to more competitive prices.

- **There are two dominant providers in the rent-to-own market.** In terms of major high street providers, there are only two competitors (PerfectHome and BrightHouse) in the provision of hire purchase household goods. PerfectHome operates largely in the North-West of England, giving BrightHouse an effective regional monopoly in other parts of the country. The concentrated nature of this market means that there is likely to be little pressure on prices, and leaves vulnerable consumers paying over the odds for rent-to-own goods.
- **Nonprofit alternatives are small and do not meet the scale of demand.** Important research has been conducted into the potential for nonprofit providers to step in where rent-to-own goods are sold. These initiatives are welcome and can provide much better value for consumers. Unfortunately, these initiatives tend to operate on a relatively small scale, supporting between 3,000 and 5,000 consumers per year within a given geographical locality.[7]

**Strengthening the rules around the affordability of rent-to-own products would be a welcome measure in addition to a rent-to-own cap.** Affordability checks could be improved through the introduction of clear rules on the steps involved in a check, rather than relying on a principles based method.

**We note the FCA's efforts to improve affordability checks in recent years, but the insistence on a light touch approach means checks continue to fall short.** This is particularly notable when it comes to assessing ongoing expenditure as well as income. Our evidence shows that in a significant number of cases RTO clients are unemployed and rely exclusively on welfare payments, but are permitted to take out multiple rent-to-own agreements. This is especially acute where clients have many dependents, as in the case of the nearly 40% of clients using rent-to-own products who have three or more children.[8] We agree however, that affordability measures alone would not be sufficient to prevent harm from RTO products. As such, we propose that clearer guidance on affordability checks should be introduced to all high cost credit products *alongside* a price cap on RTO.

## Q3: Do you agree with our approach to benchmarking base price?

**Citizens Advice disagrees with the proposed approach to benchmarking, which only requires benchmarking against 3 retailers.** Within this framework there is little restriction on how these retailers are chosen, and nothing to stop retailers choosing the highest market prices outside of the catalogue credit market for benchmarking. We welcome the FCA strengthening this facet of the cap but would suggest raising the size of the comparison set to **5 retailers and including more guidance on how these may be chosen**.

**We are pleased to see the restriction of catalogue retailers used within the benchmarking process**. It is paramount that the upfront price of rent-to-own goods are benchmarked, as they often show the biggest markups on price - leaving customers regularly paying up to 4 times the cost of a comparable product before including the costs of add-ons

[7] Financial Inclusion Centre, (2016) Better and Brighter: Responsible Alternatives to the Rent to Own Sector.
[8] Citizens Advice client data, March 2018.

and insurance.[9] Catalogue retailers tend to have higher upfront prices, which would skew any potential price benchmarking if relied upon more heavily for comparison.

**The benchmarking of delivery and installation prices against other retailers is crucial to ensure that RTO retailers do not try to compensate for lost revenue in these areas**. RTO retailers often sell unique or low production run models of products, potentially undermining the prospect of benchmarking. Therefore, Citizens Advice is extremely pleased to see that the FCA has recognised this loophole and  regular annual benchmarking against similar products.

**Second-hand products should be be capped by age of product.** Second-hand goods should be sold at 10% less per six months of prior use , or benchmarked to household products of similar characteristics and age. Most household appliances cease to be considered valuable after a 5-year period, with the life expectancy of a significant number of products sold by rent-to-own providers is between 5-10 years. We propose that every 6 months of use should decrease the RRP by 10%, with consequent effects on the total cost cap.[10]

**The efficacy of the cap needs to be monitored closely.** Retailers must be held to account, and we propose the FCA hold a review 12 months after the cap has been implemented. Benchmarking should be evidenced robustly, with firms publishing data on their processes. This evidence must be checked regularly by the FCA in order to ensure the product benchmarking is being implemented effectively and in line with the desired price controls.

## Q4: Do you agree with proposals for a total credit cap?

**Citizens Advice agrees with the introduction of a total cost cap. However, an additional cap on default fees should also be introduced.**

**The rent-to-own market is currently a bad deal and the total credit cap will be a beneficial remedy.** Up until now, the rent-to-own market has shown itself to be useful to low-income consumers, but provides them with a bad deal of interest rates up to 99%, high mark-ups, expensive add-ons and delivery fees. Citizens Advice recognises that the FCA is making an important step with the total cost cap for rent-to-own products, and we are pleased that this 100% cost cap includes not only the product and interest but also delivery and installation charges.

**Figure 2. The structure of a total cost cap**

**100% total cost cap of amount borrowed**
(applying to all interest, fees and charges)
**Amount borrowed =** Benchmarked price of product[11] + benchmarked installation, delivery and recycling

**£15 limit on default fees**
per item per year of the agreement

**Arrears charges affect 6 in 10 rent-to-own clients.** We see the exclusion of these charges from the total cap as a detrimental oversight. Rent-to-own consumers miss 6 payments in a

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[9] Citizens Advice, A total cost cap on the rent-to-own market: A response to the FCA's consultation on a cost cap on the rent-to-own market, July 2018.
[10] Citizens Advice, A total cost cap on the rent-to-own market: A response to the FCA's consultation on a cost cap on the rent-to-own market, July 2018.
[11] Benchmarked against 5 retailers, including only 1 catalogue retailer.

3-year repayment period on average, commonly resulting in £72 in arrears charges alone.[12] Although the cap may reduce the likelihood that these customers miss payments, it would not reduce the significant burden that the charges can amount to. We suggest a £15 cap on default charges per agreement per year, in order to mediate the detrimental and spiraling effects that these fees may have on RTO consumers. Those who use these products are already more likely to be heavily indebted, with previous FCA research demonstrating that RTO consumers' average debt-to-income ratio rose from 14% in 2015 to 29% in 2016.[13] As we highlight above, people who use rent-to-own products are highly likely to be vulnerable on multiple indicators, such as income, indebtedness and disability. These arrears charges pose a substantial strain for those who are already vulnerable.

**The total cost cap will provide clarity to consumers.** Evidence from both our advisers and the FCA has indicated a strong in-store focus on weekly cost.[14] Focusing on the weekly cost, in addition to rent-to-own customers often budgeting on a short timeframe, leads them to be unsure of the total cost of the product.[15] So far, work to increase price transparency has not mediated the detrimental effects of the high costs of these goods, with a customers continuing to pay up to 3 times the off the shelf cost of the good. Such 'myopia' might be more intense for some consumers - such as those experiencing mental health difficulties, a shortage of time, or a lack of financial capability - who do not clearly understand the cost of the rent-to-own good at the time of purchase. This contrasts with analysis we conducted after the introduction of the high-cost short-term credit cap: 8 in 10 payday customers told us that it was clear from the outset what they would owe.[16] The introduction of a price cap on RTO products is likely to introduce greater clarity around the total cost of the good. This will provide a number of benefits, including allowing consumers to better budget and assess the affordability of a good, as well as allowing them to price compare with other similar products.

**A total cost cap is the most effective way to prevent these costs spiralling.** Provided that arrears charges are included, a total cost cap would limit the damage that rent-to-own goods can do to people's financial situation. A limit on the total cost of credit would be likely to make rent-to-own products more affordable for those on a low income - in addition to limiting the upfront cost of the good, installation and delivery fees, and the level of interest charged. A total cost cap should therefore reduce the outstanding levels of debt held by rent-to-own clients.

## Q5: Do you agree with our proposals on controlling the price of TAD cover?

**Yes, we agree that it would be difficult to include theft and accidental damage (TAD) cover within the total cost cap, given the practical complications.** We share the FCA's concern about the excessive cost of extended warranty products and TAD guarantees purchased through rent-to-own stores. We are pleased to see that the FCA is taking into consideration potential ways companies could attempt to recoup lost revenue. However, these products are often excessively costly, and we are concerned that claiming legitimate business need may not be a sufficient step in mitigating harm. The proposed approach to TAD

[12] Survey of Citizens Advice and Money Saving Expert clients, April 2018, sample 702.
[13] FCA, High Cost Credit Review, July 2017, p. 37.
[14] FCA, High Cost Credit Review, May 2018, p. 21.
[15] PWC's report into rent-to-own users also suggested that many consumers did not anticipate the total cost of their rent-to-own good, especially when it included extras. PWC, Usage and Experiences of High Cost Credit, April 2018, p.30-32.
[16] Citizens Advice, Payday loans after the cap: are consumers getting a better deal?, August 2016.

cover does not fully recognise the poor value rent-to-own retailers offer customers on these products in comparison to other options.

**The FCA should ask firms to benchmark warranties and TAD cover with at least 3 other single item product insurance products to control the costs of add-ons on RTO products.** The lack of competition for these products within the RTO market means that prices will remain high without appropriate measures. Add-ons to RTO products increase the average cost of a rent-to-own product from 2.7 to 3.7 times an off-the-shelf item. This affects an overwhelming proportion of RTO customers, with 90% purchasing TAD cover and 70% purchasing an extended warranty.[17] We disagree that TAD policies significantly differ in structure from other forms of TAD cover as they do not usually cover hire purchase items. The nature of hire purchase items is such that TAD policies should be less risky to insure than covering a broad range of product manufacturers. Controlling the price of TAD would also incentivise firms to ensure the products sold were high quality, a problem repeatedly raised by rent-to-own consumers.

**All consumers should be given a 14 day cooling off period after purchase in order to shop around for aftercare and insurance.** A two week cool off period is standard practice across insurance and consumer credit products, and would prevent rent-to-own customers being canvassed for insurance during the delivery of the item.

## Q6: Do you agree with our approach to controlling the price of arrears charges?

**Citizens Advice disagrees with the proposed approach to controlling the price of arrears charges for rent-to-own products.** If we only require companies to provide "justifiable" reflection of relevant company costs, it runs the risk of firms abusing this flexibility in order to recoup lost revenue. Without verifiable figures detailing how the price is cost-reflective publicly, arrears charges pose a threat to the integrity of this cap measure as the flexibility of the approach is subject to abuse. Therefore, Citizens Advice recommends arrears charges be capped and included within the cost of the total cost cap.

**Not including arrears charges undermines the clarity of the cap.** The 100% total cost cap should represent the maximum that a customer could pay, including late payment fees. If interest on the good means that the hire purchase amounts to double the price of the product RRP, then the additional default charges should not be added. This would retain the clarity of the costs for consumers - and ensure that consumers can seek redress if they face excessive costs.

**Late payment fees are an additional financial burden.** One of the factors which makes rent-to-own loans so unaffordable are late payment fees. Most customers (58%) who purchase rent-to-own products miss payments, and are likely to be paying an additional £72 over the course of their loan.[18] Not only would a total cost cap reduce the burden of these fees, it would also make the product more affordable - reducing the likelihood that customers miss payments.

**A large number of late payments charges are experienced by a small number of people.** Just 8% of the rent-to-own clients we surveyed payed more than a third (36%) of the total

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[17] FCA, Rent-to-own and alternatives to high-cost credit: feedback on CP18/12 and consultation on a price cap, November 2018.
[18] Citizens Advice, A total cost cap on the rent-to-own market: A response to the FCA's consultation on a cost cap on the rent-to-own market, July 2018.

missed payment fees of the entire group. This could amount to nearly £190 of charges over a three year period - or an additional cost of 17% of the median original rent-to-own loan.[19] This indicates that not including arrears charges in the total cost cap places a significant and disproportionate burden on those in the most financial difficulty.

**Late payment fees should be capped at £15 per year of the loan agreement.** The high-cost short-term credit cap placed a limit on default or late payment fees of £15 over the course of a loan. Since the introduction of the cap, the payday loan sector had seen an 8% drop in default rates. Introducing a similar cap on rent-to-own loans would bring the charges into line with the payday loan industry, reduce default rates, and provide clarity to consumers.

## Q7: Do you have any views on the implementation timetable?

We are pleased that the FCA are moving forward with the proposed implementation period for new products to the RTO market i.e. with the cap coming into effect on 1 April 2019. We argue, however, that the delayed implementation period for existing product lines that are not changing price is excessive and unnecessary.

**Delaying the implementation of existing product lines delays the mitigation of harm.** The FCA estimate the RTO consumer savings to be between £19.6-22.7 million a year with the proposed cap. With a 3 month delay for coverage of existing product lines under the cap, the estimated £6.5-7.6 million savings for that quarter could be jeopardised. This would come at a significant detriment to low-income consumers.

**A staggered implementation period hampers clarity.** We think the FCA must meet this April deadline across all RTO products in order to limit the massive harm caused by this high cost product. As with late payment fees, the division of this cap across a 3 month staggered implementation period reduces the clarity of the total cost cap and makes it less straightforward for the consumers it aims to help.

## Q8: Do you agree with our assessment of the costs and benefits of these proposals?

Yes, we agree with the findings that the benefits of a total cap far outweigh the costs. An all-encompassing total cost cap would not only reduce the harm that the RTO market causes vulnerable consumers, but would reduce people's level of outstanding personal debt.

**Benefits to customers exceed the costs.** The expected net revenue losses of £29.2m for RTO firms may be high in number before being weighed by against the harm currently experienced by consumers. However, consumer benefits of between £19.6m and £22.7m a year outweigh aforementioned costs in their gravity and importance. Savings for low-income consumers are paramount in high-cost credit markets, where low income consumers find themselves paying a 'poverty premium'.

**Consumers would benefit from lower priced RTO goods.** Our analysis of rent-to-own products across providers suggests that a 100% total cost cap on the RRP of a good would reduce the costs to consumers by a median of 28% or £276, provided that arrears charges were also capped.[20] These savings are increasingly significant for lower income households,

[19] The FCA's data found that the median Rent-to-Own loan origination was £1,090. FCA, High Cost Credit Review, July 2017.

[20] Based on price comparisons across 10 different rent-to-own products across the two major rent-to-own providers in June 2018, with a high street store purchased upfront.

totalling more than the lower 20% of households' weekly expenditure.[21] Benefits would be further increased if arrears charges were included in the total cost cap.

**Consumers would benefit from lower price alternatives to RTO**. We agree that consumers who might be declined from accessing RTO might be more likely seek alternatives, which are likely to be lower cost. We welcome further strengthening of the FCA's work on affordable credit alternatives to ensure that there is more lower cost competition in the rent-to-own market.

**There are likely to be benefits to consumers that avoid purchasing goods.** Some of the most detrimental usage of RTO is in scenarios where customers repeatedly purchase through RTO stores, and may be meeting the costs of multiple RTO products at a given time. For these customers, more limited access to RTO goods is likely to be beneficial.

**Case study: Eileen**

Eileen is a 74 year old widow living in private rented housing. She is blind in one eye and has struggled with a learning difficulty throughout her life. She currently has no savings, and debts of nearly £6,000. At the moment, Eileen owes a rent-to-own provider £550 for a tablet computer, a mobile phone and a vacuum cleaner. She struggles to meet her weekly payments of £75.60 to the store, but despite her inability to pay, Eileen finds herself persistently being contacted by the store to purchase 'new and better' goods.

Our advisor recounts that Eileen; 'Has enough to live on, but struggles to understand the high interest rates charged on the goods... [When she is contacted], she feels vulnerable and finds it hard to say no.'

### Positive distributional consequences

Citizens Advice is pleased to see the FCA's recognition that given RTO consumers' vulnerability and financial difficulty, the amounts they save with a lower priced RTO agreement will be particularly beneficial. As the FCA's use of HMT's Green Book suggests, **every pound saved by a low income person is more valuable for them than for a high income recipient.** Our previous estimated savings of £276 per product accounts for a week of our average clients' total expenditure.[22]

**The costs of losing access are likely to be minimal for consumers.** The forecasted loss of access to RTO credit is estimated to affect just 5% of customers. However, the FCA has identified that approximately half of those people who will lose access to rent-to-own goods will have access to other of sources of credit. For the other 50%, they may be faced with going without, looking elsewhere or purchasing from a lower cost alternative. The FCA's research suggests it's highly unlikely that - if people were denied rent-to-own loans - they would turn to illegal lenders.[23] We have seen from the example of the payday loan market - whilst involving a different cap structure - that a cost cap on high cost credit products can be introduced with relatively few unintended consequences. We welcome the monitoring of its effects on RTO consumers, to ensure it is having as significant benefits as proposed.

[21] Office for National Statistics, Family spending in the UK: financial year ending 2017, January 2018.
[22] Median client household expenditure calculated to be £282 per week, Citizens Advice Money Advice Recording Tool Data 2017. Base: 749.
[23] Citizens Advice, A total cost cap on the rent-to-own market: A response to the FCA's consultation on a cost cap on the rent-to-own market, July 2018.

## Q9: Do you agree with our initial assessments of the impacts of our proposals on the protected groups? Are there any others we should consider?

**Yes we agree with the assessment that vulnerable groups are disproportionately represented in the rent-to-own market, and that the impact will be net positive.** Last year, we saw nearly 5,000 clients with hire purchase debts.[24] These rent-to-own consumers tended to be heavily indebted or showed signs of being vulnerable. They are often single parents, almost never have a mortgage or own their home, and a large number are out of work due to poor health. Commonly, they hold more than £8,000 of debt. The vulnerability of these clients must mean the FCA takes every step feasible to ensure their protection in currently such a complex and difficult to navigate market, as the positive impacts are often particularly significant for such clients.

**Vulnerable consumers often find it difficult to shop around.** Nearly half of our clients with rent-to-own difficulties experience a long term health condition or disability. For these clients, shopping online, comparing between providers, or accessing alternate suppliers of household goods (such as charities or the local authority) may be arduous. In addition, these vulnerabilities combined with a low income might leave people responding to the effects of a 'scarcity mindset': a tendency for those who are worried about their financial situation to have less cognitive capacity to devote to other areas of their life.[25]

**Loss of access might mean a gain in the longer term.** As highlighted by the FCA, half of those denied a hire purchase item find an alternate means of purchasing the product, and this will often be a cheaper option. These customers usually have the riskiest income model, are the most financially vulnerable, and are likely to have protected characteristics. The benefits for such consumers is likely to be the loss of access itself, as they are unlikely to be able to meet repayments if granted a rent-to-own contract. Therefore, the majority of consumers no longer using RTO will not experience significant detriment and those who continuing to access RTO products will see a marked positive impact. As we argued in our Total Cost Cap report, the major risk to access to credit of introducing a rent-to-own cap is the challenge to the rent-to-own providers' business models. However, from the FCA analysis, we can see that even with a 90% total cost cap, it is unlikely the market will suffer. Therefore, the potential effects from this market shrinkage should be negotiated with a 100% cap. This point highlights the importance of including arrears charges in the total cost cap, as these would not account for the equivalent of 10% of total cost, and therefore are unlikely to pose a risk to market sustainability.

[24] Citizens Advice client data.

[25] Mullainathan, S. Shafir, Scarcity: The true cost of not having enough. 2014.

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