



ASIC

Australian Securities & Investments Commission

REPORT 447

Cost of consumer leases for household goods

September 2015

About this report

This report sets out ASIC's findings on the costs charged by providers of leases of household goods. In undertaking our review, we analysed data from two sources:

- advertised price data collected by the Royal Melbourne Institute of Technology (RMIT); and
- a targeted review by ASIC of leases to consumers in receipt of Centrelink payments.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the National Credit Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Contents

Executive summary	4
Findings from RMIT market survey data	5
Findings from Centrelink recipient data	7
A Background	9
Characteristics of a consumer lease	9
The market for consumer leases	11
Purpose of our review of consumer leases	11
Our methodology	12
Our analysis of the data.....	14
B Our findings	17
The amounts charged by different lessors for the same goods vary significantly	17
The financial benefits of a longer term lease are questionable	18
No consistency in total amounts charged for different goods with a similar retail price.....	20
The same lessors charge significantly different amounts for the same goods, in particular Centrelink recipients were charged more than the advertised costs.....	22
Centrelink recipients were charged more than the maximum payable under a small amount credit contract	26
Why consumers may use high-cost leases	27
Small amount credit contracts review	29
C Further work and assistance for consumers	30
Our further work on lessors	30
Assistance for consumers.....	31
Appendix: Enforcement actions and outcomes	32
Key terms	35
Related information	37

Executive summary

- 1 ASIC is responsible for the regulation of consumer leases under the *National Consumer Credit Protection Act 2009* (National Credit Act). A consumer lease is a contract for the hire of goods for a fixed term of greater than four months, where the consumer has no contractual right or obligation to purchase the goods at the end of the lease term. If there is a right or obligation to purchase the goods at the end of the lease term (e.g. a sale of goods by instalments arrangement), the contract is considered a credit contract.
- 2 Under a consumer lease, consumers make rental payments to the lessor, usually on a fortnightly basis, over a fixed term (typically of between 12 and 48 months). Even where the fortnightly payments are relatively low, we found that over the term of the lease, the consumer will pay significantly more than the retail price of the goods and be charged more than a lender is permitted to charge under a small amount credit contract (also known as a payday loan).
- 3 Although under a consumer lease a consumer does not have a contractual right or obligation to purchase the goods at the end the lease, in practice most lessors allow the consumer to either retain the goods (or similar goods) at the end of the contract or gift the goods to a third party, nominated by the consumer.
- 4 ASIC has continuing concerns about the conduct of lessors, despite multiple enforcement actions by ASIC: see the appendix to this report. Misconduct by lessors identified by ASIC has included targeting financially vulnerable consumers with limited access to alternative forms of finance (e.g. consumers in regional communities). We are concerned about the risk of this conduct continuing to occur, given high usage of leases by financially vulnerable consumers, such as those in receipt of Centrelink payments.
- 5 This report sets out our findings about the costs charged by regulated providers of consumer leases. Two key findings are that:
 - (a) different lessors charged significantly different amounts for the same goods (known as price dispersion); and
 - (b) the same lessor would charge significantly different amounts for the same goods for different customer segments (known as price discrimination).
- 6 In both instances, the consumers that are more likely to pay the *higher* amounts are Centrelink recipients, despite having lower incomes as a class and therefore being more financially vulnerable.

- 7 In undertaking our review of the cost of consumer leases, we analysed data from two sources:
- (a) advertised price data collected by the Royal Melbourne Institute of Technology (RMIT) in April 2015 on the total costs charged by nine lessors across 20 categories of common household goods (RMIT market survey data); and
 - (b) a targeted review by ASIC of the total costs charged by two of the lessors in RMIT's market survey—in 69 leases entered into between March 2014 and February 2015 with consumers in receipt of Centrelink payments (Centrelink recipient data).
- 8 This approach meant we assessed the level of advertised costs, as well as the actual costs charged to Centrelink recipients. We compared the total cost of the leases in the RMIT market survey data and in the Centrelink recipient data in a number of ways, including comparing the cost of a lease with a small amount credit contract (also known as a payday loan).
- 9 We did this by calculating the effective cost of the lease as an interest rate (using the formula set out in s32B of the National Credit Code (in Sch 1 to the National Credit Act)).¹
- 10 The Australian Government has recently announced a review of the effectiveness of the laws regulating small amount credit contracts (the small amount credit contracts review), with the terms of reference including consideration of whether any of the provisions that apply to small amount credit contracts should be extended to regulated consumer leases.

Findings from RMIT market survey data

- 11 We used the RMIT market survey data of advertised consumer lease prices to compare the costs charged by:
- (a) different lessors for the same goods (where there was only a small difference in the retail price); and
 - (b) lessors for different goods with a similar retail price.

Finding 1: The amounts charged by different lessors for the same goods vary significantly

There is a significant variation or dispersion in the rental payments charged by lessors in the product categories reviewed by RMIT, both in dollar terms and when expressed as an interest rate.

¹ The methodology is set out in detail at paragraphs 23–38.

Different lessors offered consumers leases for the same goods with significantly different fortnightly rental payments. We reviewed four lease arrangements for identical goods, and found a broad variation or dispersion in the cost:

- in dollar terms, the difference ranged from \$228 to \$1,094; and
- when expressed as an interest rate, in one case the interest rates under two leases for identical goods were 25.88% and 85.33%.

Price dispersion for identical goods in the same market can be an indicator of market failure, and typically has a more significant negative impact on less financially sophisticated consumers.²

Finding 2: The financial benefits of a longer term lease are questionable

In most cases, the total cost of a consumer lease over a two-year term is higher than over a one-year term. For example, the median fortnightly rental payment for a washing machine with a one-year term was \$32.90 (total cost of \$855.40), compared with \$21 for a two-year term (total cost of \$1,092) (based on RMIT data).

Where a consumer is able to lease the same goods (or goods with a similar value) under a lease with either a one-year term or a two-year term, the total cost will usually be less for the lease with a shorter term (given that the consumer will usually retain possession of the goods at the end of the lease, regardless of the term).

Finding 3: No consistency in total amounts charged for different goods with a similar retail price

There was no consistency in the amounts charged relative to the value of the goods being leased, and there could be a difference in total cost between the cheapest and most expensive leases of up to 467%.

For example, 18 leases were identified for household goods with a retail price of \$479–\$500 where the term of the lease was one year. We found that the lowest fortnightly rental payment was \$21, with a total cost over the term of the lease of \$546, and the highest fortnightly rental payment was \$49.90, resulting in a total cost of \$1,297.40. Consumers could therefore pay up to \$751.40 extra for different goods with a similar retail price.

Assuming a retail price of \$500, the total cost of these two leases, expressed as an interest rate, is 17.30% and 231.94% respectively.

² See, for example, JY Campbell, HE Jackson, B Madrian & P Tufano, 'Making financial markets work for consumers', *Harvard Business Review*, July–August 2011.

Findings from Centrelink recipient data

- 12 We reviewed 69 consumer leases from two lessors whose business models primarily rely on providing leases to low-income consumers receiving Centrelink payments. The lessors largely operated in regional Australia. In each case, the lessor purchased the household goods at a retail, rather than wholesale, price and then leased them to the consumer. We used the retail price to calculate an interest rate, with the retail price being equivalent to the amount of credit provided under a loan for the purposes of this calculation.

Finding 4: The same lessors charge significantly different amounts for the same goods, in particular Centrelink recipients were charged more than the advertised costs

Centrelink recipients were charged amounts that were consistently higher than the cost of the leases identified by RMIT: see Table 8 and Table 9. As the two lessors in our review were included in the RMIT market survey, this suggests that Centrelink recipients were charged amounts above the advertised costs identified in the RMIT market survey.

We found that Centrelink recipients were charged:

- in 20 out of 39 leases with a two-year term, more than five times the retail price of the leased goods—the equivalent of an interest rate of over 248%; and
- in one case, a cost equivalent to an interest rate of 884%.

We also separately compared the lease price at which one lessor advertised a television with the rental payments it charged to 14 Centrelink recipients who entered into consumer leases for the same model television. We found that 13 of the 14 consumers were charged more than the advertised price, with increases in the total cost charged of up to \$1,983.80.

Finding 5: Centrelink recipients were charged more than the maximum payable under a small amount credit contract

The total cost for Centrelink recipients was significantly more than the maximum amount that would be payable by a consumer if they entered into a small amount credit contract to purchase the goods—given that there is a cap on the maximum amount these lenders can charge. We analysed the cost of four high-cost leases in detail: see Table 7 and Table 10.

We found that for the same duration, Centrelink recipients were charged:

- between \$556 and \$2,462 more than would be permitted under a small amount credit contract; and
- between two and five times more than the maximum amount that a provider of a small amount credit contract could charge.

- 13 Given that we found Centrelink recipients were consistently charged more for consumer leases than the advertised costs identified by RMIT, this raises the question of whether these consumers are being provided with leases at

the higher end of the cost scale, when a significantly cheaper alternative lease may be available.

- 14 ASIC has ongoing concerns about the standards of conduct engaged in by lessors and we are currently reviewing specific lessors for compliance with the responsible lending obligations under the National Credit Act.
- 15 Our previous experience with small amount credit contracts suggests that the charging of high costs by lessors is driven both by lessors maximising the return on transactions and the inability of consumers to exert competitive pressure on lessors to reduce prices. ASIC's view is that reforms could be considered to address conduct by lessors in charging unreasonably high costs to financially vulnerable consumers such as Centrelink recipients.

A Background

Key points

With the high level of use of consumer leases to access household goods by financially vulnerable consumers, ASIC has continuing concerns that some lessors are not improving their standards of conduct, despite multiple enforcement actions by ASIC.

In undertaking our review of the cost of consumer leases, we analysed data from two sources:

- advertised price data collected by RMIT in April 2015; and
- a targeted review by ASIC of the total costs charged by two lessors to Centrelink recipients.

Characteristics of a consumer lease

- 16 This report considers costs charged under consumer leases, as defined in the National Credit Act. The key characteristics of a consumer lease are:
- (a) it is a contract for the hire of goods where the consumer will pay more than the cash price³ of the goods; and
 - (b) the consumer does not have a contractual right or obligation to purchase the goods. Although, in practice, most lessors either allow the consumer to retain the product (or a similar product) at the end of the contract for a token amount, or gift the product to a third party nominated by the consumer.
- 17 Leases with a term of less than four months or that are of an indefinite length are specifically excluded from the definition of a consumer lease in the National Credit Act.
- 18 Lessors must, under the National Credit Act, disclose the total amount payable as rent under a consumer lease, but are not under any obligation to disclose the retail price of the leased goods, or the amount that the consumer will pay in excess of the retail price.

³ 'Cash price' is defined in s204 of the National Credit Code as:

- (a) the lowest price that a cash purchaser might reasonably be expected to pay for them from the supplier; or
- (b) if the goods or services are not available for cash from the supplier or are only available for cash at the same, or a reasonably similar, price to the price that would be payable for them if they were sold with credit provided—the market value of the goods or services.

Consumer leases compared to credit contracts

19 'Credit contracts' includes loans, such as small amount credit contracts (or payday loans) and sale of goods by instalments contracts (rental agreements where the consumer has a right or obligation to purchase the goods at the end of the contract). There are no statutory limits on the maximum amount that consumers can be charged under a consumer lease, unlike credit contracts, which are subject to a cap on the maximum amount that can be charged. Different caps apply to different credit contracts according to the amount of credit provided and the term of the contract. The differences between credit contracts and a consumer lease are summarised in Table 1.

Table 1: Regulatory obligations under the National Credit Act for different types of contracts

Type of contract	Contract definition	Maximum costs	Responsible lending obligations: General	Additional obligations
Small amount credit contract (payday loan)	Amount borrowed: Less than \$2,000 Term: Between 16 days and 1 year	The provider cannot charge interest, and can only charge a maximum establishment fee of up to 20% of the amount of credit and a maximum monthly fee of 4% of this amount (for a 12-month contract, the maximum amount that can be charged in fees is equivalent to 68% of the amount of credit) No establishment fee can be charged where the contract refinances an existing small amount credit contract On default: The consumer cannot be charged more than twice the amount of credit (including the amount already paid)	The provider must assess whether the consumer can afford the repayments, on the basis of reasonable inquiries The product must meet the consumer's requirements and objectives	Procedural requirement: Bank statements must be obtained for 90 days Presumptions: The contract is unsuitable if the consumer: <ul style="list-style-type: none"> • is already in default under an existing small amount credit contract; or • has been a party to two or more small amount credit contracts in the last 90 days Additional disclosure: There must be a warning statement on the provider's website Protection for Centrelink recipients: Repayments cannot exceed 20% of income
Medium amount credit contract	Amount borrowed: Between \$2,001 and \$5,000 Term: Between 16 days and 2 years	Cap: The provider can charge interest and fees provided the amount charged does not exceed a maximum cost calculated as the sum of interest charged at 48% and a fee of \$400	As for a small amount credit contract	No additional obligations

Type of contract	Contract definition	Maximum costs	Responsible lending obligations: General	Additional obligations
All other credit contracts (including rental agreements with a right or obligation to purchase)	All other credit contracts	Cap: The provider can charge interest and fees provided the amount charged does not exceed a maximum cost calculated as the sum of interest charged at 48%	As for a small amount credit contract	No additional obligations
Consumer leases	Fixed term contracts of greater than 4 months The consumer pays more than the cash value of the goods There is no right or obligation to purchase the goods	There is no cap	As for a small amount credit contract	No additional obligations

The market for consumer leases

- 20 A 2014 report by IBISWorld estimated the value of the leasing industry in Australia as around \$570 million for rentals of electronic goods (including televisions, stereos, DVD players and computers) and household appliances (including fridges, ovens, microwaves, toasters and blenders).⁴

Purpose of our review of consumer leases

- 21 We undertook our review for two reasons:
- (a) There is a high use of consumer leases by financially vulnerable consumers such as Centrelink recipients. The *Report of the independent review of Centrepay*⁵ stated that, as at March 2013, there were approximately 118,700 deductions for consumer leases for household goods and the average fortnightly rental payment was just under \$76. The total payments under these leases in 2013 were expected to exceed \$200 million.

⁴ IBISWorld, *Home appliance rental in Australia* (OD5467), IBISWorld industry report, 2014.

⁵ A Buduls, *Report of the independent review of Centrepay*, report to the Secretary of the Department of Human Services, Australian Government, June 2013, page 74, available at www.humanservices.gov.au/corporate/publications-and-resources/centrepay-review/.

- (b) ASIC continues to be concerned about low standards of conduct by some lessors, despite multiple enforcement actions undertaken by ASIC. Between February 2013 and June 2015, we took enforcement action against lessors resulting in 10 public outcomes: see the appendix to this report.
- 22 The type of conduct we have addressed includes lessors targeting financially vulnerable consumers in remote and regional areas of Australia. For example, we took action:
- (a) in relation to unconscionable conduct by a lessor targeting low-income people around Mildura in Victoria who had limited understanding of the contracts they were signing, and little capacity to meet the rental payments (with ASIC cancelling the credit licence of the lessor);⁶ and
- (b) against a lessor providing leases on terms that took advantage of the consumer's lack of English and unfamiliarity with commercial transactions (where ASIC obtained refunds for consumers and the lessor also agreed to close its Darwin branch, which was responsible for this misconduct).⁷

Our methodology

- 23 We used two sources of information (summarised in Table 2):
- (a) advertised price data collected by RMIT in April 2015 on the periodic costs charged by nine lessors across 20 categories of common household goods (RMIT market survey data); and
- (b) a targeted review by ASIC of the total costs charged by two of the lessors included in RMIT's market survey—in 69 leases entered into between March 2014 and February 2015 with consumers in receipt of Centrelink payments (Centrelink recipient data).

Table 2: Summary of data sources

Source of data and market	Number of lessors	Number of leases	Period covered	Source of cost information
RMIT market survey	9 lessors	544 leases	14–17 April 2015	Advertised prices (websites)
Centrelink recipients	2 lessors (who were also included in the RMIT market survey)	69 leases	Contracts entered into between March 2014 and February 2015	Contract prices charged to consumers

⁶

Amazing Rentals Pty Ltd: see Media Release (15-141MR) *ASIC accepts EU from Amazing Rentals* (4 June 2015).

RMIT market survey data

- 24 In April 2015, we engaged RMIT to undertake a market survey of the cost of consumer leases compared to purchasing the goods outright. Between 14 and 17 April 2015, RMIT collected data on leasing costs for 20 categories of everyday household goods from nine lessors. The lessors represented a cross-section of the consumer lessor market, with both small and large lessors that advertise leases to the general public selected.
- 25 Where possible, RMIT collected four rental prices—the lowest price and the prices at the 25th, 50th and 75th percentiles—per product category and per lessor.

Definition: Percentiles

A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. The 25th percentile is the value (or score) below which 25% of the observations are found. Similarly, the 75th percentile is the value (or score) below which 75% of the observations are found.

- 26 In some cases, not every lessor advertised four rental prices for all 20 product categories of household goods. In this scenario, RMIT collected all available rental prices from that lessor. In total, RMIT collected rental prices for 544 products, either from the lessor's website or, in cases where the lease was provided through a third party retailer, from the retailer's website.
- 27 RMIT excluded all additional fees and charges (such as dishonour fees, credit card payment surcharges, early termination fees and insurance) that a consumer might incur in taking out a lease.
- 28 RMIT also collected data on the cost of purchasing each of the 544 leased products in the sample outright. This was done using one of three approaches:
- (a) through the lessor's website, in cases where the lessor also offered the same products for sale (29% of the sample);
 - (b) by matching the model number (where available) or brand name and product features (where known) to products available at online retailers (66% of the sample); and
 - (c) using the price of the nearest matching item based on more limited information (such as the size or capacity of the goods) or, if no information was available, the cheapest product available at online retailers (5% of the sample).

Centrelink recipient data

- 29 We reviewed 69 consumer leases from two lessors who were also included in the RMIT market survey, whose business model primarily relied on providing leases to low-income consumers receiving Centrelink payments. The consumer leases we reviewed were for the period March 2014 to February 2015. All consumers in our survey made their lease payments through Centrepay.

Definition: Centrepay

Centrepay is a payment system operated by the Department of Human Services, which allows Centrelink consumers to make payments for leases to Centrepay registered providers, through regular deductions from their benefit payment.

- 30 The leases we reviewed were offered by lessors largely operating in regional areas of Australia. Neither of the lessors operates from a shopfront. These lessors attract customers through letterbox catalogue drops and an internet presence, as well as word of mouth, encouraging consumers to refer family and friends. After the lease application has been approved, the lessor purchases the rental goods (not necessarily identical to those shown in advertising) from a third party at a retail, rather than wholesale, price and then leases the goods to the consumer. As a result of this operating model, and depending on the actual goods that are obtained by the lessor, consumers may be charged prices different to those shown in the lessor's advertising (and captured in the RMIT market survey data). The advertised term may also differ from the actual lease term, further reducing the consumers' ability to rely on the advertised prices.
- 31 In reviewing the leases entered into by Centrelink recipients, we had access to information about the price paid for the goods by the lessor.
- 32 We did not review the costs charged by the two lessors across all leases they entered into. However, the total costs charged in the leases that we reviewed indicates that their internal procedures do not have any controls or limits on the maximum total cost that a consumer can pay, or that any such internal restrictions are set at very high levels. This means that their customers can be charged significantly different amounts.

Our analysis of the data

- 33 We used the RMIT market survey data and the Centrelink recipient data to compare the cost of the leases in a number of different ways:
- (a) we compared the total cost charged by different lessors for the same goods and the same lessors for the same goods—this enables a comparison to be made in dollar terms;

- (b) we compared the total cost charged by different lessors for different household goods, but where the goods have a similar retail price—this enables us to test whether there is any correlation between the underlying value of the goods and the amount paid by the consumer in rental payments;
 - (c) we calculated the cost of the lease as an interest rate (by treating the value of the goods as the amount of credit)—this permits a comparison on cost to be made between leases and loans; and
 - (d) we assessed the maximum amount a consumer would pay if they used a small amount credit contract to purchase the goods (given the statutory limits on what lenders can charge), and determined whether the amount payable by consumers under leases was higher or lower than this maximum amount.
- 34 We calculated the effective cost of the lease as an interest rate using the formula prescribed for calculating the maximum cost under a credit contract, as set out in s32B of the National Credit Code. We used the financial calculator RICalc to make these calculations.
- 35 In calculating the interest rate, we treated the retail price of the goods as equivalent to the amount borrowed, and the amount paid above this figure as the cost of credit. We used the term of the lease and the amount and number of rental payments as inputs for the calculation. To ensure consistency with credit contracts, we assumed that all lease payments were made in arrears. Where a consumer’s lease contract requires them to make rental payments in advance, the interest rate would be slightly higher than the rates quoted in the report.
- 36 From our previous work reviewing lessor conduct, we have found that many lessors operate a model in which the consumer is able to have continued use of the leased goods (or similar goods) at the end of the lease for minimal or no additional cost. This feature is disclosed to the consumer both in advertising and also at the time that the consumer is entering into the lease. In cases where the purchase price of the goods is so low that the lessor is unlikely to have any commercial value at the end of the lease, there is a strong disincentive for the lessor to regain possession of the leased goods.
- 37 Lessors arrange for the consumer to retain possession of the goods at the end of the lease contract, using two approaches:
- (a) a rent-to-buy model, under which there is an expectation that the consumer will be able to buy the goods at the end of the lease for a token or nominal amount; and
 - (b) a gift model, in which the lessor agrees that the leased goods can be gifted to a third party as nominated by the consumer.

- 38 When calculating the interest rate we therefore assumed that the consumer did not make any additional payments at the end of the lease, even though they had continued use of the goods. This assumption has a conservative impact on the cost because any additional rental payments would increase the interest rate for the transaction.

B Our findings

Key points

We used the RMIT market survey data to make an assessment of the advertised price of consumer leases. We found that:

- the amounts charged by lessors vary significantly;
- the financial benefits of a longer term lease are questionable;
- there is no consistency in the amounts charged for the same goods; and
- there is no consistency in the amounts charged for different goods with a similar retail price.

Our review of the Centrelink recipient data found that these consumers were charged amounts that were:

- consistently higher than the advertised price of leases; and
- significantly more than the maximum payable under a small amount credit contract, or payday loan.

The amounts charged by different lessors for the same goods vary significantly

- 39 There is a significant variation or dispersion in the prices charged by lessors and, at least in urban areas, lower cost lease options are generally available to consumers who are willing or able to shop around. Table 3 sets out the prices for 20 categories of basic household goods identified by RMIT in its survey. The data covers a range of goods for different prices, and does not differentiate between leases according to the term of the contract or the price at which the consumer can purchase the goods.
- 40 Table 3 compares the range of options available to consumers by fortnightly rental payments, and sets out the minimum, median and 75th percentile⁸ fortnightly rental payments for each of the household goods.
- 41 While there is a significant price variation or dispersion, the data also shows that a consumer may be able to lease goods in each product category for between \$2.10 a fortnight (for a portable heater) and \$23.10 a fortnight (for a couch), which, depending on the consumer's other financial commitments, is unlikely to have a significant impact on their financial circumstances, even for those who are on low incomes or receiving Centrelink payments.

⁸ See paragraph 25 for an explanation of percentiles.

Table 3: Variation in cost—All leases in RMIT market survey data

Product category	Minimum fortnightly rental payment	Median fortnightly rental payment	75 th percentile fortnightly rental payment	Number of products reviewed
Washing machine	\$9.64	\$30.30	\$56.00	34
Clothes dryer	\$7.24	\$22.00	\$49.00	29
Microwave	\$2.64	\$14.00	\$28.00	24
Bar fridge	\$4.58	\$13.10	\$19.90	15
Refrigerator	\$12.06	\$38.79	\$104.30	30
Freezer	\$7.72	\$21.85	\$62.00	28
Table and chairs	\$9.10	\$36.45	\$78.60	28
Double bed	\$11.80	\$30.85	\$76.00	24
Single bed	\$8.70	\$18.95	\$46.00	18
Couch	\$23.10	\$45.50	\$109.20	31
Mobile phone	\$5.86	\$40.90	\$63.90	32
Laptop	\$14.76	\$37.95	\$71.82	34
Tablet	\$4.80	\$29.65	\$58.00	34
TV	\$8.70	\$39.95	\$181.30	36
DVD player	\$4.80	\$13.52	\$29.90	21
Game console	\$7.60	\$27.95	\$36.00	28
Home entertainment	\$11.90	\$25.00	\$102.72	31
Portable air conditioner	\$10.24	\$30.00	\$51.36	19
Portable heater	\$2.10	\$11.63	\$39.50	20
Vacuum cleaner	\$6.60	\$24.45	\$41.30	28

The financial benefits of a longer term lease are questionable

42

We refined the analysis in Table 3 by comparing the fortnightly rental payments according to the term of the lease. This enabled us to compare both the fortnightly rental payments and the total cost (this comparison is across goods of different value). To simplify this exercise, we only

conducted this exercise for four basic household items (washing machines, clothes dryers, refrigerators and freezers).

43 The results are set out in Table 4. They show that, other than for freezers, the median and 75th percentile fortnightly rental payments are nearly a third lower for leases with a two-year term when compared to payments for one-year leases. Despite the reduced fortnightly cost for the consumer, the total cost paid by the consumer increases as the lease term increases. For this reason, the financial benefits of choosing a longer term lease over a shorter term lease are not apparent. Assuming the consumer could afford the higher rental payments under a shorter term lease, the consumer could retain ownership of the goods at the end of that lease for a lower total cost.

44 By way of example, the total cost for a washing machine leased at the median fortnightly rental payment of \$32.90, with a one-year term, is \$855.40. However, under a two-year lease, the median fortnightly rental payment falls to \$21, while the total cost rises to \$1,092.

Table 4: Variation in cost—Leases with one-year and two-year terms in the RMIT market survey data

Product category and term of lease	Minimum fortnightly rental payment	Median fortnightly rental payment	75 th percentile fortnightly rental payment	Number of products reviewed
Washing machine (one-year term)	\$16.80	\$32.90	\$52.50	10
Washing machine (two-year term)	\$18.00	\$21.00	\$32.00	4
Clothes dryer (one-year term)	\$13.10	\$23.85	\$49.00	10
Clothes dryer (two-year term)	\$14.00	\$16.00	\$18.00	2
Refrigerator (one-year term)	\$19.70	\$53.45	\$104.30	8
Refrigerator (two-year term)	\$16.00	\$39.50	\$60.00	4
Freezer (one-year term)	\$14.40	\$23.80	\$47.60	10
Freezer (two-year term)	\$14.00	\$25.00	\$62.00	4

No consistency in total amounts charged for different goods with a similar retail price

- 45 The RMIT market survey identified leases where goods of the same model were offered for lease by multiple lessors. RMIT also collected the retail price of each of these goods, using the methodology described in paragraphs 23–38. This resulted in small variations in the retail price between these lessors. We assessed the difference in cost charged by these lessors for the same goods: see Table 5 (for the same four product categories as in Table 4).
- 46 In a well-functioning market, the gap between prices offered by different suppliers should be small, with consumers favouring lessors who charge lower prices over those charging higher prices. Our analysis indicated that this was not the case and that there was a broad dispersion in the amounts charged by lessors, with differences for similar items in:
- (a) dollar terms of over \$1,000; and
 - (b) interest rates of approximately 60%—for instance, for the same dryer, one lessor charged rental payments equivalent to an interest rate of 25.88%, while another charged an equivalent interest rate of 85.33%.
- 47 The highest interest rate in Table 5 (97.13%) was more than double the 48% maximum cost rate for loans that are not small or medium amount credit contracts.⁹ In four of the eight leases compared in Table 5, the lessor charged more than would be permitted if the consumer used a loan to buy the goods.¹⁰
- 48 The significant price dispersion in Table 5 indicates potential market failure.

Table 5: Variation in cost—Leases for similar priced goods in the RMIT market survey data

Product and lessor	Retail price	Total fortnightly rental payments	Amount charged above retail price	Interest rate
7 kg washing machine (lessor 1)	\$479.00	\$1,040.00 (52 x \$20.00)	\$561.00	90.41%
7 kg washing machine (lessor 2)	\$489.00	\$1,936.48 (104 x \$18.62)	\$1,447.48	97.13%

⁹ See Table 1 for the range of cost caps in place for credit contracts.

¹⁰ The maximum cost rate of 48% is only applicable to contracts where the term of the lease is more than one year. Where the term is one year or less, our comparison is with the amount permitted under a small amount credit contract: see Table 1.

Product and lessor	Retail price	Total fortnightly rental payments	Amount charged above retail price	Interest rate
5 kg dryer (lessor 1)	\$429.00	\$488.80 (26 x \$18.80)	\$59.80	25.88%
5 kg dryer (lessor 2)	\$449.00	\$1,582.88 (104 x \$15.22)	\$1,133.88	85.33%
222 L fridge (lessor 1)	\$463.00	\$546.00 (26 x \$21.00)	\$83.00	32.93%
222 L fridge (lessor 2)	\$449.00	\$832.00 (52 x \$16.00)	\$383.00	69.09%
145 L chest freezer (lessor 1)	\$329.00	\$374.40 (26 x \$14.40)	\$45.40	25.63%
145 L chest freezer (lessor 2)	\$319.00	\$602.16 (78 x \$7.72)	\$283.16	47.83%

- 49 The final way in which we compared the cost of a consumer lease was to use RMIT's market survey data to compare the amounts payable under leases for all product categories in RMIT's market survey with a similar retail price: see Table 6. We used the retail price as the purchase price paid by the lessor, noting that some lessors may be able to purchase goods at wholesale prices. The retail price is therefore also the price the consumer could have paid to purchase the goods directly from a retailer.
- 50 This analysis enabled us to test more broadly whether there is a correlation between the amount of the rental payments and the underlying value of the goods leased. For example, assuming similar business operating models, if lessors consistently apply a similar formula or seek a similar profit margin, regardless of the type of goods being leased, it could be expected that there would be relatively small variations in price.
- 51 However, we found that there was significant variation or dispersion in the amounts lessors charged for different products with a similar retail price. We found, using household goods with a retail price of:
- less than \$100—fortnightly rental payments ranged from \$2.10–\$11.90 (representing a 467% difference in costs);
 - \$479–\$500—fortnightly rental payments ranged from \$21–\$49.90 (a 138% difference in costs); and
 - \$997–\$1000—fortnightly rental payments ranged from \$45.50–\$61.90 (a 36% difference in costs).

Table 6: Variation in cost—One-year term leases for products with a similar retail price in the RMIT market survey data

Retail price of product	Minimum fortnightly rental payment	Median fortnightly rental payment	75 th percentile fortnightly rental payment	Number of products reviewed
Less than \$100	\$2.10	\$4.20	\$11.90	4
\$479–\$500	\$21.00	\$27.78	\$49.90	18
\$997–\$1,000	\$45.50	\$46.20	\$61.90	5
More than \$2,000	\$51.90	\$109.20	\$181.30	7

The same lessors charge significantly different amounts for the same goods, in particular Centrelink recipients were charged more than the advertised costs

- 52 The review of the Centrelink recipient data was done in the following ways:
- we assessed the cost of four high-cost leases for common household goods, both as an interest rate and as a comparison with the maximum amount that would be payable under a small amount credit contract (see Table 7 and Table 10);
 - we compared the costs charged to Centrelink recipients with the advertised costs in the RMIT market survey data, where the retail price of the goods (or package of goods) was similar (see Table 8 and Table 9). We used two price points for comparison: \$479–\$500 and \$1,000–\$2,000. The analysis compared leases of one-year and two-year terms; and
 - we compared the advertised cost of a same model television with the actual cost charged to 14 consumers to see if there was a variation in prices (see paragraphs 60–64).

Table 7: Examples of high-cost leases (one-year term)—Centrelink recipients

Product	Retail price	Fortnightly rental payment	Total cost	Interest rate
7 kg washing machine	\$700.00	\$83.69	\$2,175.94	292.18%
5 kg dryer	\$345.00	\$117.00	\$3,042.00	884.34%
253 L fridge	\$498.00	\$65.00	\$1,690.00	324.35%
145 L chest freezer	\$319.00	\$42.00	\$1,092.00	327.65%

- 53 We found that consumers were charged:
- (a) a cost of finance equivalent to interest rates of over 250% (and, in one case, 884%);
 - (b) between two and five times more than the maximum amount payable under a small amount credit contract; and
 - (c) in one case over eight times the retail price of the goods.
- 54 We found that Centrelink recipients were consistently charged rental payments of \$50 a fortnight or more. This is consistent with the 2013 findings of the review of Centrepay, which found that the average amount consumers were paying for leases paid for through Centrepay was about \$76 a fortnight.¹¹
- 55 We found that the total cost of leases for Centrelink recipients was significantly higher than the highest cost of leases identified in the RMIT market survey (which was the price at the 75th percentile). In particular we found that Centrelink recipients were not offered low-cost leases (even though they were available more broadly in the market): the lowest fortnightly rental payment charged to Centrelink recipients was \$53 for a lease with a one-year term, and \$40 for a lease with a two-year term.
- 56 For leases with a one-year term where the retail price of the goods (or package of goods) was \$479–\$500 (see Table 8), we found that:
- (a) the lowest minimum fortnightly rental payment across 17 Centrelink recipient leases was \$53—this was higher than the maximum fortnightly rental payment identified by RMIT (\$49.90 at the 75th percentile);
 - (b) the maximum total cost of Centrelink recipient leases was nearly three times more than the maximum total cost identified by RMIT (\$3,822 compared to \$1,297.40 for the product at the 75th percentile);
 - (c) the fortnightly rental payments for Centrelink recipients ranged from \$53–\$147, and could therefore be expected to have a significant financial impact on low-income consumers; and
 - (d) in five out of the 17 Centrelink recipient leases, the consumer was charged more than five times the retail price of the leased goods (the interest rate under a loan where the consumer makes fortnightly rental payments amounting to five times the amount they borrow over one year is 496%).

¹¹ A Buduls, *Report of the independent review of Centrepay*, report to the Secretary of the Department of Human Services, Australian Government, June 2013, page 74, available at www.humanservices.gov.au/corporate/publications-and-resources/centrepay-review/.

- 57 For leases with a two-year term where the retail price of the goods (or package of goods) was \$479–\$500 (see Table 8), the findings were similar:
- (a) the lowest minimum fortnightly rental payment for Centrelink recipients across 12 leases was \$40—again, this meant that in all cases the consumer was paying more than the maximum fortnightly rental payment identified by RMIT (\$33 at the 75th percentile);
 - (b) the maximum total cost of Centrelink recipient leases was more than three times the maximum rental payment identified by RMIT (\$5,458 compared to \$1,716 for the product at the 75th percentile);
 - (c) the fortnightly rental payments for Centrelink recipients ranged from \$40–\$105, and could therefore be expected to have a significant financial impact on low-income consumers; and
 - (d) in nine out of the 12 Centrelink recipient leases, the consumer was charged more than five times the retail price of the leased goods (the interest rate under a loan where the consumer makes fortnightly rental payments amounting to five times the amount they borrow over two years is 249%).

Table 8: Cost comparison between RMIT market survey and Centrelink recipients—Leases for products with a retail price of \$479–\$500

Term of lease	Minimum fortnightly rental payment	Maximum fortnightly rental payment	Minimum total cost	Maximum total cost
One-year term—RMIT market survey (18 leases)	\$21.00	\$49.90	\$546.00	\$1,297.40
One-year term—Centrelink recipients (17 leases)	\$53.00	\$147.00	\$1,378.00	\$3,822.00
Two-year term—RMIT market survey (8 leases)	\$16.00	\$33.00	\$832.00	\$1,716.00
Two-year term—Centrelink recipients (12 leases)	\$40.00	\$104.98	\$2,080.00	\$5,458.96

Note: The maximum fortnightly rental payment in the RMIT market survey is the payment at the 75th percentile.

- 58 We also repeated this exercise for goods (or package of goods) with a retail price of \$1,000–\$2,000. The results are set out in Table 9.

59 We found that:

- (a) there was little difference in the minimum and maximum fortnightly rental payments charged to Centrelink recipients between leases with a one-year term and a two-year term—so that consumers ended up paying nearly double the total cost of a one-year lease for a two-year lease

- (assuming that in both cases the consumer was able to retain possession of the goods at the end of the lease, which is typically the case);
- (b) both the minimum and the maximum fortnightly rental payments charged under the Centrelink recipient high-cost leases were greater than the equivalent fortnightly rental payments in the RMIT market survey (noting that the maximum price in the RMIT market survey was the price at the 75th percentile); and
 - (c) in 11 out of the 37 Centrelink recipient leases, the consumer was charged more than five times the retail price of the leased goods, up to a maximum of six times.

Table 9: Cost comparison between RMIT market survey and Centrelink recipients—Leases for products with a retail price of \$1,000–\$2,000

Term of lease	Minimum fortnightly rental payment	Maximum fortnightly rental payment	Minimum total cost	Maximum total cost
One-year term—RMIT market survey (28 leases)	\$44.50	\$102.72	\$1,157.00	\$2,670.72
One-year term—Centrelink recipients (10 leases)	\$60.00	\$200.00	\$1,560.00	\$5,200.00
Two-year term—RMIT market survey (6 leases)	\$35.00	\$67.00	\$1,820.00	\$3,484.00
Two-year term—Centrelink recipients (27 leases)	\$60.00	\$195.00	\$3,120.00	\$10,140.00

Note: The maximum fortnightly rental payment in the RMIT market survey is the price at the 75th percentile.

- 60 We compared the price at which a lessor advertised a television with the price charged to 14 Centrelink customers who entered into consumer leases for the same model television. We found that 13 of the 14 consumers were charged more than the advertised price.
- 61 The advertised price was \$13.95 per week for a 36 month term, with a total cost of \$2,176.20. We found that:
 - (a) 11 consumers were charged a total cost of \$943.80 more than the advertised price (\$60 per fortnight for a two year term);
 - (b) one consumer was charged \$1,203.80 more than the advertised price (\$65 per fortnight for a two year term);
 - (c) one consumer was charged \$1,983.80 more than the advertised price (\$80 per fortnight for a two year term); and

- (d) one consumer was charged \$96.20 less than the advertised price (\$80 per fortnight for a one year term), although the shorter term meant the cost of this transaction expressed as an interest rate was higher than the interest rate on the advertised price (518.41% compared to 181.56%, with the purchase price being \$399).
- 62 The increased price to Centrelink recipients cannot be explained by lessors seeking to cover their credit risk. This is because the Centrepay system largely removes the lessor's credit risk as it processes authorised payments prior to releasing the residual funds to the consumer.
- 63 It also appears unlikely that other factors—such as the consumer's geographic location—account for the significant price variations found by ASIC.
- 64 Price discrimination in such circumstances therefore indicates a likely market failure and a potential exploitation of a lack of consumer understanding by less financially literate consumers about the real cost of the lease.

Centrelink recipients were charged more than the maximum payable under a small amount credit contract

- 65 We also compared the cost of the four high-cost Centrelink recipient leases in Table 7 to the maximum amount a consumer would pay under a small amount credit contract (also known as a payday loan) if the consumer used that form of finance to purchase the goods.
- 66 In comparison to a lease with a one-year term, the maximum amount that a provider can charge under a small amount credit contract is an upfront fee that cannot exceed 20% of the amount borrowed and a monthly fee that cannot exceed 4% of this amount.
- 67 The cost comparison between the four high-cost leases and a small amount credit contract is set out in Table 10. It shows that consumers were charged:
- (a) in dollar terms, up to \$2,462 more than a small amount lender could charge; and
 - (b) between two and five times more than the maximum amount payable under a small amount credit contract.

Table 10: Cost comparison—Centrelink recipient leases compared to maximum cost under a small amount credit contract/payday loan (one-year term)

Product	Retail price	Total cost of consumer lease	Maximum cost of small amount credit contract	Additional cost of lease
7 kg washing machine	\$700.00	\$2,175.94	\$1,176.00	\$999.94
5 kg dryer	\$345.00	\$3,042.00	\$579.60	\$2,462.40
253 L fridge	\$498.00	\$1,690.00	\$836.64	\$853.36
145 L chest freezer	\$319.00	\$1,092.00	\$535.92	\$556.08

Why consumers may use high-cost leases

68 Our review did not examine the reasons why consumers enter into leases. However, we are aware of some possible reasons, which we have categorised according to whether they arise from lessor conduct or from consumer behaviour.

Lessor conduct

69 Information asymmetries exist in the consumer lease market, with lessors having access to information about the retail cost of the items and the additional amount that they are charging to the consumer, which is not available to consumers. This reduces the consumer's ability to place pressure on the lessor to reduce the price of the leased goods, resulting in large price dispersion or price discrimination for identical goods and market power on the part of the lessor.

70 Lessors have an obvious incentive to exploit consumer behavioural biases in decision making in their marketing by focusing on the short term costs rather than overall costs. This makes it difficult for consumers to compare prices and opt for cheaper leases. The current disclosure requirements in the National Credit Code facilitate this because:

- (a) lessors are not required to disclose the retail price of the leased goods—so that the consumer cannot, without making further inquiries, assess the total amount payable relative to the retail price;
- (b) lessors are not required to disclose a comparative cost—there is no obligation to disclose the cost of a lease as an interest rate, which would otherwise enable consumers to compare the cost of different leases;
- (c) lessors are not required to provide consumers with a comparison of how changing the lease term affects the total cost; and

- (d) lessors are required (under the National Credit Code) to only inform consumers of the total cost in the lease agreement, which typically occurs just before entering into the contract (i.e. the point when the consumer has already made a purchasing decision and is largely committed to entering into the lease).¹²

71 Further, some lessors target consumers with a poor credit history, through advertising campaigns referring to poor credit ratings, which can attract consumers with few alternatives and reduce consumers' incentive to explore alternatives.

Consumer behaviour

72 Consumers may enter into consumer leases because they:

- (a) are unaware of alternatives such as no-interest loans (see paragraph 73) or they self-exclude themselves from the alternatives by assuming, incorrectly, that they would not be eligible. This is likely to be reflected in repeat use of leases, where the consumer enters into a new lease for different goods when their existing lease finishes;
- (b) do not have access to cheaper mainstream finance products for obtaining those goods (such as personal loans or using interest-free offers); and
- (c) make poor decisions because of well-recognised biases, such as focusing on the amount or affordability of the fortnightly or monthly rental payments, rather than the total cost, to determine the value of the lease (rather than by assessing the total amount payable relative to the retail price of the product).

Alternatives to consumer leases and small amount credit contracts

73 Alternatives to consumer leases and small amount credit contracts are available for consumers who are not able to access traditional forms of credit (such as credit cards or personal loans). These options include:

- (a) the No Interest Loan Scheme (NILS), run by Good Shepherd Microfinance, which offers small loans that are typically worth up to \$1,200 and repayable over 12–18 months. These loans charge no interest or fees. NILS is only available for essential goods and services, including household goods such as fridges, washing machines, stoves, dryers, freezers and furniture. NILS loans are distributed through more than 257 accredited community organisations across Australia; and

¹² See s174(1)(f) of the National Credit Code.

- (b) for Centrelink consumers, choosing to receive a proportion of their future payments in advance (i.e. they receive a lump sum and pay it back by receiving smaller Centrelink payments for a fixed period, of up to six months). This advance has no fees or interest charges, but is only available if the consumer can afford to repay it by regular deductions from their future payments without suffering financial hardship. The amount that a consumer can receive as an advance is also capped.
- 74 We understand that a consumer's ability to access a no-interest loan or a Centrelink advance is reduced if they already have a consumer lease with a commercial provider. The rental payments made to the commercial provider reduce the consumer's surplus income, and can mean that they do not have the funds available to be eligible for these alternatives. This means that consumers who find that their lease is expensive may be unable to access these alternatives while they are making rental payments to the commercial provider, reducing the take-up rate of these alternatives, and maintaining the dependency of the consumer on higher cost leases.
- 75 Some lessors also charge high early-termination fees if the consumer seeks to terminate a consumer lease before the end of the term. Where the consumer is unable to pay this fee as a lump sum they have little choice except to continue with the lease, which similarly affects their ability to seek cheaper alternatives.

Small amount credit contracts review

- 76 In light of ASIC's findings, there are four areas of concern that could be given further consideration to improve consumer outcomes:
- (a) the high cost of consumer leases, particularly those over a longer term (e.g. leases that are two years or longer);
 - (b) the lack of consumer understanding about consumer leases;
 - (c) the impact of high-cost consumer leases on Centrelink recipients; and
 - (d) the lack of consistency in regulatory treatment of consumer leases compared with other small amount credit contracts.
- 77 We note that the Australian Government's small amount credit contracts review will consider whether additional legislative protections are required for consumers entering into consumer leases, particularly those consumers who are Centrelink recipients. ASIC will provide a copy of this report to the small amount credit contracts review for its consideration.

C Further work and assistance for consumers

Key points

ASIC will continue to review compliance with the responsible lending obligations under the National Credit Act. We have ongoing concerns about standards of conduct in this market segment, and we are currently reviewing specific lessors for compliance with the responsible lending obligations.

There are a number of tools and services available to consumers to help determine whether a consumer lease is appropriate for them, including tools on ASIC's MoneySmart website and access to financial counselling through Financial Counselling Australia.

Our further work on lessors

- 78 Our previous public enforcement actions against lessors are set out in the appendix to this report. This work has largely been focused on responsible lending, particularly to vulnerable consumers.
- 79 We will continue to review compliance with the responsible lending obligations under the National Credit Act. In particular, we will be assessing whether lessors are making reasonable inquiries into the consumer's financial situation and, in particular, their expenditure, and taking reasonable steps to verify the consumer's expenses.
- 80 We will particularly consider whether lessors are failing to comply because they are relying on:
- (a) the consumer's self-assessment as to the amount of their living expenses, even where the assessment is unrealistically low (e.g. because it is lower than benchmarks such as the Henderson Poverty Index); and
 - (b) a benchmark, instead of inquiring into the consumer's spending patterns—with the lower the benchmark used by the lessor, the greater the potential gap between their notional expenses and their actual expenses.
- 81 If we find that a lessor is engaging in systemic non-compliance with the responsible lending obligations, we will take appropriate action, including enforcement action, such as seeking criminal or civil penalties, or taking action to suspend or cancel the lessor's credit licence.
- 82 We have ongoing concerns about standards of conduct in this market sector, and we are currently reviewing specific lessors for compliance with the requirements of the National Credit Act. This includes reviewing their

conduct against Regulatory Guide 209 *Credit licensing: Responsible lending conduct* (RG 209), which sets out our expectations on the procedures lessors should have in place to ensure they are complying with their responsible lending obligations.

- 83 We will use the findings in this report to inform our review of lessors, including by assessing, where consumers enter into high-cost leases, whether those leases are unsuitable because the consumer cannot afford the rental payments, or because those leases do not meet their requirements and objectives.

Assistance for consumers

- 84 Consumers can compare the cost of leasing versus buying through ASIC's [rent vs buy calculator](#), which was recently added to our MoneySmart website.
- 85 Low-income consumers seeking to enter into a consumer lease should consider cheaper alternatives to obtain household goods. The MoneySmart website also provides information about alternatives to leasing.
- 86 If consumers are finding that they are having difficulty in paying for a lease, they should contact their lessor. Alternatively, consumers may want to contact a financial counsellor. Financial counsellors are trained professionals who can provide free, confidential and independent advice about money matters. Consumers can speak to a telephone financial counsellor through Financial Counselling Australia by calling 1800 007 007 between 9.30 am and 4.30 pm Monday to Friday.

Appendix: Enforcement actions and outcomes

87 We have taken enforcement action against a number of lessors, largely in relation to responsible lending. A summary of matters where we have obtained an enforcement outcome is set out in Table 11.

Table 11: ASIC enforcement actions and outcomes

Entity	Date	Details of outcome
Amazing Rentals Pty Ltd	June 2015	<p>We entered into an enforceable undertaking following an ASIC investigation into concerns about Amazing Rentals' compliance with the credit legislation, including the responsible lending obligations under the National Credit Act. The enforceable undertaking requires:</p> <ul style="list-style-type: none"> • closure of the Darwin store for at least one year; • consumer refunds; • donations to the North Australian Aboriginal Justice Agency and the Top End Women's Legal Service; and • the appointment of an independent external compliance expert to conduct an assessment of, and report to ASIC on, Amazing Rentals' policies and procedures for compliance with its responsible lending and documentation obligations, and make any recommendations about required changes.
Make It Mine Pty Ltd	May 2015	<p>The Federal Court found that this lessor had breached disclosure and responsible lending obligations under the National Credit Act. The decision followed ASIC launching civil action against the company in November 2014, and Make It Mine voluntarily issuing its own proceedings before the court. A hearing on penalty was heard in September 2015 and a decision is pending.</p>
Rent the Roo Pty Ltd	November 2013	<p>We issued an infringement notice and entered into an enforceable undertaking after finding deficiencies in Rent the Roo's operating and compliance practices.</p> <p>The enforceable undertaking required an independent compliance consultant to be appointed to review Rent the Roo's policies and make recommendations to increase its compliance with the National Credit Act. The consultant's recommendations included:</p> <ul style="list-style-type: none"> • verifying third-party income where this is used to assess suitability; and • that Rent the Roo have flexibility in its hardship and dispute resolution procedures to address financial hardship as a result of a change in a consumer's financial circumstances.

Entity	Date	Details of outcome
Ray Rentals Pty Ltd	August 2013	An ASIC investigation found that Ray Rentals was providing regulated credit without a credit licence and was promoting this activity on its website. Ray Rentals was found to be largely targeting consumers living in remote Indigenous communities. We banned this unlicensed Victorian-based lessor and its sole director from offering credit for four years.
Mr Rental Port Augusta	October 2013	ASIC's surveillance resulted in consumers being released from their contracts because we found that consumers were asked to sign several documents together with a lease agreement, none of which were explained to them and included a 'customer declaration' indicating they understood all the paperwork and that they were not intoxicated.
[REDACTED]	[REDACTED]	[REDACTED]
Mobile Rentals Pty Ltd and franchisees	February 2013 and September 2013	<p>ASIC banned the director of Mobile Rentals from engaging in credit activities for five years and cancelled its credit licence for failing to comply with the responsible lending obligations.</p> <p>Mobile Rentals was found to be targeting vulnerable consumers in Victoria.</p> <p>ASIC subsequently also took action against Mobile Rentals' franchisees for failure to meet their responsible lending obligations. We imposed licence conditions against one franchisee, which operated under its own credit licence. This required the licensee to appoint an external independent expert to report to ASIC on whether the business was complying with its obligations in the future.</p> <p>The remaining franchisees entered into written undertakings with ASIC stating they would not engage in credit activities for three-and-a-half years. Consumers were also released from their obligations under the contracts and were given ownership of their goods.</p>

Entity	Date	Details of outcome
Mr Rental Australia Pty Ltd	February 2013	<p>ASIC entered into an enforceable undertaking with Mr Rental, under which the lessor was required to refund consumers and amend the standard rental contract used by the 52 franchisees operating under the Mr Rental banner.</p> <p>This followed an ASIC investigation into Mr Rental's standard rental contract, which raised concerns that a term allowing Mr Rental to charge a 'calculation period adjustment' (i.e. an additional fee charged to consumers who terminated their rental agreements early) was an unfair contract term under the <i>Australian Securities and Investments Commission Act 2001</i> and the Australian Consumer Law (in Sch 2 to the <i>Competition and Consumer Act 2010</i>).</p>

Key terms

Term	Meaning in this document
Centrelink recipient data	A targeted review by ASIC of the total costs charged by two of the lessors in the RMIT market survey—in 69 leases entered into between March 2014 and February 2015 with consumers in receipt of Centrelink payments
Centrepay	Centrepay is a payment system operated by the Department of Human Services, which allows Centrelink consumers to make payments for leases to Centrepay registered providers, through regular deductions from their benefit payment
consumer lease	A consumer lease to which the National Credit Code applies Note: See s169–171 of the National Credit Code.
credit licence	An Australian credit licence under s35 of the National Credit Act that authorises a licensee to engage in particular credit activities
lessor	A lessor under a consumer lease
National Credit Act	<i>National Consumer Credit Protection Act 2009</i>
National Credit Code	National Credit Code at Sch 1 to the National Credit Act
NILS	No Interest Loans Scheme, run by Good Shepherd Microfinance
payday loan	A colloquial name for a small amount credit contract
percentile	A percentile is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. The 25th percentile is the value (or score) below which 25% of the observations are found. Similarly, 75th percentile is the value (or score) below which 75% of the observations are found
purchase price	The price at which the lessor purchases the item that it is leasing
retail price	The price at which a consumer can purchase goods from an online or physical retailer
RICalc	The Real Investment Calculator, RICalc®, is a software product of DBCOM for professional finance
RMIT	Royal Melbourne Institute of Technology

Term	Meaning in this document
RMIT market survey data	Advertised price data collected by RMIT in April 2015 on the total costs charged by nine lessors across 20 categories of common household goods
s35 (for example)	A section of the National Credit Code (in this example numbered 35), unless otherwise specified
small amount credit contract	Has the meaning given in Sch 3 to the Consumer Credit Legislation Amendment (Enhancements) Act 2012

Related information

Headnotes

consumer lease, credit licence, household goods, lessor, no-interest loan, payday loan, rental payments, responsible lending, small amount credit contract

Legislation

Australian Consumer Law

Australian Securities and Investments Commission Act 2001

National Credit Act

National Credit Code

National Consumer Credit Protection Regulations 2010

Regulatory guide

RG 209 *Credit licensing: Responsible lending conduct*

Reports

A Buduls, *Report of the independent review of Centrepay*

IBISWorld, *Home appliance rental in Australia*

Media releases

15-141MR *ASIC accepts EU from Amazing Rentals* (5 June 2015)

15-093MR *Rental company found to have breached consumer credit laws* (1 May 2015)

13-301MR *Rental goods provider pays \$27,500 penalty—enters into enforceable undertaking* (1 November 2013)

13-288MR *ASIC action sees Indigenous consumers released from contracts* (24 October 2013)

13-245MR *ASIC removes Mobile Rentals' franchisees from industry* (3 September 2013)

13-235MR *ASIC takes action against rental company's franchisees* (28 August 2013)

13-207MR ASIC hits Ray Rentals with a four year credit ban (9 August 2013)

13-028MR ASIC takes action against Mobile Rentals, cancelling its licence and banning its director (19 February 2013)

13-022MR ASIC accepts enforceable undertaking from Mr Rental (12 February 2013)



Other documents

JY Campbell, HE Jackson, B Madrian & P Tufano, 'Making financial markets work for consumers', *Harvard Business Review*