BrightHouse submission to the APPG on Poverty

BrightHouse

BrightHouse offers access to normal household goods to those who can't buy outright and who are excluded from mainstream credit. We do this in a way which is affordable, flexible and which supports them should they get into financial difficulty.

Ours is a high-street business with 276 stores, some 2,600 staff and 200,000 customers.

In October 2017, BrightHouse reached an agreement with the FCA to repay £14.8m to some 250,000 customers for historic, non-compliant business practices. This programme is now complete.

BrightHouse was granted authorisation by the FCA in February 2018 following an extended period of scrutiny by the regulator, which has seen the introduction of new policies and practices that have led to a shrinking of the business. At the same time, the company completed a refinancing deal with its major bondholders that secured the business's future.

Rent-to-Own

Rent-to-own traces its roots to the 1960s when the expense and unreliability of the old valve TV sets made renting commonplace. Thorn EMI established the business in 1994 as a sister company to Radio Rentals, and the BrightHouse name was introduced in 2002.

Until recently, there were three rent-to-own businesses in the UK. However, Buy As You View went into administration in 2017 and PerfectHome briefly entered administration in 2018, as a result of tightening market conditions and regulatory restrictions.

Rent-to-own is a form of hire purchase that enables consumers to buy household goods in instalments over a period of time, usually between one and three years.

It is used, and appreciated, by consumers on lower incomes who cannot afford to buy items outright, and who have impaired credit files that prevent them from accessing alternative sources of credit.

It is popular because it enables the customer to have use, and ultimately ownership, of essential household goods that they would otherwise not be able to get. Because the items are of high intrinsic value and expensive to replace or repair, we offer customers the option of taking out insurance and warranties on the items.

Our contracts are hire purchase, not credit contracts. One of the advantages of this is that, if the customer wants to exit the contract and cease making payments at any time, they can simply return the item to us (or, more accurately, have it collected).

Our Customers

BrightHouse customers tend to have lower incomes and impaired credit files. A typical customer would be a parent in their 30s, living with their partner and children in private rented or social housing. They are, or have been, regular borrowers of money, but nearly always struggle to access other mainstream or alternative sources of credit. If they do have another source of borrowing, it is typically home collected credit.

While our customers appreciate the service and the variety of products we offer, the main reasons they come to BrightHouse are:

- We provide them with access to items they can't get anywhere else and,
- We provide weekly payment terms, which are affordable to them.

If BrightHouse did not exist, there would no other equivalent business to which our customers could go to replicate the service we provide. In other words, they would lose 'access' and suffer increased exclusion.

<u>Key customer statistics</u>:

- 80% of BrightHouse customers say that they would not have been able to afford to buy their product outright.
- 50% of customers are the 'sole-breadwinner' in a household.
- Two thirds of customers have at least one child in their household.
- Two thirds of customers have taken out another loan, with home-collected credit being the most common source (40%).

<u>Key customer opinions:</u>

- 88% of BrightHouse customers agree that borrowing money or getting credit is difficult for people with financial circumstances like theirs.
- When asked which other sort of lender they would consider borrowing from, fewer than 10% of customers answer high-street banks or credit unions.
- The most popular alternatives to rent-to-own are home-collected credit (40%) and sub-prime credit cards (28%).
- For 88% of customers, the weekly cost of a household item is the most significant factor in their decision to buy it.
- 82% of customers think the service they receive from BrightHouse is either good or excellent.
- 75% of customers would recommend BrightHouse to their family and friends.

Transparency

BrightHouse's pricing structure is totally transparent. Every element of the cost, including the overall and the weekly cost, is spelt out clearly on price tickets in store and on the website. The typical customer journey begins online with a small number of customers completing the entire process online. However, the vast majority come into a store and complete the process face-to-face with a member of staff. This may be because they want to inspect items before buying, or very often, it will be to complete the identification and verification part of the application process.

To our customers, we are a retailer not a credit company. They come to us to buy household goods and technology items. However, because they cannot afford to buy items outright and have limited-to-no other sources of credit, they also need affordable finance terms that bring these items within their reach.

Affordability

Before any customer enters into an agreement, we conduct a thorough affordability check. This entails a rigorous assessment of incomings and outgoings so we can satisfy ourselves that the financial commitment the customer is making is affordable. We will only allow a customer to enter into an agreement once they have passed an affordability check. Our checks include a credit reference agency and income verification. If a customer's income cannot be verified electronically, they must provide bank statements so we can establish income receipts manually.

We also capture 16 expenditure lines as part of an in-store customer interview, each of which is then validated through a "challenge and response" process. As expenditure items are input, our staff members are prompted to query any items that fall below an associated "trigger" value as calculated by ONS data. For an application to continue, every expenditure line must have a plausible value. Where there are questions or uncertainties, customers have to provide documentary evidence before their applications can proceed.

At the end of every application process and affordability check, we insist that the customer must be left with a minimum 'buffer' of £100 per month. This means that we'll only lend to a customer when their proven income is more than £100 greater than their expenditure per month. All their other credit commitments are included in the expenditure figure. This is our backstop affordability check to ensure that repayments will not have negative knock-on effects on other aspects of the customer's household budget.

Flexibility & Forbearance

Unlike with credit, rent-to-own customers can exit their contract with us at any time and thereby avoid becoming indebted. This is a crucial point that is often missed by commentators.

If, in spite of our affordability checks, a customer starts to struggle with his or her weekly repayment, the first thing we do is ask them to get in touch straight away so we can see how we can help. We will discuss their circumstances and can offer a wide range of forbearance options including:

- A simple commitment to pay at a later date
- Rewriting the agreement to add missed payments to the end of the agreement at no additional cost
- Extending the term of the agreement while reducing the weekly payment again at no additional cost

Our late payment fee -- £12 per customer for a missed payment until the account is back in order -- can be avoided simply by contacting us before the payment is due and making a commitment to pay on a later date.

However, if a customer's circumstances change to the extent that they can no longer afford an item or need to reprioritise their spending, they can return it to us at any time. The agreement ends there and then and, unlike with a credit agreement, there is nothing further to pay. There is no original borrowing that needs to be repaid. We take back the item and they are free of any commitments and there will be no default reported to the credit reference agencies.

Pricing & Cost

Our prices comprise three principal elements:

- Product price
- Interest payments
- Add-ons (insurance and service cover)

Product price
The white goods, electronics and household furnishings we sell are priced comparably to other high street retailers who sell in similar volumes to us. Inevitably, there are some price fluctuations for products owing to a wide range of factors. These include: the purchase price offered by the manufacturer (not all retailers get the same prices and retailers buying more of an item will get a cheaper price); warehousing and delivery costs; and changes in individual retailers' pricing strategies from one week to the next (NB. it is a competitive space and the concept of 'recommended retail prices' no longer exists).

Interest payments
In all lending, the level of interest charged is a factor of risk and not income. The risks of the lending we do is substantially higher than the norm as evidenced by the proportion of our customers who will cancel their credit agreement or ultimately default on it.

However, through the use of hire purchase agreements, robust affordability assessments, credit risk management, and flexibility and forbearance, we are able to keep our rates much lower than other commercial lenders who lend to our customers. While doorstep lenders charge APRs in the hundreds and payday lenders charge in the thousands, our Representative APR is 69.9% and our APR range is 69.9% to 99.9%.

Add-ons
We do require that the product is insured when in the customer's home, although the insurance doesn't need to be supplied by us. We also offer a 'service care' package that guarantees quick repair and new-for-old replacement when products cannot be repaired. Our insurance and service cover are specifically designed to meet the needs of our customers with, for example, no excesses, call-out charges or claims limits. In addition, the service standards on the service cover significantly exceed those provided under any manufacturer's warranty.

These forms of cover are highly valued by our customers to avoid the risk of insurance excesses and unaffordable repair bills further down the line.

Commentators often point out that customers could reduce the total cost they pay by not having insurance and relying on the manufacturer's warranty. This is true, but the majority of customers will still choose these add-ons because they recognise that the cost of *not* having them could end up being much higher. In many instances, when the washing machine or cooker breaks down, it is highly impractical and costly to wait for repair or replacement under the manufacturer's warranty, which can take weeks. The options in these circumstances are either a repair bill (assuming the item can be fixed) or the additional cost of having to cater for the family without a cooker or use a launderette. Neither is financially attractive which explains why our service cover is popular.

The cost of lending
BrightHouse is 'high cost' because of the inherent risks and costs of lending to our customers, who have few other options because so-called mainstream lenders choose not to serve them. Examples of these risks and costs include:

- More than a fifth of our customers are unable to make electronic payments because they don't have a bank or e-payment account. We provide an extensive network of stores to allow customers to make their regular payments in cash. Running a portfolio of high street stores is a significant overhead but the physical environment and face-to-face element are valued and important aspects of the service.

- Over an extended period, roughly one third of our customers will choose to return the product during the term of their credit agreement. This is something we allow our customers to do without penalty. It could simply be because they no longer want the item or because of a change in their household finances, a customer can no longer afford the weekly payment and need to reconfigure his / her outgoings. Whatever the reason, they simply stop making payments and request that we come and collect the item. There is nothing further to pay, no collection cost and no default reporting to credit reference agencies. Again, the cost of delivering and installing high-value items like TVs, washing machines and sofas into a customer's home is costly, as is collecting it again if the customer then decides they no longer want it. Out of necessity, it is a high service and therefore higher cost business model.

- Over an extended period, roughly one sixth of our customers will default on their credit agreement during its term. This is part and parcel of lending to a riskier customer demographic. We take on this risk because we know our customers need access to our products, in spite of the credit risk they present. Crucially, our product anticipates customer misses and is designed to accommodate them. Flexibility and forbearance are built into the proposition, which prevents customers getting into unaffordable debt.

Conclusion

The products we sell are priced competitively relative to comparable high-street retailers. Our customers do pay a premium for credit compared to mainstream credit prices, but our credit costs are highly competitive with those of other equivalent suppliers in the high-cost credit market.

Like-for-like comparisons of the insurance and service cover elements of our product are more difficult to make, but we are confident they are competitive with those of other suppliers who provide the kinds of specialist products our customers need.

What is different about BrightHouse is, uniquely, we bring the product, the hire purchase contract, the insurance and the service cover elements together in one package. This is what enables us to give customers access to the products they cannot easily access from anywhere else. It is a product designed around the customer's need for, first and foremost, access, second, an affordable weekly payment and, third, the avoidance of unaffordable future costs when and if items need repair or replacement.