

Consultation response: FCA Rent-to-own consultation on a price cap

Response by the Money Advice Trust

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Introduction

About the Money Advice Trust

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

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

In 2017, our National Debtline and Business Debtline advisers provided help to more than 220,000 people by phone and webchat, with 1.5 million visits to our advice websites.

In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK, and we have now delivered training and consultancy to more than 160 creditor organisations on identifying and supporting customers in vulnerable circumstances.

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

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the FCA's rent-to-own price cap proposals which we broadly support.

- We strongly support a point-of-sale ban on extended warranties. However, we are concerned that a deferral period of two days is not long enough. Cooling off periods are more typically seven or 14 days. We believe the deferral period should be seven days, in line with the period introduced for PPI.
- We welcome the new definition of rent-to-own firms. We were concerned that the old definition left the possibility open for firms to develop a new model that gets round these rules to offer a rent-to-own type product where consumers make monthly payments but are not bound by the more stringent rent-to-own rules. We are very pleased that the FCA has listened to our concerns and changed the definition to remove the exemption for agreements that require monthly payments.
- We welcome the on-going FCA work on how to encourage the development of alternative forms of credit. We are still of the view that where a consumer is turned down for a rent-to-own loan, the lender should be required to signpost that consumer to sources of alternative social lending schemes such as credit unions, Community Development Finance Institutions (CDFIs), and other forms of social lending, as well as local authority support and sources of debt advice.
- We are also pleased that the FCA notes that one of the potential impacts of the cap is for firms to move to a model of offering consumer hire agreements which have fewer consumer protections. We therefore welcome the FCA's intention expressed in the paper to examine consumer hire agreements. We believe that it is very important to prioritise this work to avoid a new model developing that causes further consumer detriment.

"4.51 We have concerns about consumer hire agreements that have similar features and pricing to RTO agreements. We will consider carrying out further work so that we better understand the risks and costs to consumers of these agreements, and will intervene to protect consumers if necessary."

We have set out our responses to the individual questions in the consultation paper below.

Responses to individual questions

Question 1: Do you agree with our assessment of harm to consumers from high prices?

We agree with the FCA's assessment of the harm that is caused to low-income vulnerable consumers from the high prices associated with rent-to-own products. This is in relation to the overall price of the product as well as the high interest and other costs that are typically features of this type of credit.

Question 2: Do you agree with our assessment that other measures will not be fully effective in reducing harm from high prices?

We strongly support the FCA's intention to apply a price cap in this market. We agree with the FCA that other measures will not be as effective as the proposed price cap in reducing harm from the high prices associated with rent-to-own products.

In particular, we agree with the assessment that stronger disclosure measures would not be effective, given the profile of the typical user of rent-to-own products and the lack of options to buy products in cash or to have access to other forms of less expensive credit. We would note that recent research carried out by UKRN and the FCA questions the effectiveness of disclosure and information remedies.¹ In addition, the new FCA occasional paper on risk warnings sets out the limited effectiveness of such warnings on consumer behaviour.²

We agree that much more can be done to promote alternative lower-cost forms of community lending, but agree that this alone will not remedy the problem of price with rent-to-own credit.

Question 3: Do you agree with our approach to benchmarking base price?

We can see that the FCA has put a lot of thought into how to benchmark the base price of rent-to-own products. In our consultation response, we suggested that there is merit in connecting the price cap to the recommended retail price (RRP) of goods. The approach adopted in the paper seems to be a sensible variation of that suggestion.

However, we would urge the FCA to build in a yearly review into how the benchmarking is working in practice. This will allow the FCA to take action if it identifies poor practice or any attempt by firms to "game" the system in an unforeseen manner.

We note that the FCA has decided not to benchmark second hand goods at this stage. We believe this should be kept under review as there may come a point where the FCA needs to consider developing a mechanism for assessing the price of second hand goods if such a market develops for rent-to-own lenders.

1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/744521/UKC_N_consumer_remedies_project_-_lessons_learned_report.pdf

2 <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-47.pdf>

Question 4: Do you agree with proposals for a total credit cap?

We agree with the proposals for a total credit cap. It is vital to cap the cost of credit and the price of the goods as proposed. This should avoid suppliers compensating for the cap by increasing the cost of credit or bumping up the price of the goods. We are particularly pleased to see that the FCA proposes that for agreements in breach of the total credit cap, the obligation to pay all credit charges will be unenforceable against the borrower.

We are also pleased to see that the FCA is proposing to change the definition of a rent-to-own firm to include agreements that include any frequency of payments in the contract, including monthly payments. We think this will help prevent a very real danger that firms would change their payment models to monthly to avoid being caught by the rent-to-own definition, and therefore the cost cap.

Question 5: Do you agree with our proposals on controlling the price of TAD cover?

We are concerned at the exclusion of theft and accidental damage insurance from the total credit cap.

However, we welcome the FCA's intention to design a rule to prevent a firm from increasing its insurance charges as a way of getting around the effect of the proposed price cap. However, we are concerned that the FCA may find this rule difficult to enforce in practice.

We therefore agree that the FCA should review how this rule operates in practice, and welcome the commitment expressed in the paper that the FCA will intervene further if this approach does not act as a suitable deterrent to firms increasing the price of their insurance cover.

This monitoring should be carried out on a regular basis so that any unintended consequences of the new rules can be put in check and the effectiveness of the rules is not undermined by firms' behaviour.

We wonder if the FCA should consider strengthening the rules to include a requirement on firms to direct customers with no existing insurance to independent information on sources of appliance insurance and home contents insurance. Firms could also be required to allow customers to replace their rent-to-own insurance with another cheaper product at any point during the contractual term.

Question 6: Do you agree with our approach to controlling the price of arrears charges?

We are concerned that arrears charges do not form part of the proposed cap. We had suggested that there should be a maximum £15 a year cap on late payment fees in any one year period which should form part of the maximum total cost cap. We also suggested that where there are multiple agreements, there should only be one late payment fee charged to that borrower. We still believe that arrears charges should form part of the cap. We do not see a reason to deviate from the way in which the payday price cap works, which includes default costs within the cap. We do not think that the FCA should take a different approach for rent to own agreements.

We are also concerned that the FCA has so far accepted assurances from firms that they will not impose high arrears charges on customers in future and do not do so “in practice”. Clearly, the way in which individual firms behave can change over time or new entrants into the market may not take the same approach. The FCA will therefore need to be rigorous in looking at any applications for authorisation by new rent-to-own firms to ensure that these do not adopt a model that increases such charges unfairly. The FCA will also need to look out for firm practices that rely on high default costs as a trading model, as such a model may encourage firms to lend when people cannot afford to pay, in the expectation that the firm’s profit will come from the resulting default charges. The FCA will also need to ensure there is a vigilant supervision strategy in place to ensure that existing firms are compliant with the new rules.

We are pleased that the FCA will design a rule to prevent firms from increasing their arrears charges simply to offset the effects of the price cap. We also welcome the FCA’s intention to monitor the effectiveness of this rule. This monitoring will be crucial to ensure that the intention behind the cap and the rules are not undermined by the way in which firms behave in practice.

Question 7: Do you have any views on the implementation timetable?

The implementation timetable seems to be sensible, and balances the needs for firms to adapt to the new rules with those of consumers who need protection as soon as practicable.

Question 8: Do you agree with our initial assessments of the impacts of our proposals on the protected groups? Are there any others we should consider?

We agree with the FCA’s initial assessment of the impact of its proposals on protected groups. We have not identified any additional impacts that we wish the FCA to consider at this point.

For more information on our response, please contact:

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