testimony by Byron Stookey on draft rent-to-own bill
for Brattleboro Area Affordable Housing
at House Commerce and Economic Development Committee, April 9, 2015

I'm a retired teacher, working now on affordable housing. I didn't know when I began that work what a rent-to-own store was – until we started a fund for families with housing emergencies. And began to hear from people whose lives had been destabilized by a rent-to-own deal: people at risk of eviction because they were paying Rent-A-Center instead of the rent. Making that choice because, if they didn't, the furniture would be repossessed and they'd have nothing to show for all the money they'd paid over the weeks and months.

So we began to talk with people around the state who were seeing the same thing happening: poor people making rent-to-own payments with money that should be going to basic needs. And people sometimes treated badly. Or stuck with a used couch they're making new-goods payments on. So we began to look at the industry. At the industry's largest players, Rent-A-Center and Aaron's, with 14 stores in 9 towns in Vermont.

What we found was a predatory business. Predatory because it targets low-income people, encourages heavy debt, and leaves people usually with nothing to show for the money they've paid.

As you know, the deal these stores offer is an installment purchase with extraordinarily high interest. If you manage to make your weekly or monthly payments, the thing is yours. You'll have paid 2 to 4 times its worth, new. But it likely wasn't new. It had been purchased by someone else, who missed a payment and lost their money when it was repossessed – as it will be again if you get behind. By Rent-A-Center's own account, only a quarter of their customers end up owning what they were paying for.*

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* RAC's Senior Vice-President for Public Affairs told House Commerce last time that, on average, their merchandise is sold 3.6 times. Elsewhere, RAC has said 20-25% of customers end up owning the merchandise.

The business badly needs groundrules. But they've managed to evade serious regulation like the Truth In Lending Act and state usury laws. Their lawyers are smart, and devious with the law.

They treat customers with equal deviousness. (And I'm not talking about the people in the stores. In my experience they're almost always decent and helpful. The deviousness is corporate.) I want to give you three examples of how customers are misled.

First, in how stores discount the price for used goods – important because most of their goods have been sold before and repossessed. And, when used goods are cleaned up and resold, an interesting thing happens. The price is reduced. But, instead of reducing your weekly or monthly payments, they cancel some payments at the end of the contract. Put that together with the fact that only a quarter of the customers ever get to the end, and you realize most of the people paying for used goods are making new-goods payments. It is shrewd, but not nice. It's something you have a chance to fix, with your bill.

A second deviousness has to do with "cash price" – the basic price of the television, what they'd sell it to you for, immediately, if that were the business they're in. But people don't go to rent-to-own stores if they're able to pay cash. Instead, they're going to pay the cash price plus what's called the "rent-to-own charge" – in plainer English the "finance charge" or "annual percentage rate."

You have an example on the yellow paper of how this works. It shows the deal on the 49" TV advertised in the March flier from Rent-A-Center's Brattleboro store. It will cost me $29.99 a week for 91 weeks, or $2,729. And if I do the math using their $1,599 cash price, that works out to a 40.3% annual percentage rate.

To which I might say "Yikes – that's too much to pay!" But I decide to go with it. Because, for just $29, I can have that splendid TV. And the nice salesperson says they'll deliver it this evening.

But the deal is actually a lot worse than that – as it shows on the back of the yellow paper. Worse because the rent-to-own "cash price" is way higher than the price at any other store. If you do the numbers using a real cash price – the price of the same TV at our local store is $899 – the 40% annual rate becomes 116%. The cash price is inflated, in other words, to conceal the true cost of buying from rent-to-own.

Another deviousness is the industry's claim that there's, quote, "never a credit check." "All customers are approved."

If that were true, then rent-to-own should be in the same jail as Countrywide Home Loan, whose salespeople were paid to sell debt to people with no check on whether they could afford it. But rent-to-own's sin is different – again, deviousness. They do check creditworthiness. They check employment, gather references and quiz landlords. They just say they don't. Because, if they admitted checking credit, it would be clear they're in the credit business. And that would subject them to the regulations they work so smartly to evade. Very fine print from an Aaron's sale just ended makes that ruse almost comically clear: It says, quote, "'No credit needed' does not mean or imply that no inquiry will be made of credit history or creditworthiness. It means simply that this is not a credit transaction." With that, we are down the rabbit hole.

So the purpose of many of the provisions we're proposing in your bill is to protect vulnerable consumers from deviousness and set some reasonable rules for disclosure.

The bill is not welcomed by the industry. But it's clear that they could do all right with the groundrules we're proposing. Rent-A-Center has a subsidiary, Get It Now, that does business in plain English. The fine print on the Get It Now flier you have is hard to read. But it says what they do is "installment sales," that customers pay a "finance charge," and that credit is subject to approval. We should expect the same forthrightness here.

If I could take one more minute, I want to try to put this in context. Because, obviously, the rent-to-own industry didn't invent the kinds of practice I've described. Some may go back to the beginning of trade.

But in the last 40 years or so in this country, through credit cards, payday loans, car title loans, compound bank fees and tax refund anticipation loans, say nothing of Countrywide, marketing debt to the poor has become big business.

In that marketing rent-to-own has been a major player. It seems like a right time, in this country, to do something about that.

Thank you.