Summary of ch\_05B.pdf

Chapter 5B: Cost Cap for Rent-to-Own Agreements - Summary

# Overview

This chapter establishes comprehensive cost cap regulations for rent-to-own (RTO) firms, implementing price controls and benchmarking requirements for RTO agreements entered into from April 2019 onwards. The regulations aim to protect consumers by limiting the prices RTO firms can charge for goods, delivery, installation, and credit, ensuring they align with broader market prices.

# Key Points and Main Findings

## Application and Scope

* Effective dates: Applies to RTO agreements from 1 April 2019 (new goods) or 1 July 2019 (existing goods with price increases)
* Extended deadline: Micro-enterprises given until 1 October 2019
* Coverage: Applies to new RTO agreements and variations/supplements involving additional goods
* Exclusions: Does not apply to variations that don't involve new goods supply

## Price Benchmarking Requirements

* Cash price cap: RTO firms cannot exceed benchmarked prices for new goods
* Benchmarking methodology:  
    
  Must find three comparison prices from non-RTO retailers  
  Use median price (or highest if one is from retail revolving credit business)  
  Individual benchmarking required for each item (except bundles)  
  Comparable goods may be used if identical items unavailable
* Must find three comparison prices from non-RTO retailers
* Use median price (or highest if one is from retail revolving credit business)
* Individual benchmarking required for each item (except bundles)
* Comparable goods may be used if identical items unavailable
* Special provisions: Alternative benchmarking for technologically new UK market goods
* Timing: Benchmarking required initially, upon price increases, and at least annually
* Must find three comparison prices from non-RTO retailers
* Use median price (or highest if one is from retail revolving credit business)
* Individual benchmarking required for each item (except bundles)
* Comparable goods may be used if identical items unavailable

## Total Cost of Credit Cap

* Maximum charges: Total charges cannot exceed the cash price of goods plus delivery/installation
* Calculation: Sum of all cash prices determines maximum allowable charges
* Enforcement: Excessive charges are unenforceable; customers entitled to full refund

## Compliance Framework

* Anti-avoidance: Firms prohibited from recovering lost revenue through other services
* Documentation: Written policies and procedures required with governance approval
* Record keeping: Must maintain evidence of benchmarking activities
* Competition law: Firms warned against anti-competitive information sharing

## Key Definitions

* RTO agreement: Hire-purchase or conditional sale agreement for household goods
* RTO firm: Business entering into multiple categories of household goods RTO agreements
* Household goods: Items normally found in residential homes (furniture, appliances, electronics)
* Connected agreement: Delivery/installation agreements linked to RTO agreements

# Important Details and Conclusions

The regulations represent a significant intervention in the RTO market, requiring firms to:  
1. Align their pricing with mainstream retail markets through mandatory benchmarking  
2. Limit total credit costs to 100% of the cash price (effectively capping APR)  
3. Maintain robust compliance systems with regular reviews  
4. Avoid circumventing caps through ancillary charges

The chapter emphasizes consumer protection while providing flexibility for legitimate business operations through provisions for comparable goods benchmarking and special treatment of genuinely new products. The enforcement mechanism (unenforceability of excessive charges and mandatory refunds) creates strong incentives for compliance.