Money and Mental Health response to the FCA's questions for discussion on rent-to-own

The Money and Mental Health Policy Institute is a research charity, established by Martin Lewis to break the link between financial difficulty and mental health problems. This response to the FCA's discussion questions on potential intervention in the rent-to-own market set out our views, based on our research and policy work, on how intervention can be best targeted to support consumers experiencing mental health problems. Money and Mental Health's research is informed by our Research Community, a group of 5,000 people with lived experience of mental health problems. All quotes in this responses come from Research Community members responding to an online survey about rent-to-own run between 7 and 12 July 2018.

This document provides a brief responses to questions 1 and 2 of Consultation Paper CP18/12. We look forward to providing a further response to the other questions in this consultation in due course. Further information on the specific challenges and detriment people with mental health problems can face in the rent-to-own market can be found in our policy note *Buy now, pay later: Problems in the point of sale credit market*.[1]

Background

- In any given year, one in four people will experience a mental health problem.[2]
- Mental health problems can be both a cause and consequence of financial difficulties. People experiencing mental health problems are three times as likely to be in problem debt,[3] and nearly half of people in problem debt are also experiencing a mental health problem.[4]
- People experiencing mental health problems are nearly three times as likely to be in arrears on hire purchase agreements as those without mental health problems.[5]
- The FCA's research notes that consumers who use rent-to-own providers are more likely to be on a low income, and in financial difficulties. Statistically, these people are also more likely to be experiencing mental health problems, which are linked to problem debt and poverty.[6]
- People experiencing mental health problems are less likely to be in paid work, and those who are employed are more likely to be in low-paid, temporary or part-time roles.[7] Other people may be reliant on state benefits. This may reduce their ability to access mainstream sources of credit.
- Our research suggests that people with mental health problems are more likely to use point of sale credit, like rent-to-own, because they don't have the money to pay up front

[1] Evans K. Buy now, pay later: Problems in the point of sale credit market. Money and Mental Health Policy Institute. 2017.
[2] McManus S et al. Adult psychiatric morbidity in England, 2007. Results of a household survey. NHS Information Centre for Health and Social Care. 2009.
[3] Jenkins R et al. Debt, income and mental disorder in the general population. Psychological Medicine 2008; 38: 1485-1493.
[4] Jenkins R et al. Mental disorder in people with debt in the general population. Public Health Medicine 2009; 6, 3: 88-92.
[5] Jenkins R et al. Debt, income and mental disorder in the general population. Psychological Medicine 2008; 38: 1485-1493.
[6] Elliott I. Poverty and mental health: A review to inform the Joseph Rowntree Foundation's Anti-Poverty Strategy. Mental Health Foundation. 2016.
[7] Mental Health Taskforce. The Five Year Forward View for Mental Health. NHS England. 2016.

(24% versus 16% of those without mental health problems), and one in five people with mental health problems say they have used point of sale credit when they were unable to borrow money in other ways (19%).[8]
- Mental health problems can also affect a person's cognitive and psychological functioning. Common cognitive and psychological symptoms of mental health problems include:
    - Short attention span, which makes undertaking comparisons and calculations needed to understand the full costs of rent-to-own products difficult.
    - Unreliable memory, making keeping track of spending and when bills are due more challenging, meaning people may be more likely to incur late payment charges.
    - Increased impulsivity, which can make it harder to control spending and resist offers once in store.
    - Reduced planning and problem solving ability, undermining a person's ability to shop around and find alternative sources of credit.
- Difficulties managing impulses and contacting creditors when unwell can mean that people with mental health problems are more likely to fall into arrears on credit repayments, sustaining damage to their credit scores which can make it harder to access affordable credit later on.
- The ease of buying rent-to-own products is appreciated by some people with mental health problems, and although people know that products are expensive they value the ability to pay weekly.

"I have bipolar disorder and have overspent during manic episodes. I have obtained credit cards in the past despite being on benefits whilst in a manic phase. This has damaged my credit record so there is no real alternative when replacing essential white goods or furniture."

"No one else would offer credit, the process was so simple and done for me just by going into a shop, no countless forms and processes with no outcome at the end"

"[Rent-to-own provider] meant I could afford items and that they would be repaired by them if anything went wrong. Hence, no awful surprises to deal with."

Q1: [For Discussion] What alternative solutions could there be to address harm from high prices?

Money and Mental Health agrees with the FCA's analysis that a price cap is likely to be the most successful intervention to reduce harm to consumers in the rent-to-own market. Our analysis, like the FCA's consumer research, suggests that people use rent-to-own when they feel they lack any other option, and that they are aware that it is expensive. Further transparency measures are unlikely to be successful, particularly given that our research suggests that a substantial number of rent-to-own customers are likely to be experiencing

[8] Money and Mental Health analysis of online survey of 2.051 people, carried out by Populus 9-11 December 2016. Data is weighted to be nationally representative.

mental health problems which can make processing information difficult, limiting the effectiveness of information remedies.

However, we believe that designing this price cap to ensure efficiency is likely to be difficult, given that the key driver of high costs in the rent-to-own market is inflated cash prices, which may be difficult to regulate. We believe that any regulatory action is thus only part of the puzzle, and, as the FCA correctly identify, broader social policy changes may also be needed.

Ensuring consumers have access to other forms of affordable credit should be a priority. Research suggests that when customers turn to rent-to-own providers, they do so because they think it is their only option. The FCA's ability to improve access to affordable credit, as the industry regulator, is limited, but we believe that certain government policies could help, including:

- Reform of legislation around credit unions to ensure they can lend to more risky customers and innovate to offer products which compete with rent-to-own providers.
- Supporting ongoing charitable attempts to improve access to affordable credit, including the Fair by Design fund and campaign, and the work being undertaken by the Big Lottery Fund using dormant account monies.
- Extend provision of budgeting advances through Universal Credit to replace lost Social Fund provision.[9]

We hope that this agenda will be taken up by the Financial Inclusion Policy Forum.

"The interest rates are ridiculous and the prices they show aren't the prices you have to pay as on top of the payment you HAVE to take their insurance as well, so that put the payment up even higher… if I had any other choice than to go to them then I would."

"At the time of been on Job Seekers Allowance was only place I could get anything I need urgently for a family of five from beds to sofas to tvs and laptops. Nowhere else will even look at giving you credit if your on benefits."

Q2: [For Discussion] What issues should we should take into account in carrying out further work on a price-cap?

The extent of any price cap

In addition to the four elements of the price of rent-to-own established in CP18/12, we believe the FCA should also consider late payment fees, installation and delivery charges, each of which can be difficult for consumers to avoid and can significantly increase the price of rent-to-own items. The FCA may be able to regulate the cost of these additional fees and charges, particularly late payment fees, more easily than it can regulate the underlying cash price of goods, which analysis shows is the main driver of price distortion in this market.

[9] Braverman R, Holkar M and Evans K. Informal borrowing and mental health problems. Money and Mental Health Policy Institute. 2018.

“It’s stressful having an extra charge for even paying a day late. It hits your budget hard even though it’s not a massive amount, having a knock on effect in other areas”

The FCA’s thorough analysis does suggest that the cost of credit is higher in the rent to own market than in comparable loans made to similar consumers by home credit providers, even looking beyond the inflated cash prices of items. This leads us to believe a cap on the cost of credit may reduce consumer detriment in this market, though it will not be sufficient to resolve the problem.

Responses from Money and Mental Health’s Research Community also suggest that the long duration of rent-to-own agreements is a cause of significant concern to borrowers, as well as a driver of the high costs, particularly in comparison to home credit. An alternative approach the FCA may wish to consider, therefore, is limiting the length of the credit agreement in a similar way to the approach used around rollovers in the high-cost short-term credit market.

“The length of the time taken to pay for the goods was perhaps the biggest shock, especially the insurance cover you have to buy.”

Other options for regulation if the FCA is unable to cap cash prices

Money and Mental Health recognises that the customers being served by rent-to-own providers are a higher risk group, and that the costs of credit will be proportionately higher, however we firmly believe that this risk should be reflected transparently in interest rates rather than through inflated cash prices for items. We find the justifications given by rent-to-own firms for the difference between their prices and those offered by other retailers unconvincing. Stated issues around smaller sales volumes, operating costs, business rates and lack of trade credit affect many smaller retailers, and are not universally accompanied by such marked price variation. Other factors given, including the depreciation of sterling and increases in business rates, have affected many retailers, and not explain the consistently high prices charged by these retailers over decades.

The lack of competition in this market is more to do with customer circumstances and a lack of alternative business models than inappropriate credit regulation. While we believe the FCA can make an impact through capping interest rates and late charges, if it does not have the power to regulate cash prices for goods, we hope this matter will be referred to the Competition and Markets Authority for further consideration.

“The price of said item is always massively inflated which I think is wrong especially when they then add anything up to 99% APR.”

Supporting consumers who may be excluded from the rent-to-own market after a price cap

Qualitative evidence suggests that people relying on rent-to-own to purchase essential items struggle to access other forms of credit, and that significant harm may result if alternative provision is not made available. Access to credit is not a right, but we do aspire to ensuring everyone can maintain a decent standard of living. This is not necessarily an issue for the FCA to address in isolation, but is a problem we hope will be considered in partnership with government alongside any price cap intervention to minimise detriment to those in need. We would note that the detriment in this case is not just financial difficulty or going without essential items, but also the psychological distress that may be caused by social exclusion, shame and guilt if, for example, a person is unable to afford a washing machine to clean their children's clothes.

We look forward to providing a further response to the other questions in this consultation in due course. To discuss issues raised in this response, please contact katie.evans@moneyandmentalhealth.org.