The Financial Inclusion Centre

Better and Brighter?

Responsible Rent to Own Alternatives

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Financial Inclusion Centre

March 2016
#ResponsibleRTO

Report produced by Financial Inclusion Centre

The Financial Inclusion Centre is an independent research and policy innovation think-tank dedicated to promoting financial inclusion and fair, efficient, competitive and accountable financial markets.

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Foreword

It is not difficult to see why Rent to Own is popular with many low income families. Their stores are bright and attractive and they provide customers with many of the essentials of modern living, such as washing machines, sofas and televisions. These are things that many of us take for granted, but for those on low incomes they can seem frustratingly out of reach most of the time.

But as the All Party Parliamentary Group of Debt and Personal Finance found in its inquiry into the Rent to Own Market there are downsides to this, and for the most part it comes down to money. Rent to Own is an expensive way to buy goods – so expensive that many customers never even get to own the goods they pay for, but see them repossessed for non-payment as their arrears build up.

Not only are the prices of Rent to Own goods inflated, but customers are also often required to pay an additional premium for a bundle of services which they almost certainly don't want or need, such as extended warranties and insurance. With a high interest rate added to that, customers of Rent to Own can easily find themselves paying three times as much for goods and services than they would from more conventional retail outlets, whether on the High Street or online.

But all too often the customer has no real choice but to take the Rent to Own route, despite the eye watering prices. The APPG has been pressing the regulator, the FCA, to curb the worst excesses of the market, including the compulsory bundling of services, the lack of transparency over prices, and the absence of effective forbearance policies. We are waiting to hear what the new requirements on the sector will be, and we hope they will be stringent. However, whatever happens the customers of Rent to Own will continue to pay inflated prices for the goods they buy and receive poor value for money. That is, until they can find a viable alternative.

Which is why I am so pleased to see this report from the Financial Inclusion Centre. In many ways it picks up from where our inquiry left off, looking at some of the alternatives to Rent to Own provided by social enterprises. Some of these are fledgling enterprises, yet to fully establish themselves in the retail landscape. They are not all the same and there is a real sense that the way they operate – how they raise capital, form partnerships or attract customers – reflects local experiences and needs. But they do have one thing in common, they want to break the stranglehold of these firms, by helping people on low incomes to buy the goods they want and need without paying a poverty premium.

This report is very much a starting point on developing viable alternatives to Rent to Own and I am the first to concede that there is no magic bullet. So we need to work together – MPs, local authorities, social landlords, voluntary organisations, social lenders - to ensure that people have access to essential goods at a price they can truly afford.

Yvonne Fovargue

Yvonne Fovargue MP
Chair of the APPG on Debt & Personal Finance

Acknowledgements

First and foremost the Financial Inclusion Centre would like to express our huge thanks to Plymouth City Council for commissioning us to undertake the original review of the delivery options for a local RTO alternative in the City and then for allowing us to adapt the report for wider consumption. We would particularly like to acknowledge the support and input of Laura Griffiths (Financial & Social Inclusion Officer).

We would also like to thank the following people for participating in our interviews and giving their time and insight; Andrew Breese (Moneywise Credit Union), Andrew Waters (Your Homes Newcastle), Angela Clements (Fair For You), Chris Canham (Hoot Credit Union), Chris Smyth (Leeds City Credit Union), Claire Donovan (FRC Group), Donald Stark (HomeMakerUK operator of Our House) Jacqui Grimes (Northern Housing Consortium), John Morrissey (Bolton Council), Lesley Richardson (Prince Bishop Community Bank) and Niall Alexander (Financial Inclusion Consultant).

Finally, we would like to thank our colleagues at StepChange Debt Charity; John Ludlow (External Affairs Officer), Mark Haslam (Public Affairs Officer), Edward Ware (Media Relations Manager) and Robert White (Media Officer) for their advice and help in communicating the report.

Executive Summary

Like most forms of high cost borrowing in the UK, the Rent to Own (RTO) sector has experienced huge growth following the onset of the recession, establishing itself as ever present on the high streets of our more deprived towns, cities and communities. It enables over 400,000 households, almost exclusively with low incomes and reliant to some degree on benefits, to take out expensive credit to spread the cost of purchasing consumer goods from furniture and large household items such as cookers and washing machines to electrical items such as TVs and computers.

It has proven to be recession proof, more than doubling in size over the last five years since the onset of the economic crisis. The market is dominated by three just providers, with BrightHouse, by far the most well recognised and largest firm, followed by PerfectHome and non-store based provider Buy as You View.

The business model relies upon costly hire purchase arrangements whereby the customer has a credit agreement but does not actually own the goods outright until the last payment. Therefore, in addition to the huge cost of purchasing the products, falling behind with RTO repayment means customers face losing goods, which can put undue pressure to prioritise such payments. A number of other unfair practices have also been highlighted such as; providing unnecessary and expensive service cover, extended warranties, insurance and hidden charges that have all been shown to compound the debt trap for many low income families.

Yet, despite the detriment to consumers, there is still a distinct lack of social providers offering a viable alternative and those that do lack reach and scale to make a tangible impact. This report looks to help address this deficit by highlighting the different delivery models for creating and running fairer and more affordable RTO alternatives. It examines the key considerations and the potential delivery and lending models.

It is intended that the report continues to highlight the concerning practices of the sector but focuses on equipping community stakeholders that are keen to restrict such high cost credit usage with the tools to determine which of the different models might be most feasibility given their local circumstances.

RTO Sector: Key Figures

- More than 400,000 households are now using RTO to purchase household goods; this has increased by 131% from 210,000 users in 2008.
- The typical RTO customer profile is a young female lone parent, living in rented accommodation and almost exclusively from low income households that are wholly or partly reliant on welfare benefits.
- Nationally, there are now 373 RTO stores – a figure which has grown by 140% from 155 stores in 2008.
- According to BrightHouse there is a potential market for 650 stores across the UK.
- Each RTO store is used by between 900 and 1,000 customers annually who borrow approximately £1.95 million each year, equivalent to £2,114 per customer.
- Over the last five years, annual gross profit within the sector has grown by 139% from £127 million to £303 million.
- Annual turnover amongst the three main firms has grown by 118% since 2008 from £238 million to £520 million.

Consumer detriment

There are a number of concerning issues and detrimental practices that are seen within the RTO industry, including:

Price Comparison: Washing Machine

BrightHouse: Cheapest washing machine (with the mandatory 5 star service) is **£471.00**

Purchased using weekly repayment over 3 years (69.9% APR), it would cost **£936.00** (or **£1,056.12** with the optional product insurance, which is required if user does not have contents insurance).

Alternative: Cheapest similar product on high street is **£249.99** (or **£349.97** with delivery, disposal and 3 year breakdown plan).

Purchased using a weekly loan from a Credit Union over 3 years (42.6% APR), it would cost a total of **£491.19.**

- **RTO agreements are expensive and price transparency is poor** - with interest rates reaching 99.9% APR and charges for additional cover, the cost of goods can almost triple.
- **Customer experience high levels of financial difficulties -** with roughly half having some degree of late payment and failing repay.
- **High numbers of customers have their goods taken back -** with over 10% of customers having their goods repossessed.
- **Poor value and often unnecessary bolt-on service cover, warranties and insurances –** with at least 85% of BrightHouse customers estimated to purchase such services.
- **The market structures make customers exposed to over-charging and poor practices –** with few choices consumers are therefore more vulnerable to over-charging and unfair activities.
- **RTO is inappropriate for a proportion of customers –** with firms found not to be considering user's financial circumstances.

Such issues have placed the industry firmly under the spotlight of policy makers and the regulator, with the Financial Conduct Authority (FCA) set to outline new rules in 2016 giving greater protection for vulnerable consumers as well as creating a more level playing field for better value alternatives.

Responsible alternatives

In response, over the last few years a number of social businesses have responded by developing alternatives to compete with the RTO retailers and address some of these consumer detriment issues. These assemble a range of local stakeholder together with suppliers of household goods and affordable credit lines, combining some of the more 'positive' characteristics of the RTO model that appeal to consumers but delivered in a way that designs out some of the more harmful aspects. By doing so, these alternatives are able to generate significant cost savings for low income customers and thus help avoid paying a poverty premium for their essential goods.

"My washing machine broke and I have three children…. For some people BrightHouse is the only option…. I've had stuff off them years back. I never used to think about how much I was paying."

Tina

Case studies:

We have identified a number of exciting examples of RTO alternatives run locally and nationally:

FAIR FOR YOU fairer prices for you and your family	• Online outlet (and catalogue) • Outsourced product management direct to national manufacturer • In-house credit (raised investment) • Open access (available to all who meet affordability criteria)
own YOUR own	• Online outlet (and catalogue) • Outsourced product management to local supplier • Outsourced finance partner with Credit Union • Restricted access (only open to residents of partners)
furniture4U	• Retail shop outlet (planned website and catalogue) • Outsourced product management to local suppliers • Outsourced finance partner with Credit Union (under same roof) • Open access (available to all within geographical area)
The Smarterbuys Store	• Online outlet (with catalogue) • Franchise with products management centrally • Outsourced finance (capital via partners) • Restricted access (only residents of partners – except Bradford)
thestore	• Retail shop outlet (with catalogue) and online outlet • In-house product management • Outsourced finance partner with Credit Union (under same roof) • Open access (available to all in geographical area)

Delivery model options:

These five examples of RTO alternatives demonstrate just how different the delivery models can be and each with its own particular challenges and critical choices around:

Credit provision - who will deliver the lending facility.

- **In-house loan delivery directly by the social RTO firm** - This requires the creation of new lending vehicles with effort and time to obtain regulatory permissions and raising of capital finances.
- **Outsource credit delivery to an existing social lender -** Partnering with an existing affordable credit provider (typically a credit union or CDFI) can benefit from its ability to raise capital, its existing lending track record/infrastructure and user's access to other financial services. Yet, it can be more restrictive, being tied to certain lending criteria, approaches or risk appetites.

No matter who provides the borrowing, three important lessons have emerged:

- The consumer's selection of the goods and their credit application/decision needs to be seamless, even if it is actually operated by two different entities.
- The loan process needs to be straightforward and decisioning making needs to be made almost immediately through the social lender's own systems.

- Some degree of automation and access to credit scoring/reference data is important and therefore the selected credit provider will require appropriately developed IT technology.

Lending capital – who provides the capital for lending and who shoulders the lending risk.

If the credit provision is undertaken in-house or via a franchise model, significant capital will need to be secured. Equally, an outsourced credit partner could still require external capital to be raised depending on their available funds and willingness to lend for this type of purpose/product.

Moreover, lending risk could be shared by establishing either 'ring-fenced' lending capital or an underwriting agreement to cover potential defaults. This gives greater flexibility to lend to 'those in the grey area' who might ordinarily be too risky for the social lender's traditional credit assessment.

Delivery outlet - how will household goods and lending be promoted and accessed by customers.

- **Retail shop –** for some, creating a high street retail outlet that mimics the look of BrightHouse is seen as essential. The main consideration is the huge start-up and ongoing operational costs and whether it can be financially viable from the income generated primarily from product mark-up.
- **Online provision –** websites enabling product selection and ordering combined with loan application and assessment should be an essential aspect of any RTO alternative. Whether this is the sole route to market or one of many channels is the key consideration with the choice set in the context of the target customer and their ability to access a purely online facility.
- **Catalogue delivery** – a complementary brochure is also very important, particularly with a restricted access model focused on social housing residents. Consideration also needs to be given to a telephone-based facility that enables customers to both apply for credit and place orders.

Product operations – who manages the stock, order delivery and customer relationship.

- **Developing in-house product operations** – this option is particularly challenging as it needs extensive scale and volumes to make it financially viable and significant upfront / ongoing costs.
- **Outsourcing by partnering with an existing RTO provider –** the far easier option would be to piggy backing on an existing RTO alternative and utilising their supply chains – either by working with a formal franchise (e.g. Smarterbuys or Coop Electical) or a particular scheme (e.g. Fair For You). However, this may limit the scope for product tailoring and reduce income generation.
- **Creating direct arrangements with individual suppliers** – either local/regional businesses (e.g. Furniture 4U) or national firms/manufactures (e.g. Fair For You). This enables the selection of certain product lines based on quality and income generation potential and could also be attractive from a local economic development and employment perspective.

Customer base – should it provide open access to all or be restricted to certain users.

- **Open access** – with the need for scale and volume an open access model would appear to provide the greatest scope for financial sustainability.
- **Restricted access** – this model is often found amongst social housing providers delivering a RTO alternative specifically for their residents and is confined primarily from a wish to focus resources only at their own users. Alternatively, this could still be achieved through an open access model but with the ring-fencing of funds for specific groups of users.

Conclusion

By exploring the current crop of social providers offering RTO alternatives, it is clear that there is no single approach that offers the perfect delivery solution. Instead, there are a number of delivery considerations that can developed to best match the specific local circumstances and aspirations. One common feature of all the featured case studies is the need to involve a range of stakeholders. It should not be embarked upon alone but be a partnership bringing together local authorities, social housing providers and other third-sector organisations looking to address this issue.

Ultimately, it is hoped that the research stimulates debate, providing further focus on the rationale for intervention in this market and providing a starting point for anyone considering the various options for which type of RTO alternative offers the most appropriate solution.

Contents

Introduction

The impact of the recession and restrictions on lending by the mainstream banks together with the continued downward pressures on family incomes, job market insecurity and household budgets have created the perfect conditions in which the high cost 'non-standard'[1] credit industry has flourished. This period has seen the exponential growth in various forms of expensive borrowing, among which are home credit companies (such as The Provident), payday loan firms (such as Wonga and Quick Quid), high street lenders (such as the Money Shop, Oakham and Speedy Cash) and Pawnbrokers (such as H&T, Cash Converters and Cash Generators).

Equally, the Rent to Own (RTO) industry in the UK has become an increasingly established and growing part of this high cost credit cocktail with stores ever present on our high streets, particularly in the more deprived towns, cities and neighbourhoods. It has proven to be recession proof and has more than doubled in size since the onset of the economic crisis. The market is dominated by three retail providers that our research estimates have a combined customer base of more than 400,000 households[2]. By far the largest and longest established is BrightHouse, which has 303 stores nationwide, followed by PerfectHome, which has 70 stores and finally, non-store based provider Buy as You View (BAYV).

These firms all enable households to take out expensive credit to spread the cost of purchasing consumer goods from furniture and large household items such as cookers and washing machines to electrical items such as TVs, mobile phones and computers. Customers are almost exclusively from low income households, with the majority either significantly or wholly reliant on benefit income with the typical user profile being young, female and with children, and almost always living in rented accommodation.

The business model relies upon costly hire purchase arrangements whereby the customer has a credit agreement but does not actually own the goods outright until the last payment is made. Therefore, in addition to the high cost of purchasing the products, falling behind with RTO repayment means customers face losing goods, which can put undue pressure on the funds available for food or other essential household bills. In addition, a number of other unfair practices have been highlighted such as providing unnecessary and expensive service cover, extended warranties, insurance and hidden charges that have also been shown to compound the debt trap for many low income families.

[1] Non-standard is the term applied to borrowers who for a number of reasons will be refused credit from mainstream bank and financial institutions, perhaps because of a poor credit history, thin credit files or a credit score which is considered too risky for standard credit.

[2] APPG's report from the inquiry into the Rent to Own sector states that the number of customers is over 350,000 but our own estimates put this figure at over 400,000. This is based on published customer numbers for BrightHouse (277,400) and report estimated for customers using Perfect Home (61,932) and Buy as You View (66,485).

Such issues have placed the industry firmly under spotlight with recent scrutiny by the All Party Parliamentary Group on Debt and Personal Finance, which undertook a highly critical review of the RTO sector in February 2015. The industry is also firmly in the focus of the regulator, with the Financial Conduct Authority (FCA) having already publically stated that their unfair practices have set off 'alarms bells' and in particular have singled out conduct concerns relating to:

- Inadequate affordability assessments,
- A lack of forbearance shown to customers struggling to repay, and
- Poor transparency in the charging structures and advertising.

As part of their forthcoming assessment of RTO firms applying for consumer credit licenses, the FCA will require firms to address these concerns and demonstrate that their business models do not pose a risk to consumers.

In direct response, over the last few years a number of social businesses have developed alternatives to compete effectively with the RTO retailers and address some of the consumer detriment issues. These bring together suppliers of household goods and affordable credit, combining some of the 'positive' characteristics of the RTO model but delivered in a way that designs out some of the more harmful aspects. By doing so, these alternatives are able to generate significant cost savings for low income customers and thus help them avoid paying a poverty premium for their household goods.

A number of local authorities, social landlords and other third sector organisations are keen to restrict high cost credit usage and enable the provision of affordable alternatives. This report looks to appraise a number of options for creating and running fair and affordable provision of RTO that can operate effectively as well as protecting low income households.

Firstly, it explores the issue and the scale of the problem by utilising relevant research to help understand the profile and behaviours of RTO customers and develops evidence of detriment and market failure. Secondly, the report outlines the different delivery models for providing RTO alternatives that could be adopted. Focusing on a number of examples from across the country that have attempted to challenge the main RTO firms, it examines the key considerations and the potential funding and lending capital requirements to support development/delivery of such options.

It is intended that the report be used as a starting point by those stakeholders who may be considering the various RTO alternatives. Thus helping focus on the potential options given the local circumstances and different models, which could then be developed into more detailed feasibility study / business plans together with partnership engagement.

Appendix 1 provides a summary of the research methodology.

Overview of the Rent to Own sector

National context

Rent to Own (RTO) stores have become an increasingly common sight on our high streets in recent years, particularly targeting our poorest towns and cities across the country and the less affluent parts of these locations. These firms specialise in supplying furniture, TVs and household goods such as washing machines. The business model is broadly hire purchase where the customer has a credit agreement with the firm but doesn't own the goods until the last payment is made.

The market is dominated by three retailers, BrightHouse, PerfectHome and Buy as you View (BAYV) with a combined customer base of more than 400,000 households. BrightHouse is by far the biggest, with over quarter of a million customers at its 303 stores nationwide, followed by PerfectHome, which we estimate has just over 60,000 users across its 70 stores. The third, BAYV is a non-store-based RTO, which operates online and by collecting payments in the customer's home. The sector have experienced monumental growth since the economic downturn and the firms continue to embark upon significant expansion plans[3].

Headline figures for the 3 largest RTO firms:

	BrightHouse	PerfectHome	Buy as you View
Established	2002	2007	1972
Number of customers	277,400	61,932[4]	66,485[5]
Number of stores	298 (currently 303)	67 (currently 70)	0
Av customer (per store)[6]	924	924	n/a
Number of employees	3,662[7]	670[8]	674
Total Loan Book	£582,400,000	Not known	Not known
Av Loan book (per store)	£1,954,000	Not known	Not known
Total Revenue	£351,700,000	£90,110,000	£79,250,000
Av Revenue (per customer)	£1,268	£1,454	£1,192
Total Gross Profit	£196,200,000	£53,500,000	£58,500,000

[3] BrightHouse is planning on opening an additional 20 stores each financial year for the next 3 financial years.
[4] Estimate based on average number of customers per store (924).
[5] Estimate based on revenue figures.
[6] Average over last 8 years based on figures from BrightHouse.
[7] Estimate based upon press release in July 2012 stating 3,000 employees and calculating staff to customer ratio for 2014/15.
[8] Taken from Perfect Home website – November 2015.

Expansion of the RTO market

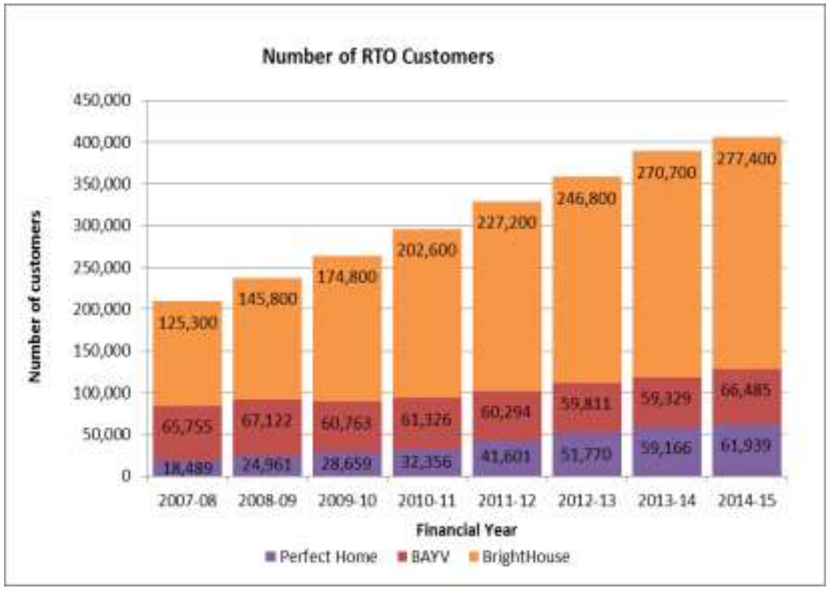
RTO is prospering in the current economic climate and has more than doubled in size since the onset of the credit crunch. The market has shown that it is resistant to the economic downturn, with a number of fundamentals driving this growth:

- The number of credit impaired households is substantial yet alternative borrowing options are narrow.
- There is limited direct high street competition as the complexity of the business and required investment are significant barriers to market entry, and
- Consumer confidence indicators, such as movement in house prices, have less impact on this market.

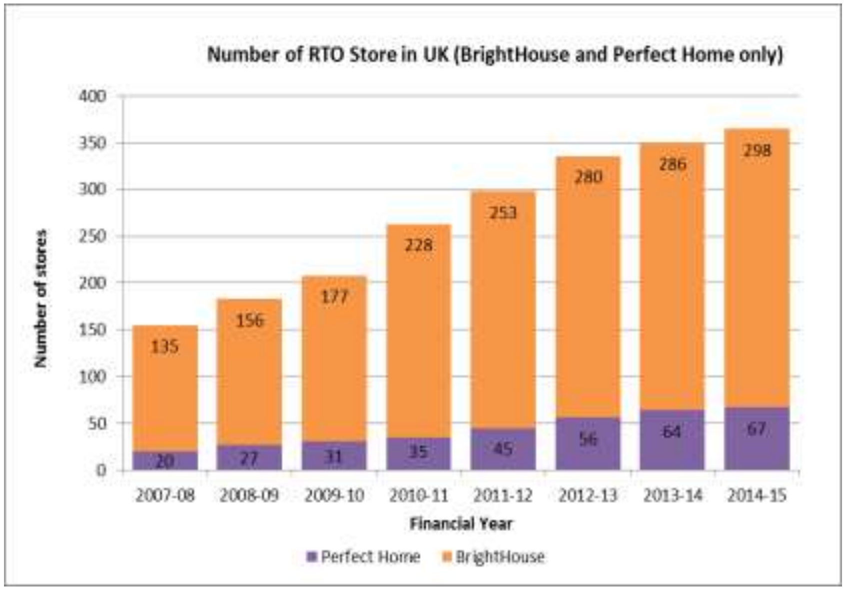
As shown by our graphs below, there were 155 stores and approximately 210,000 customers using the main RTO companies across the UK prior to the economic downturn in April 2008. The gross profit generated by the three main providers was £126.6 million on a turnover of £238.2 million.

Yet, within the space of seven years, during the worst economic crisis experienced within the UK, the market has more than doubled. The three main providers now serve over 400,000 users and the number of retail outlets across the UK currently stands at 373 stores[9], an increase of 140%. This has seen revenue increase by 118% to £520.2 million and gross profits increase by 139% to £303.2 million generated annually.

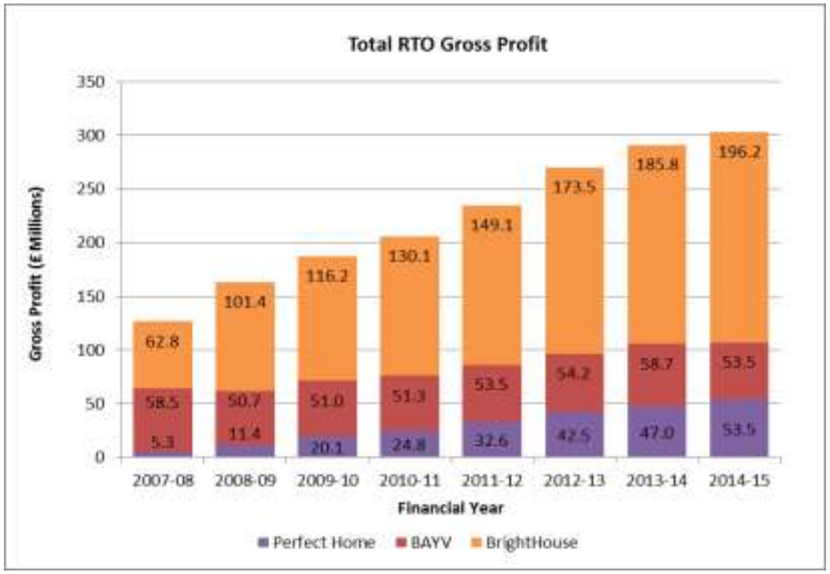
[9] BrightHouse 303 stores and Perfect Home 70 stores



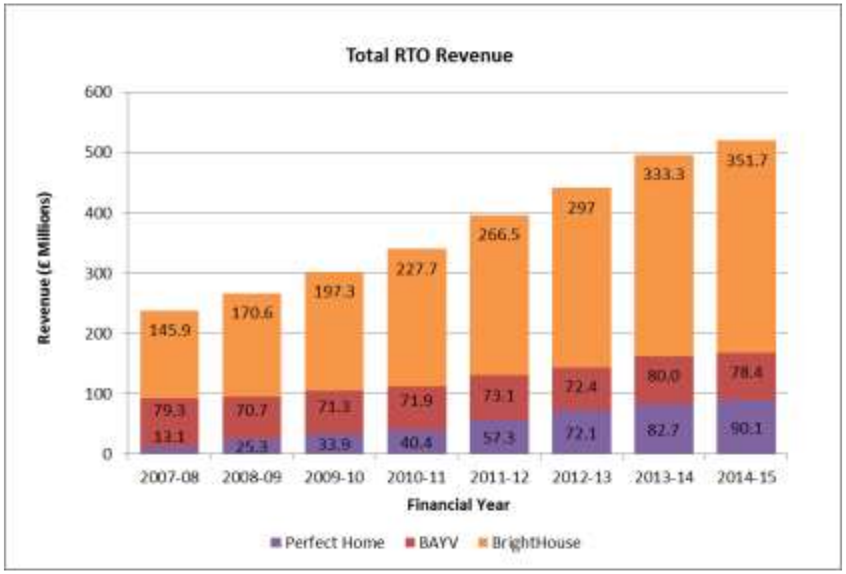
Number of RTO Customers
Number of customers
Financial Year
2007-08 2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15
125,300 145,800 174,800 202,600 227,200 246,800 270,700 277,400
65,755 67,122 60,763 61,326 60,294 59,811 59,329 66,485
18,489 24,961 28,659 32,356 41,601 51,770 59,166 61,939
Perfect Home BAYV BrightHouse



Number of RTO Store in UK (BrightHouse and Perfect Home only)
Number of stores
Financial Year
2007-08 2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15
135 156 177 228 253 280 286 298
20 27 31 35 45 56 64 67
Perfect Home BrightHouse



Total RTO Gross Profit
Gross Profit (£ Millions)
Financial Year
2007-08 2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15
62.8 101.4 116.2 130.1 149.1 173.5 185.8 196.2
58.5 50.7 51.0 51.3 53.5 54.2 58.7 53.5
5.3 11.4 20.1 24.8 32.6 42.5 47.0 53.5
Perfect Home BAYV BrightHouse



Total RTO Revenue
Revenue (£ Millions)
Financial Year
2007-08 2008-09 2009-10 2010-11 2011-12 2012-13 2013-14 2014-15
145.9 170.6 197.3 227.7 266.5 297 333.3 351.7
79.3 70.7 71.3 71.9 73.1 72.4 80.0 78.4
13.1 25.3 33.9 40.4 57.3 72.1 82.7 90.1
Perfect Home BAYV BrightHouse

RTO store coverage and usage

RTO industry expansion has resulted in extensive national store coverage with almost 400 stores operated by both BrightHouse (red pins) and PerfectHome (blue pins), stretching from Plymouth in the South West as far as Elgin in North East Scotland. Demographic profiling by BrightHouse has shown that it believes there is a potential market for the company to open 650 stores across the UK.

Source: BrightHouse and PerfectHome websites (correct at 18/10/15)

Our interactive map of RTO stores in the UK can be accessed at www.bit.ly/RTOstores.

Extrapolating national figures taken from the BrightHouse's Annual Report, we estimate that each RTO store is used annually by between 900 and 1,000 customers who borrow at least £1.95 million each year, equivalent to £2,114 borrowed annually per customer.

Customer profile

Non-standard lending customers are not a homogeneous group, with each type of high cost credit attracting very different users. For example, payday borrowers are typically young men, in employment with an average income of approximately £18,000 per annum.

In contrast, the profiles of RTO customers are quite different and according to the APPG Rent to Own Report, typically:

- young, aged between 22-49 years old,
- female, accounting for 78% of users,
- have children, with 60% having young dependants,
- likely to be a lone parent living within three miles of a store with no access to a car,
- almost exclusively from low income households, with 50% of customers wholly or partly reliant on welfare benefits,
- living in rented accommodation, with 94% being tenants,
- substantially worse off than borrowers using payday loans, with low disposable incomes, on average they only have £19 per week to set aside for one-off costs, and
- not accessing payday loans, with only 1% of RTO customers previously using short-term credit.

Case Study: Tina's Story

Back in February 2015, Tina's washing machine broke. The parent from Southwark thought that she had no other option but to go to her local BrightHouse store to buy a new one:

"My washing machine broke and I have three children. The first thing I could think of was BrightHouse. I've had stuff off them years back. Its appealing because you just payback a certain amount each week. I never used to think about how much I was paying back."

With all the added extras, Tina was going to purchase a washing machine that would cost her £1,800 and take her 3 years to repay. Concerned, she contacted her local credit union, London Mutual:

"The next day that I thought, hold on a minute let me try the credit union, but I wasn't sure they would help me because ….. I'd already had a Christmas loan from the credit union not long before in November so I obviously thought I wouldn't be able to get another loan again."

Tina's loan application for £350 was approved by London Mutual. So instead of paying £1,800, she was able to go direct to a high street store and purchase a new one outright. Tina will have finished paying her loan in March and will have repaid just £60.43 in interest over the 12 month period.

"The credit union got back to me to say they could give me the money to buy the machine outright. I went straight out and bought the washing machine from Currys PC World. I just didn't go back to BrightHouse the next day. They basically saved me at least £1,200.

For some people BrightHouse is the only option. If I didn't have the credit union, I would probably go back to BrightHouse, to be honest with you. I know not to go to BrightHouse anymore; I go to the credit union or save up what I can now. Because from the washing machine incident, I would rather not go back to BrightHouse."

[10] Sarah O'Connor, 'BrightHouse proving recession proof' (Financial Times - 17/11/2008)

The lack of available access to straightforward and affordable options is an important factor, as is a lack of savings that drives people to use firms such as BrightHouse. Much in the same way as the use of mail-order catalogues amongst this customer group, the motivation is often to obtain the goods now and not have to wait for a prolonged period of time.

However, while RTO is evidently extremely successful and appealing to customers, as we explore below, it is also very expensive, often with poor practices that can lead to even greater customer detriment. The key to successfully diverting usage away from high cost firms such as BrightHouse is to play them at their own game, offering the same 'positive' characteristics that are so successful at appealing and retaining customers, while designing out the more damaging aspects.

Consumer detriment

The All Party Parliamentary Group in its review of the RTO sector, published in February 2015 highlighted a number of concerning practices that were detrimental to customers:

- **RTO agreements are expensive and price transparency is poor.** Interest rates of 99.9% and charges for additional cover can double or triple the cost of essential household goods. In addition, the separate cost of extra warranties and insurance is often not made clear to the user. Evidence given by BrightHouse to the APPG indicated that 20% of customers get into more than a month's arrears. Furthermore, according to the FCA, approximately half of customers are experiencing some degree of late payment and therefore failing to repay to term.[11]
- **High numbers of customers have their goods taken back.** Over 10% of customers have goods repossessed – which is especially concerning when these are essential items such as a cooker or a washing machine. It also creates the situation where customers may priorities RTO repayment above more pressing priority payments or debts (such as rent, council tax and utilities) due to the threat of repossession. Current, FCA rules provide little safeguards for customers experiencing financial difficulties – especially where customers have made large payments towards ownership.
- **Poor value bolt-on service cover, warranties and insurances.** RTO agreements are almost impossible to obtain without compulsory added extras, many of these can be found much cheaper elsewhere. For example, it is cheaper to insure goods against fire, theft and damage though a single home contents policy – particularly where multiple items are being leased. There are also concerns about the way it is sold with firms having mis-sold protection to customers who already had adequate contents cover. It is estimated that 85% of BrightHouse customers purchase optional service cover and 90% purchase damage liability cover.[12]
- **The market structures make customers vulnerable to over-charging and poor practices.** Low income customers have few alternatives and therefore a largely captive market and means they are even more vulnerable to over-charging and unfair practices.
- **RTO is inappropriate for a proportion of customers.** Firms were found to be providing inadequate explanations in relation to a customer's financial circumstances. For some customers a credit agreement may be unsuitable and a pure rental option more appropriate.

[11] APPG on Debt & Personal Finance (2015) – Report from the inquiry into the Rent to Own sector.
[12] FI Taskforce (2010) - Mainstreaming Affordable Credit.

High cost of RTO

One of the main charges levelled at the RTO industry is that it is extremely expensive with the high costs result from a combination of three factors:

- **A cash mark up by some RTO firms on the high street price** – making the products extremely costly with poor price transparency.
- **Charges for additional services taken out at the time of entering the RTO agreement** – such as service cover, extended warranties, insurance and delivery charges, which are often mandatory.
- **Interest on the RTO agreements are expensive** - The three largest RTO firms charge interest rates between 67.9% APR (BAYV) and 99.9% APR (BrightHouse). The typical term is two or three years and importantly, interest is charged not just on the item price but also the additional service cover.

Case Study: Mel's Story

Mel, a single parent of three children with caring responsibilities for her disabled son, noticed her fridge was leaking and had stopped working.

"I used BrightHouse before, and their prices are horrendous and they go on forever. A lot of these companies, they hit on the people that do struggle. If you got the cash you can get it a lot cheaper, but these companies put on such high interest that you're paying it off forever. But because they've got no other choice, they don't have the finances, they got no choice they got to go to these companies. And it's sad because it's the people who really need it who the companies are making the money off of."

Mel found a new fridge that would have cost £13.50 in weekly instalments, but as she does not have home contents insurance, it would have been £15.26 each week repaid over 156 weeks at an annual fixed interest rate of 69.99%. So, instead of paying pay back over £1,559 spread over 3 years she decided to use one of the highlighted social alternatives, Fair For You.

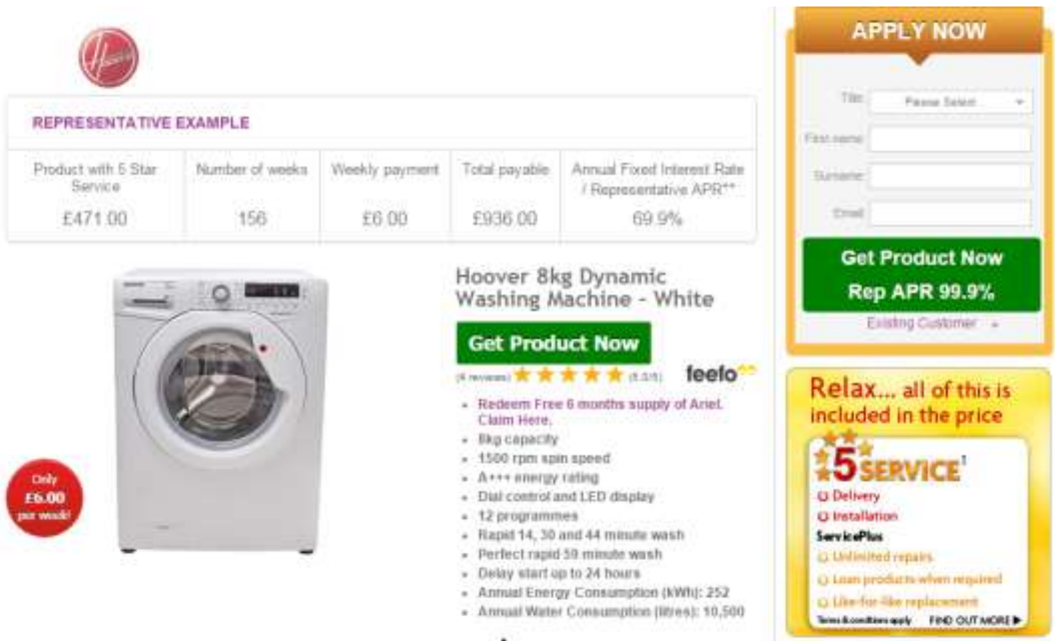
"That fridge I got from you now, it cost me £13 a week, and that's okay you can find that – but for 3 years? I'm paying over a year, I've got from you a tumble dryer and a fridge, so both of them £800 and that's with your interest. That's a huge difference!"

Price Comparison Example 1 – Washing Machine

BrightHouse:

In November 2015, the cheapest washing machine at BrightHouse was a 8kg Hoover Washing Machine that had a product price of £301.45 but with the mandatory 5 star service actually costs **£471.00** (£55 delivery and installation and £114.55 for ServicePlus).

When the product is purchased using BrightHouse credit repaid weekly (£6.00 each week) over 3 years at 69.9% APR, it would cost **£936.00** (or **£1,056.12** with the optional product insurance, which is required if customer does not have contents insurance).



How much could it cost elsewhere?

If the same or similar product was purchased with another established retailer – it would cost:

- **£249.99** at Argos (with free delivery, £9.99 disposal and 3 year breakdown plan at £89.99),
- **£269.99** at Euronics (with free delivery and additional £30 connection and disposal charge and 3 year breakdown plan at £119 or 5 year at £149), or
- **£299.99** at Curry's (with free delivery and additional £35 connection and disposal charge).

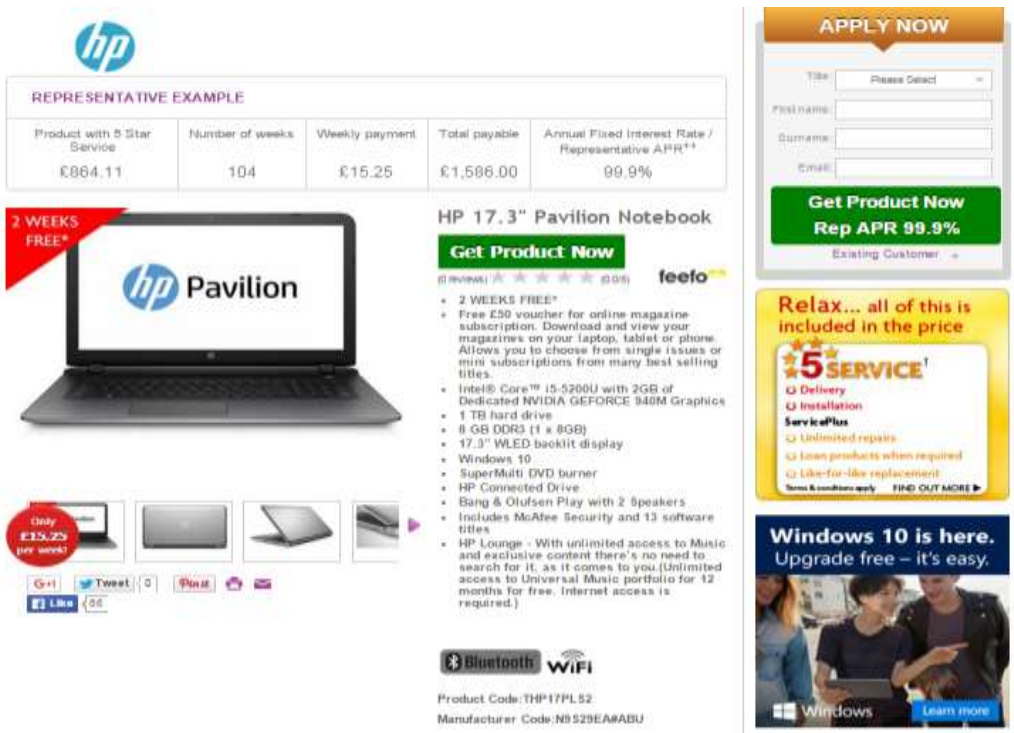
If the customer was to purchase from Argos (including delivery, disposal and 3 years product warranty at a total cost of £349.97) using a loan from a Credit Union and repaid weekly (£3.16 each week) over 3 years at a maximum interest rate of 42.6%, it would cost a total of **£491.19.**

Price Comparison Example 2 – Laptop

BrightHouse:

In November 2015, one of the cheapest laptops at BrightHouse was a Hewlett Packard 17.3" Pavilion Notebook that had a product price of £675.09 but with the mandatory 5 star service actually costs **£864.11** (free delivery and installation and £189.02 for ServicePlus).

When the product is purchased using BrightHouse credit repaid weekly (£15.25 each week) over 2 years at 99.9% APR, it would cost **£1586.00** (or **£1,822.08** with the optional product insurance, which is required if customer does not have contents insurance).



How much could it cost elsewhere?

If the same or similar product was purchased with another established retailer – it would cost:

- **£599.99** at HP (with free delivery, and 3 year care plan at £49.00),
- **£749.95** at John Lewis (with free delivery and free 2 years warranty and £99 for additional 3 years cover),
- **£749.99** at Curry's (with free delivery and 2 year cover at £169 and 3 years cover at £199)

If the customer was to purchase the product directly from HP (with delivery and 3 year care plan – total cost £648.99) using a loan from a Credit Union repaid weekly (£7.88 each week) over 2 years at a maximum interest rate of 42.6%, it would cost **£818.01.**

Alternative RTO models – Case Studies

The lack of mainstream alternatives that enable low income households to affordably obtain essential items is recognised as a key issue and one that is directly attributed to the sustained growth of the high cost RTO market. This point was highlighted by the APPG, identifying that there is need for more ethical RTO options from the social enterprise and not-for-profit sectors.

In recent years there have been a number of attempts to deliver a RTO alternative that combines the purchase of households goods with access to affordable credit as a means of spreading the cost.

The following five case studies of existing and new schemes show that social organisations and lenders across the country are endeavouring to deliver an alternative.

The Store (County Durham)[13]

thestore
'The viable alternative to weekly payment stores'

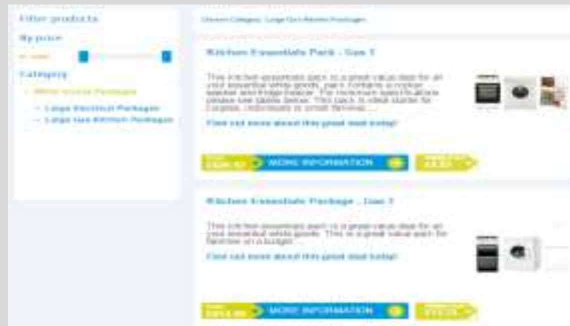
Model:	• Retail shop outlet (with catalogue) and online website. • In-house product management • Outsourced finance partner (under same roof) • Open access (available to all in geographical area)
Established:	2012
Partners:	Partnership between **Social Housing Enterprise Durham (SHED)**, a subsidiary of Derwentside Homes and credit union, **Prince Bishop Community Bank (PBCB)**
Area of operation:	Geographically covering County Durham (with branches in Stanley and recently in Bishop Auckland) and residents of Derwentside Homes (7,000).

[13] A similar operation, 'Our House' was started in the north-west in 2015. Three impressive retail shops offered a range of products, with associated credit available from Five Lamps, a large CDFI. Sadly, the scheme was put into administration at the end of 2015. A combination of heavy overhead costs and a lack of creditworthy customers, with Five Lamps approving only 28% of loan applicants were the two predominant reasons for business failure.

Scheme summary:	The Store, the first ethical RTO business, is designed to look and feel like high street RTO offerings such as BrightHouse in that it replicates key features (such as a retail outlet with narrow product ranges and known brands, together with a catalogue and website as well as ability to pay weekly payments), but selling the new, branded, quality goods at a cheaper price and with a more affordable credit arrangement. It started as a purely catalogue operation to provide Derwentside Homes and other social housing tenants with basic household goods. It then acquired a shop premise in March 2012, sharing with PBCB. Set-up costs and initial loan capital, totalling £250,000 came from Northern Rock Foundation, PBCB, Friends Provident Foundation and Derwentside Homes. The route to market is through a combination of shopfront premises, website and catalogues delivered to social housing tenants, but the goods are open to purchase by anyone who wants them. Goods can be ordered in the shop (in Stanley and Bishop Auckland), by catalogue, online, and over the phone.
Lending provision:	If the customer needs to purchase the product with credit, this is provided by PBCB, using its normal application process. It undertakes the necessary credit and affordability checks and then collects repayments and manages any credit control. In addition, PBCB automatically signs the customer up as a member of the credit union and maintains their savings account. Interest is applied on the retail goods at 24.6%. As well as the loan repayment, a minimum of 25p from each weekly instalment goes directly into a PBCB savings account, automatically set up for customers when they join the scheme. To date the majority of customers are saving in excess of this each week.
Product management /operations:	SHED is the legal entity which operates the Store and manages the product operations, delivery and aftercare. SHED bulk purchases quality furniture, white and electrical goods, which are then sold at a gross margin, generating the surplus to meet all other costs, including write-off of loan defaults. At the end of the loan and all repayment have been made, the goods become the property of the customer who can access their savings and other credit union services.
Outcomes:	After one year of operation, when the scheme was evaluated[14], operations were going well. Questions around longer-term sustainability hinged around: • volume of sales – which needed to grow considerably • the wholesale-to-retail gross margin, which might need to increase • keeping capital write-off from loan default ideally below 10%, and • gaining a full understanding of 'cost of sales', netting out cross subsidies that come from shared premises with PBCB and other sources. The response to the first of these was creating the on-line Smarterbuys Store (detailed below).

[14] http://www.friendsprovidentfoundation.org/evaluation-of-the-store-a-pilot-rent-to-own-scheme-in-county-durham

Smarterbuys Store Franchise (National)



Model:	• Online outlet (with catalogue) • Franchised model with product management centrally • Outsourced finance (capital from stakeholders) • Restricted access (only open to residents of partners – except Bradford)
Established:	2014
Partners:	The Smarterbuys Store (SBS) a registered charity, is a joint initiative of Derwentside Homes Ltd, Prince Bishops Community Bank (PBCB) and Northern Housing Consortium (NHC). As the franchisor, Smarterbuys Store sells franchises to local stakeholder partnerships, predominantly housing associations.
Area of operation:	National coverage – with 12 local franchises.
Scheme summary:	The Smarterbuys Store grew out of The Store (see above) following the need to scale the business to make operations more viable. It provides an on-line store for household goods, with companion credit, offered as a franchise scheme primarily to social housing landlords and local authorities. It requires an upfront, one-off cost of £15,000 to buy the franchise, plus £1,500 per annum to maintain the franchise and website. This buys a personalised Smarterbuys Store branded website (with potential to customise bolt-ons, such as, promoting local social enterprises and signposting to local services), marketing and promotional materials. Franchisees have to provide a loan fund of up to £75,000 which attracts interest and is match funded by Charity Bank with £50,000 (making £125,000 in total). This is the 'loan pot', ring-fenced for use by the particular social housing tenants/local authority. All weekly payments received are paid back into the specific loan pot and can be recycled for further loans.

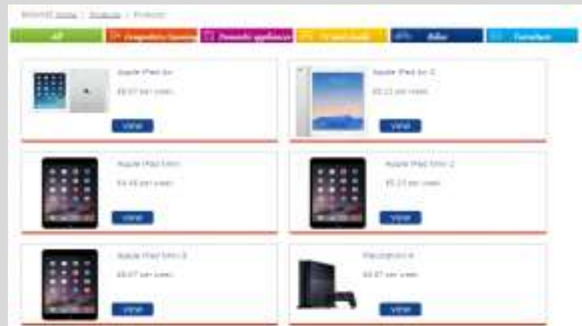
	Twelve franchises throughout the UK are currently in place. There is an ambition to grow to take advantage of further wholesale bulk buying. The wholesale/retail margin is the principle source of income, covering all costs and provisioning for bad debt (which is currently less than 8%). Goods can be viewed online and via catalogue, and can be ordered online and over the phone. With one exception, Bradford City's one stop shop (supported by the council), there are no physical shops. The consortium (franchisor) holds the relevant consumer credit licences and fulfils other FCA requirements.
Lending provision:	The 'loan pot' is administered by SBS, who process all the loan applications, carryout affordability checks and manage loan collections. When customers take loans to buy goods, typically repayable over 104 weeks, they are charged typically at the credit union interest rate of 24.6% APR. Thus far, when a customer is in default, every effort is made to renegotiate the loan. Repossession of goods is the last resort. Weekly loan repayments carry a 25p savings element. This sum, usually totalling £26 at end of loan period (104 weeks) can be transferred to a local credit union, however many customers save in excess of this. This is designed to connect consumers with their local credit union and help establish a savings culture.
Product management /operations:	Smarterbuys Store provides goods via a website and catalogue, teamed up with credit to buy the goods. A wide variety of goods (white goods, furniture and electrical items, including tablets) are delivered free of any additional charge to housing association tenants, with installation available for a small fee. Take home prices undercut BrightHouse, BAYV and Perfect Home by up to 40%.
Outcomes:	Not yet available, however The SmarterBuys Store (and The Store) have lent in excess of one million pounds since their launch.

Furniture 4U (Bolton)

Model:	• Retail shop outlet (planned website and catalogue) • Outsourced product management to local suppliers • Outsourced finance partner (under same roof) • Open access (available to all within geographical area)
Established:	2015
Partners:	Bolton Council (Lead partner), Bolton Homes and Hoot Credit Union
Area of operation:	Bolton
Scheme summary:	This is a Council-led development in which three local household goods suppliers and the local credit union, Hoot, have been brought together with Bolton Homes. Importantly, it offers a high street shop that co-locates Hoot Credit Union and Furniture4U (together with Age UK office) so that it provides a seamless user interaction. It has been a long-term Council led aspiration to create a RTO alternative, taking 2.5 years 'gestation period' and 9 months development / implementation to get off the ground. Bolton Homes provided the capital for shop refurbishment (£350,000 for entire building with 3 providers) and Bolton Council provided the development time and initial operational budget (£30,000 for initial branding, £75,000 over 3 years for marketing, and funding for one member of staff). The concept is appeal to a wide customer base, not to just low income clients. Furniture 4U aims to operate like a retail business with longer opening hours, including Saturday opening, a high degree of customer service and focus on sales-led service. At the moment this is somewhat at odds with the current provision of only 'essential' goods (not games consoles, mobile phones, laptops and tablets etc.)

Lending provision:	Customers can choose to pay outright, either in full or a proportion, or can purchase goods and repay weekly/monthly. Credit provision is provided via Hoot Credit Union which importantly is co-located within the same high street location. Once the user has chosen the products, they can complete a loan application with external checks undertaken and a decision given immediately. Loan capital is provided by Hoot Credit Union, but it does not own the products so if the loan defaults it could not repossess the goods. This is due to the loan agreements being Debtor, Creditor and Supplier agreements, which unlike most credit union loans are regulated by the Consumer Credit Act (FCA licensed). These have specific pre-sale and post-sale procedures and information. Hoot credit union had to apply to the FCA/PRA for variation of permission. Loans are provided at 42.6% APR. The average loan size is £357, typically over 1 year. Currently, approximately 50% of loan applications are refused. Bolton Council is considering underwriting loans for more risky residents (that fail Hoot's credit assessment process) in order to expand business.
Product management /operations:	The Council identified three local suppliers to partner with and include a: • white goods provider, • furniture provider, and • carpeting and floor covering provider. These manage and deliver all aspects of product operations. The Council negotiated product lines, wholesale and retail prices, delivery, installation and customer aftercare arrangements. It is hugely important that the correct partners are identified and managed – each needs to have a good product range and ability to provide quality customer service at all points of the process. They must also be able to provide low cost budget product options as well as more premium lines.
Outcomes:	It is very early days but currently there are low customer numbers with 14 approved in the first three months and a total amount lent under £5,000 with application approval just under 50%.

Own Your Own (Newcastle)



Model:	• Online outlet (and catalogue) • Outsourced product management (with local supplier) • Outsourced finance partner • Restricted access (only open to residents of partners)
Established:	2014
Partners:	An initiative of **Newcastle City Council**, and **Newcastle Furniture Service**, part of **Your Homes Newcastle (YHN)** together with **Moneywise Credit Union**, as the credit partner.
Area of operation:	Currently covers YHN residents (30,000) and two other housing associations.
Scheme summary:	Own Your Own grew out of YHN's in-house furniture service, started in 1989, which rented furniture packs to tenants, typically those in receipt of housing benefit. It offers a wide range of household goods to residents of the three housing associations. All prospective customers must have a good standing with their landlord and meet the credit criteria set by Moneywise Credit Union. Goods are accessed by a brochure/catalogue and website, and can be ordered with NFS by these same methods or over the phone and if required loans are provided by Moneywise Credit Union. Own your Own has expansion plans with other housing associations in the NE and nationwide.
Lending provision:	Moneywise, a credit union covering the North East, handles the loan side, if that is required by customers. Moneywise uses its own capital to fund loans and provides online credit assessment, decision making and credit control. Moneywise owns the goods until they are paid for (but, to date, it has never tried to retrieve goods), and all outstanding monies are owed to Moneywise regardless of individual circumstance (e.g. moving, stolen). Therefore, it carries all the credit risk.

	Currently, it is exploring with housing associations the underwriting of some higher risk tenants who would otherwise be declined. Customers are only allowed one loan at a time – with repayment terms over 1 or 2 years, depending on the product. YHN Tenants can only be introduced to Moneywise if they have had a clear rent account for 3 months, enabling Moneywise to increase their lending tolerance slightly. Currently, the default rate is approximately 12%, which is covered within by an admin charge.
Product management /operations:	YHN have experience of renting furniture packs to housing tenants and expanded this to create NFS which operates Own Your Own. It works with a local private supplier which it has developed long-term links with for a number of other schemes. It directly delivers all the goods to customers and is responsible for product delivery and customer aftercare. The wholesale-retail margins are very low and do not cover the cost of operating the scheme.
Outcomes:	Limited data and evidence as take-up levels are relatively low.

Fair For You Enterprise CIC (National)

Model:	• Online (and catalogue), with appliances coming direct from named brands • Outsourced product management to large national suppliers • In-house credit • Open access (available to all who meet affordability criteria)
Established:	Soft launch in November 2015, with formal launch in February 2016.
Partners:	Funded by Esmee Fairbarin Foundation, Tudor Trust, Garfield Weston Foundation, Barrow Cadbury Trust and Joseph Rowntree Foundation.
Area of operation:	Proposed national delivery but initial launch focusing in West Midlands.
Scheme summary:	Fair for You is a not for profit lender, providing small loans to lower income households to purchase essential household items. It has been under development for the past two years, and has built its business model on extensive research about circumstances and preferences of people currently using high cost RTO. As such, it offers a different approach to other new RTOs, which typically are 'Brighthouse lookalikes'. Primarily aimed at low/medium income workers ('working poor') who typically have experience with online short term credit, it provides flexible, affordable loans to buy household items. Early partnerships are with Hotpoint, Indesit and Whirlpool, with further product and retail arrangements under discussion. Customers browse online for products, add items to basket, check cost of purchase (all charges are very transparent) and apply for a loan. Fair For You staff call potential customers to check affordability. Once approved, items are delivered within 72 hours. Once the pilot has been tested, the scheme will be open to customers throughout the country. If a Council, or Housing Association wishes to promote the scheme, Fair for You will provide support and advice, and an own

	branded landing webpage can be agreed for a small fee, together with Council branded catalogues and various marketing materials, content and guidance. In the pilot areas, digital community access points are under development to help address digital exclusion.
Lending provision:	Finance is provided directly from Fair For You Enterprise CIC using capital sourced from a variety of funders and finance partners. Typically loans offer weekly repayments, with some degree of flexibility, such as taking a loan repayment break over Christmas. Interest is set at 3% per month, 42.6% APR, which is the following the credit union ceiling rate. Repayment is via Continuous Payment Authority taken from a customer's bank card.
Product management /operations:	Fair For You has developed direct arrangements with various large manufacturers to supply high street branded white-goods. They are in detailed discussions regarding beds, cots and sofa beds, and a furniture range, with the possibility of technology being added on after that. Goods will be sold with no additional fees, just the standard warranty and insurance bolt-ons, as requested by the customer. Fair for You will receive a commission from the retailer as part of its business model. The products are displayed on the FFY website via white labelling of the retailers websites. All delivery, installation and customer aftercare are dealt with by the retailer.
Outcomes:	Commenced operations in November 2015. Thus far, on average 10-15 customers per day. Around 25% of applicants are approved for finance.

Challenges for delivering a responsible RTO

Having examined five examples of RTO alternatives being operated in various parts of the country, there are a number of observations on the various delivery models and the particular challenges. There are critical choices around lending capital/access to loan credit for customers, selection and provision of goods (wide or narrow range), product operations, marketing, customer base (open access or restricted) and customer profile (lending risk and default).

On the two main dimensions of lending capital and provision of goods, this gives rise to four models, all of which we see in place:

- High street shop, In-house (affiliated) lending facility (Example: *The Store, Durham)*
- Online shop (goods sourced directly from wholesale), Own capital (Example: *Fair for You)*
- High street shop, out sourced lending facility (Example: *Furniture 4U, Bolton)*
- Online shop, outsourced (but attached) lending facility (Example: *Smarterbuys Store, and Own Your Own, Newcastle)*

Lending capital	**In house** Secure own lending capital (e.g. raised from investors)	**Out sourced** Use existing providers of lending capital (e.g. credit union or CDFI)
Provision of goods	**High street shop** Goods on display	**Online shop** Sourced from various suppliers

Credit provision

One of the key considerations is who will deliver the lending facility with the main options being:

- **In-house loan delivery directly by the social RTO firm** (such as with Fair For You).
  This is a significant undertaking that requires the establishment of a new lending vehicle including the effort and time to obtain regulatory (FCA) permissions as well as securing sufficient capital finance from various investment sources.

- **Outsource credit delivery to an existing social lender** (such as with Own Your Own, Furniture4U, The Store and Smarterbuy Store).
  As in the majority of the examples, partnering with an existing provider of affordable credit appears to be the preferred method. This negates the need for (most of the) regulatory requirements, benefits both from the lenders ability to raise capital through their existing channels as well as its lending experience and infrastructure. It also has the advantage of linking these borrowers with other fair and affordable credit and savings products. This is typically either via a credit union or Community Development Financial Institution (CDFI). On the side of disadvantage, however, is the need to stay under the interest rate ceiling, set by government for credit unions (not applicable with CDFIs) and work to their lending criteria, approach and risk appetite.

No matter who provides the borrowing, a number of important lessons have emerged. Firstly, to the customer, the selection of the household products and the credit application/decision needs to be as seamless as possible, even if it is actually operated by two different entities. The ability for RTO staff to undertake the lending assessment is an important method of achieving this. Secondly, the application process needs to be straightforward and loan decisions need to be made almost immediately by accessing the social lender's systems. It is extremely important that this should have some degree of automation and access external credit scoring and reference data and therefore the selected credit provider will require appropriately developed IT technology.

Lending capital

Depending on which credit provision route is pursued and which credit partner is selected will have a large bearing on whether local stakeholders and/or funders need to invest funds to either provide the capital for lending or offset the lending risk by establishing an underwriting agreement.

If the lending is undertaken in-house (such as the model developed by Fair For You), or via a franchise arrangement (such as the Smarterbuys model) significant capital for lending will definitely need to be secured. Equally, using an outsourced credit partner to deliver the lending could still require funding to be provided for lending capital. This will depend on the social lender selected, their current available capital levels and their willingness to lend for this type of purpose/product. For example, Moneywise and Hoot utilise their own capital for lending and see this as an effective method of generating demand for borrowing. Yet, others such as Prince Bishop (for Smarterbuys, not the Store) and Five Lamps require all lending capital to be provided as a new ring fenced pot.

Finally, a number of those consulted were considering establishing either specific lending capital or underwriting agreements to cover potential defaults that would enable slightly less cautious lending. This would almost exclusively be used for more medium-high risk applicants who would ordinarily fall short of the social lender's traditional credit assessment, thus providing greater flexibility to provide credit to, as one interviewee put it, 'those in the grey area'. At the moment, a significant number of credit applicants are being turned down as they are judged to present an unacceptably risk but could still be creditworthy and loans provided responsibly.

Delivery outlet

One of the key choices is how the household goods are promoted and accessed by customers with a combination of available options:

- **Retail shop –** Creating an impressive high street retail outlet that mimics the look and feel of successful firms like BrightHouse or Perfect Home is seen as essential by a number of those consulted. Many examples that offer open access in a set geographical location have launched some form of shop outlet to both promote the goods and enable product orders/loan applications to be made. Yet, the main consideration is the huge associated costs both in terms of start-up to acquire, fit-out the premises and purchase stock but also the significant ongoing overheads in relations to rent, business rates (unless discretionary rates can be secured) and staffing. To be financially viable, income generated primarily from profit on the mark-up on the product, which given the large overheads would likely require sizable grant funding at least in the initial years until sales volume grew substantially.

- **Online provision -** There are a number of examples of RTO alternatives being delivered online (or those with shops planning to extend to online services, just as BrightHouse has). The minimum requirement would be the development of a website that enables an online loan application to be made and ideally an automated assessment and decision making system that provides the loan outcome together with product navigation, selection and ordering process. It needs to be considered in relation to the customer profile of RTO clients and would these be effectively served in terms of access to purely online facilities. Fair for You's experimentation with digital community access points is an interesting development.

- **Catalogue delivery** – whether RTO alternatives are delivered primarily through a retail shop or via a dedicated website, almost all the examples also had some form of complementary catalogue delivered to potential customers. This works particularly well for restricted access models especially those offered to social housing residents. Given the demographic nature and behaviour of the target group, it would seem a promotional brochure is essential. Considerations would include distribution channels via local stakeholders, the need for materials to be updated at regular intervals and that it would also likely require a comprehensive facility for customers to both apply for credit and place orders over the telephone.

Product operations

- **Developing in-house product operations** – this would appear to be by far the most challenging and ambitious option for a new scheme, particularly as other RTO alternatives have shown that it requires scale and sale volumes to make it financially sustainable. It also needs significant upfront and ongoing costs to house products and maintain stock levels, delivery, and customer aftercare. This option would only work if there were a subsequent strategy to expand to a number of other locations within the region.

- **Outsourcing by partnering with an existing RTO provider –** one far easier option would appear to be the piggy backing on an existing RTO alternative and utilising their suppliers, product lines and delivery and aftercare arrangements. This could be achieved either by purchasing a formal franchise (such as Smarterbuys) or approaching a particular scheme (such as Own Your Own or Fair For You) to utilise their particular product supplier arrangements. This route would be a simpler route but may be paying a premium for the behind the scene operations, have limited scope for tailoring to local requirements/future needs and restrict the ability to generate income through product mark-up or commission from sales.

- **Creating direct arrangements with individual suppliers** – this option would require the development of a series of relationships with either local/regional businesses (such as with Furniture 4U model) or national firms and manufactures (such as with the Fair For You model) to secure arrangements to supply and deliver products directly to customers. This would enable the selection of certain product lines and items based on quality but also the best deal to maximise profit and may also enable a commission fee per order to be secured. It would be important to select and work with responsive partners that can deliver high quality customer service as well as the range of products needed. This approach could also be attractive from a local economic and employment perspective.

Customer base

A final consideration is who is able to access the service, should it be open all residents in a particular locality or be restricted to certain users.

- **Open access** – with the importance of scale and sale volume for the various models, an open access model would appear to provide the greatest scope for attracting the maximum interest and use of the service, thus supporting greater financial sustainability. Practically, this option may also be necessary given the type of stakeholders, such as local authorities, involved in any partnership who may require it to reach and serve all people in a given area.

- **Restricted access** – a number of case studies have constrained access to the service. This is especially true of partnerships exclusively made up of social housing providers who deliver a RTO alternative soley for their residents and is confined primarily from a wish to focus resources only at their own users. However, this should not be seen as the only way of achieving such an outcome and this aim could still be achieved through an open access model but by ring-fencing specific funds targeted at certain users.

Conclusion

With the prospect of tightening regulation for the RTO sector, it should not only provide greater protection for consumers but also provide a more level playing field for better value alternatives. Yet, as previous investigations have highlighted, there is a distinct shortage of mainstream ethical alternatives and that those social providers already operating lack extensive reach and scale to make a tangible impact.

This report highlights some exciting and innovative developments in the RTO sector showcasing a number of the ethical new entrants that enable consumers to purchase household goods in a fairer and more affordable way. Operating with slim margins these social businesses are still able to offer products that consumer want using credit at a lower cost to the consumer. They are also intent on adopting fairer practices and showing greater forbearance when customers struggle to repay, and for the most part, they do not attempt to regain the goods.

Since most of these new entrants are in their early stages of running the business, it is still far too early to comment on their overall impact and their sustainability. All models are shown to require differing degrees of investment to both establish and operate but certain approaches are far more costly and therefore will require significant ongoing resource and support. Suffice to say, it is going to be a challenge. The nature of the business and serving predominantly sub-prime customers is high risk but equally the benefits of providing a responsible alternative are important for both the individual household and the communities and economies where they live.

By exploring the current crop of social providers offering alternatives, it is clear that there is no single approach that offers the perfect delivery solution. Instead, there are a number of options in the way alternatives are developed and delivered that match the specific local circumstances and aspirations. One common feature in all the featured case studies is the need to involve a range of stakeholders to both support and facilitate delivery as well as to achieve great beneficial impact. This is critical when contemplating the establishment of a RTO alternative. It should not be embarked upon alone but be a partnership bringing together of local authorities, social housing providers and other third-sector organisations looking to address this issue.

Ultimately, it is hoped that the research stimulates debate, providing further focus on the rationale for local intervention and providing a starting point for anyone considering the options for a RTO alternative. Anyone considering what they can do to address the problem of high cost RTO firms can utilise the various models outlined in the report when considering the most feasible and appropriate solution.

Appendix

Appendix 1 - Research methodology

Our research approach to produce the first stage of the feasibility study consists of the following:

I. Developing a picture of RTO need and detriment:

We have utilise a number of relevant studies and websites to help develop an understanding of; the profile and behaviours of RTO customers; estimate the potential scale of RTO market and develop evidence of consumer detriment – these include:

- All Party Parliamentary Group on Debt and Personal Finance (2015) – 'Report from the inquiry into the Rent to Own sector'
- Alexander, N, and Grimes, A, (2013) - The Store: An Evaluation of the first year of trading activity of The Store a rent-to-own service in County Durham (Friends Provident Foundation)
- Bright House Ltd (2015) - Annual Accounts (2007/08 to 2014/15)
- Gibbons, D (2012) - Improving Practice in the Rent to Own Market
- Perfect Home Holding Ltd – Annual Report (2007/08 to 2014/15)
- Buy as You View Limited – Annual Report (2007/08 to 2011/12)
- View Co 1 Limited – Annual Report (2012/13 to 2014/15)

II. Summary of alternative RTO models

We have explored the various examples for delivering an alternative to the RTO offer within other local authority area that could be transplanted. We identified a number of initiatives that have attempted to combine the provision of household goods and access to affordable loans that can challenge the main RTO firms.

We consulted directly with a number of these initiatives together with a number of individuals with knowledge of the RTO sector to harvest information and help develop a number of case studies of relevant models of delivery, including:

- **Andrew Breese**, Chief Executive Officer at **Moneywise Credit Union** (www.moneywise.org.uk)
- **Andrew Waters,** Head of Sales and Marketing at **Your Homes Newcastle** (www.ownyourown.uk.com),
- **Angela Clements**, Chief Executive Officer at **Fair For You** (www.fairforyou.org.uk)
- **Chris Canham**, Assistant Manager at **Hoot Credit Union** (www.wisewithmoney.org.uk) .
- **Chris Smyth**, Chief Executive at **Leeds City Credit Union** (www.leedscitycreditunion.co.uk)
- **Claire Donovan**, Communication Manager at **FRC Group** (www.frcgroup.co.uk)
- **Donald Stark,** Managing Director at **HomeMakerUK operator of Our House** (www.ourhouseshop.co.uk)

- **Jacqui Grimes**, SmarterBuys Programme Managers at **Northern Housing Consortium** (www.sbstore.org)
- **John Morrissey,** Value for Money Programme Manager at Bolton Council, Head of Transformation at **Bolton Council operator of Furniture4U** (www.thesquarebolton.co.uk/furniture4u)
- **Lesley Richardson,** Chief Executive Officer at **Prince Bishop Community Bank operator of The Store** (www.princebishopscommunitybank.org.uk)
- **Niall Alexander**, Financial Inclusion Consultant and Evaluator of 'The Store'.