

25 The North Colonnade
Canary Wharf
London
E14 5HS

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

Nick Smith MP
House of Commons
London
SW1A 0AA

15 September 2017

Our Ref: 170906X/Y/Z

Hansard Ref: 7582, 7583 & 7824

Dear Mr Smith,

Re: Parliamentary Questions – 7582, 7583 and 7824

HM Treasury has transferred the following Questions to the Financial Conduct Authority (FCA) as the regulation of consumer credit, including rent-to-own (RTO) and high-cost short-term credit, is a matter for the FCA. I will respond to each question in turn.

To ask Mr Chancellor of the Exchequer what assessment his Department has made of the level of interest rates charged on rent-to-own goods.

The FCA has assessed the level of interest rates charged as part of the high-cost credit review launched in November 2016 (<https://www.fca.org.uk/publications/calls-input/high-cost-short-term-credit-price-cap>). The intention of the review is to build a full picture of how particular products are used, how they may cause harm and, if so, to which consumers. This will help us to assess whether we need to make further policy interventions.

In this review, the FCA has considered a range of issues that could cause harm to consumers, including the prices for services. In our Feedback Statement, published in July 2017 (<https://www.fca.org.uk/publications/feedback-statements/fs17-2-high-cost-credit>), we set out the evidence that shows RTO services do have some of the highest costs of credit, but there are a number of other services where the costs are higher on a daily basis.

In the Feedback Statement, the FCA has identified RTO as a priority for further action, and has committed to a specific piece of work on the sector. The objective of this work is to design interventions that will address the concerns we have identified.

To ask Mr Chancellor of the Exchequer what assessment his Department has made of the potential merits of applying a price cap on rent-to-own goods.

The FCA has a range of powers in order to provide consumers with appropriate protection while improving how a market works. Our interventions can range from informational remedies that aim to ensure that consumers are well-placed to make better decisions about products and providers, through to requiring risk warnings to be provided to consumers. Where necessary we have more interventionist measures that seek to directly change the terms on which services are sold to consumers, including the price.

Our high-cost credit review found that, while sharing certain characteristics with payday lending, high-cost credit products vary in how they are used, and by whom. This means that the solutions need to be tailored to provide the appropriate level of protection rather than simply applying a price cap to all high-cost credit products.

In terms of the RTO sector, as set out in our July Feedback Statement, we do not believe that price capping would be an effective intervention in this market given that the goods linked to the agreements are not regulated by the FCA. This means that any restrictions on the cost of credit could be avoided by simply increasing the price of the goods.

The FCA is looking at a number of issues that may cause consumer harm across the high-cost credit market and how to best address these. Where intervention is needed and justified, we aim to consult in Spring 2018 on proposals concerning overdrafts and other forms of high-cost credit.

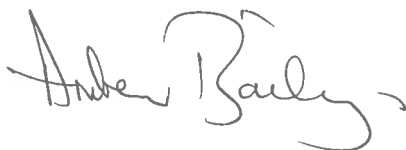
To ask Mr Chancellor of the Exchequer, with reference to the Financial Conduct Authority's High-cost credit and review of the high-cost short-term credit price cap Feedback Statement, published on 31 July 2017, whether his Department has a definition for essential household goods.

The FCA Handbook does not contain a formal definition for 'essential household goods'. We are aware that other bodies, however, have adopted various definitions of essential household goods, and as part of our approach, we will consider these definitions.

In particular we note the definition offered by the All Party Parliamentary Group (APPG) on Debt and Personal Finance following its 2014 inquiry into the RTO sector. In its 2015 Report, the APPG concluded that essential household goods included furniture and basic household appliances.

The FCA will continue to take a pragmatic approach which recognises that what is regarded as 'essential spending' will differ according to the circumstances of each borrower.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Andrew Bailey', with a stylized flourish at the end.

Andrew Bailey
Chief Executive