April 2012
Volume 25, Number 3

The Abell Report

What we think about, and what we'd like you to think about

Published as a community service by The Abell Foundation

Rent-to-Own: Exploiting Baltimore's Poor

Consumers who buy from Rent-to-Own stores pay up to 3.5 times more than at traditional retail stores. This report highlights how the city's low-income population is victimized by the industry.

ABELL SALUTES:

TurnAround, for providing victims of sex trafficking with a new life: "This is my new family. This is where I was reborn."

The telephone jars Roz Branson awake at about 2:30 in the morning. She is not surprised at the call nor to hear the caller say, "This is Paul Smith (not his real name) of the FBI-- and we have a 17-year-old girl we picked up in a raid for sex trafficking. She wants out. We are at (name of hotel withheld), come get her." That explanation is all too familiar to Ms. Branson; she is the executive director of TurnAround, whose mission is to provide outreach support services for Baltimore City's victims of sex trafficking.

The call starts a chain of events that leads the girl out of the sex trafficking ring and into the welcoming arms of TurnAround. Six months later Denise (not her real name) is able to tell a visitor that she is now attending school and dreams of being an attorney one day. She is studying math, shopping, enjoying the company of newly-acquired friends, and

continued on page 12

By Marceline White with Franz Schneiderman

At the request of, and with funding by, The Abell Foundation, the Maryland Consumer Rights Coalition researched and wrote a report addressing the problems of Rent-to-Own. This Abell newsletter is a modified version of that report, which can be found online at www.marylandconsumers.org.

The Maryland Consumer Rights Coalition (MCRC) researched Maryland's $67 million Rent-to-Own (RTO) industry, investigating the structure of the industry, mapping the location of stores throughout the state, and comparing the cost of purchasing merchandise at RTO stores to the cost at traditional retail stores. The MCRC conducted qualitative and quantitative analyses of the RTO industry in Maryland. Research included a literature review, stakeholder interviews with RTO customers and former sales associates, an analysis of complaints to the attorney general's office, and a legal analysis comparing Maryland law to that of other states.

To investigate the prices offered by RTO stores in Maryland, the MCRC surveyed 15 Rent-to-Own stores in Baltimore City, Baltimore County, and Prince George's County between June 2011 and August 2011. The survey compared the cost of 42-inch televisions and 18-cubic-foot refrigerators at RTO stores to the prices at four local chain retail stores (Lowe's, Target, Home Depot, and Best Buy) as well as to other nontraditional retailers including Craigslist, appliance outlets, and second-hand stores. Annual percentage rates on RTO contracts were also calculated.

If an identical model could not be identified in each RTO store, then prices for the closest available substitute were cited and then compared to the cost for the same model (or a very similar one) at local retail stores and second-hand stores, and on Craigslist.

Overview

Nationally, Rent-to-Own stores are a $7 billion industry, with approximately 8,500 RTO stores serving 4.1 million households. The industry started in the 1960s, and is now comprised of dealers who use Rent-to-Own contracts to sell furniture, electronics, major appliances, computers, musical instruments, jewelry, and other products.

As the economy continues to founder and credit is tightened, struggling families are increasingly opting for Rent-to-Own products. The industry has grown from 3 million

continued from page 1

customers in 2006, to 4.1 million in 2009.[1] More recent figures suggest that the industry continues to expand. Recently, Aaron's Rent-to-Own stores announced that 11 percent more consumers rented items from its stores in 2011, enabling the company to increase revenue by 8 percent and generating more than $2 billion in profit for the firm.[2] Similarly, the CEO of Rent-A-Center noted that it had increased its sales by 8.9 percent in the last quarter of 2011, earning the business $737.5 million in the past three months.[3] Rent-A-Center also opened 445 new locations throughout the country last year.[4]

Here's how it works: Consumers sign contracts to pay weekly, bi-weekly, or monthly to rent merchandise. Although consumers have the option of returning the items they rent, most Rent-to-Own users intend to purchase the items. According to a Federal Trade Commission (FTC) study, almost 70 percent of RTO consumers intend to purchase the products they lease.[5]

Leased goods can be purchased in one of three ways: by renting them through the full term of the lease (most lease agreements are between 12 and 24 months); by making an early payment of some portion of the remaining lease balance; or by paying the "cash purchase price," which is the price the RTO store charges to buy the item outright. (The cash price can usually be paid within the first three to six months of renting the item.) Consumers who may not qualify for credit, cannot afford a cash purchase, or value the industry's flexible return policies appreciate the Rent-to-Own industry.

Yet critics contend that the high cost and high interest rates that RTO contracts carry make them a predatory financial product. Consumers who buy from RTO stores usually end up paying much more than they would pay to buy the same product, even with a high-interest credit card, at a traditional retailer. And because the industry focuses on those with few resources, RTO stores, like payday lenders, charge high rates to those who can least afford them.

Today, the Rent-to-Own industry in Maryland generates about $67 million in annual revenue, as it charges consumers, on average, two to 3.5 times more than traditional retail stores charge to purchase appliances and electronics.

One of the reasons the industry can impose such high costs on consumers is that it is under-regulated, both at the national level and under Maryland law. Not only do the major federal fair-lending laws not apply to the Rent-to-Own industry, but the state has also not updated its rental purchase laws in more than 20 years. Further, Maryland's existing laws do less to protect consumers from the industry's high fees and hidden costs than those of many neighboring states.

Who Uses Rent-to Own and Why?

The RTO industry recognizes that many of its customers are low- to moderate-income individuals and families. According to the Association of Progressive Rental Organizations (APRO), 61 percent of the industry's customers are between the ages of 35 and 54, 84 percent are white, 61 percent have no more than a high school education, 68 percent are female, and 59 percent earn between $15,000 and $36,000 annually. The APRO also found that 70 percent of the industry's customers own their own homes.[6]

However, results of an FTC survey differ substantially from these statistics. The FTC conducted a nationwide survey of RTO customers between December 1998 and February 1999, interviewing 500 RTO customers about their experiences. It found that 31 percent of RTO customers were African-American (the APRO estimates that about 15 percent of its customers are African-American), 73 percent had a high school education or less, and 59 percent earned less than $25,000.[7] The FTC also found that 67 percent had children living in the household, 62 percent rented their homes, and nearly 45 percent of RTO customers had a credit card.

Yet both studies confirm that the majority of individuals who purchase RTO products are from families of modest means. The FTC and APRO agree that most RTO customers have a high school education or less and earn less than $36,000. Many of these customers cannot afford to buy appliances, furniture, or other large items outright, and do not have enough credit available to buy them with a credit card. Although the weekly or monthly installment payments required to lease an RTO item

The Abell Report is published quarterly by The Abell Foundation
111 S. Calvert Street, 23rd Floor, Baltimore, Maryland 21202-6174 • (410) 547-1300 • Fax (410) 539-6579
The Abell Reports on the Web: www.abell.org

continued from page 2

may be manageable for these families in the short-term, over the life of the contract, RTO merchandise is quite costly.

In the end, the RTO business model is a win-win for the industry. If the borrower defaults, the RTO store takes possession of the item and re-rents it, making money again and again as multiple consumers rent the same item. If the borrower succeeds in making all the required payments, the company has often realized (and the consumer has paid) anywhere from two to 3.5 times more than a traditional retailer would get for the same item.

Problems with Rent-to-Own

Cost

Many consumer complaints about the industry focus on the high prices charged by RTO stores. In fact, the FTC survey cited earlier found that 27 percent of all RTO customers complained about high prices.[8] RTO transactions are costly because dealers can inflate the price in two ways: by marking up the "cash purchase price" of merchandise on the store floor and by charging interest rates that can exceed 300 percent interest on the purchase.

Below, Table 1 shows the results of a recent Consumer Reports[9] investigation. The study found that the interest rates for RTO items ranged from 84 per-

How the Industry Sets Prices

Michael Sherba of Dundalk worked for 20 years in the Rent-to-Own industry before leaving the industry eight years ago in the face of what he saw as a rising tide of misconduct.

In his days in customer service, Sherba learned how the stores established the high prices they charged customers. The cash price the store charged was three times what it cost the store to buy the item from the manufacturer. The cost of the rental contract was three times that cash price, or nine times the manufacturer's cost for the product.

In January 2012, Mark Speese, the CEO of Rent-A-Center, discussed his store's current mark-up policy, which differs from the one Sherba saw when he worked in the industry. Speese explained: "We work under what we call a two-by-two pricing formula. So, our wholesale cost times two would be our average stated cash price. That cash price times two would be the total Rent-to-Own cost if a customer would rent all the way to term to take ownership of the product." Speese stated that Rent-A-Center makes a 50 percent profit from items that are purchased for the cash price and a 75 percent profit from merchandise that is purchased through 12- to 24-month installment payments.

Sources: MCRC interview, October 2011, and Hines, Alice, "Rent-A-Center CEO: New Consumer Bureau Won't Have Authority Over Us," February 3, 2012 Huffington Post, www.huffingtonpost.com.

Table 1: Rent-to-Own vs. Saving and Buying

	Rent-to-Own	Rent-to-Own	Rent-to-Own	Saving and Buying	Saving and Buying
Item	The Deal	Total Cost	Equivalent Interest Rate	Total Cost	Savings Over Rent-to-Own
17.3-inch Toshiba laptop	$38.99 weekly	$1,872 after 48 weeks	311%	$612 after 16 weeks	$1,260
32-inch Toshiba television	$14.99 weekly	$1,169 after 78 weeks	101%	$388 after 26 weeks	$781
Whirlpool washing machine and dryer	$19.99 weekly	$2,699 after 135 weeks	99%	$966 after 49 weeks	$1,733
Signature Design dinette set	$12.99 weekly	$935 after 72 weeks	84%	$550 after 43 weeks	$385

Source: Consumer Reports Investigation, "Would You Pay the Equivalent of 311 Percent Interest to Buy a Big-Screen TV?" June 2, 2011, www.consumerreports.org.

continued from page 3

cent to 311 percent and that households would save a significant amount of money over the long term if they avoided rental purchase agreements. Typical savings range from $385 on a dinette set to $1,733 for a washer and dryer. The money that financially struggling households would save by avoiding RTO stores could provide an important financial cushion.

Repossession

Under current RTO laws, consumers have very limited property rights. If a consumer misses a payment, many RTO stores move quickly to repossess their merchandise. This practice imposes large losses on consumers: A person who has made most of the payments on an item can lose both the merchandise and all those payments by missing a single payment.

Although many RTO stores do allow consumers to reinstate their rental agreement after missing a payment, consumers generally must pay the outstanding balance plus an additional reinstatement fee. To exercise the reinstatement option, however, consumers must usually reinstate the contract within two to five days. Many find this impractical and miss the deadline.[10]

Used Merchandise

Consumers who reinstate their leases often find that the replacement goods they receive are even more worn than the merchandise they gave up. The used merchandise is often priced the same as new products, although the contract may be shorter for a used item than a new one. Although many states, including Maryland, require RTO stores to disclose whether an item is new or used, there is no requirement to disclose the number of times an item has been re-rented.

Harassment/Abuse

In addition to their high financial cost, RTO items often come with another cost—peace of mind. Consumers regularly protest that RTO stores use a number of harassing tactics to collect payments; they often complain that RTO collection agents call them multiple times a day, at all hours of the day and evening, use foul language, issue threats, and even call their employers to press for payment.

Michael Sherba, the RTO veteran interviewed by the MCRC about the industry's practices, saw such high-pressure tactics first-hand. He explained to the MCRC that RTO customer-service staff would get a list of delinquent accounts in the morning and that it was standard practice to call the customers three times a day to demand payment.

According to Sherba, collection calls would begin the day after a missed payment. On day two of a delinquency, the store would begin to call relatives of its customers. There was a zero grace period and zero credit for those who had already made most of the payments on their merchandise. In Sherba's experience, only about 50 percent of installment customers managed to complete their contracts.

When phone calls fail to elicit a response, RTO dealers often turn to the law to help collect on their contracts or regain the merchandise. Virginia law allows RTO stores to bring criminal charges against delinquent consumers, and a growing number of state residents who fall behind on their RTO contracts are being charged with felonies. The number of these cases rose from 70 in 2006 to more than 200 in 2010.[11]

Contracts and Reference Checks

Before customers can lease an item from an RTO store, they are often asked to sign a mandatory arbitration agreement in which they waive their right to a trial by jury if they have legal claims against the store. One consumer interviewed by the MCRC was told that if she didn't want to sign such an agreement, she would have to write a letter to the company headquarters in Texas explaining why she didn't want to sign it. She didn't do so because she knew this would add a major delay to the approval process.

The approval process itself is also quite extensive. Consumers are often asked to provide three personal references, pay stubs, and bank statements, and to appear in person with photo identification.

Federal Regulation of the Industry

Rent-to-Own transactions generally fall outside federal lending regulations, largely because federal law, like the laws of most states, treats them as short-term leases rather than installment lease transactions.

Because almost 70 percent of Rent-to-Own consumers intend to purchase the items they lease, consumer advocates often argue that it would be more appropriate to treat RTO transactions as credit purchases. Under the credit model, the weekly or monthly payments for Rent-to-Own items would be seen as a delayed payment on a purchased item, rather than short-term leases that a consumer can opt out of at any time.

Characterizing RTO transactions as short-term leases has serious conse-

continued from page 4

quences for RTO consumers: It deprives them of important consumer protections that they would have if the agreements were treated as credit transactions.

Specifically, if the transactions were treated as credit purchases, the industry would have to comply with the federal Truth-in-Lending Act (TILA), state usury laws, and other credit regulations. Under TILA, RTO stores would have to disclose the actual annual percentage rate (APR) of their contracts, among other disclosures.[12]

Consumer leases are covered under the federal Consumer Leasing Act (CLA), but that law only applies to leases with terms of four months or longer. RTO transactions can be cancelled at any time, so they do not fall under the CLA. Because RTO transactions are not covered by either the TILA or CLA, RTO transactions are not specifically regulated at the national level.[13]

How the credit check process works:

The complaint that Elizabeth Rice of Baltimore filed after she rented a washer from Rent-A-Center in November 2010 demonstrates how invasive the reference check can be.

"The approval process for renting was as invasive as applying for a mortgage or more so. I was required to provide three personal references, two of whom had to be family members. I had to provide pay stubs, bank statements, mortgage information and appear in person with photo identification. They called each of my references while I was in the store, asking three questions:

1) How do you know the applicant?
2) How often do you speak to the applicant?
3) If we were unable to reach the applicant, can we leave them a message with you?

These questions focused on how Rent-A-Center would reclaim their washing machine should I default, not on my ability to pay."

Source: MCRC Interview, October 2011.

State Laws

Three states (Wisconsin, New Jersey, and Minnesota) clearly treat RTO transactions as credit purchases; the courts in each of these states have ruled that they are credit sales and must be subject to the state laws that govern those sales. In 2006, the New Jersey Supreme Court further ruled that RTO transactions be subject to the state's 30 percent APR law.

Other states treat RTO agreements as sales lease transactions. However, many of these states have implemented policies that give significant protections to RTO consumers, including capping the cash price and total Rent-to-Own price of items, requiring stronger consumer disclosures in RTO contracts, and regulating collection activities.

West Virginia requires RTO stores to disclose the retail value (instead of the potentially inflated cash price) of their merchandise, and the rental purchase price can be no more than 240 percent of the retail price. Vermont requires disclosure of the effective APR of Rent-to-Own contracts.

California, Hawaii, Maine, and New York have fixed both the cash price and total price Rent-to-Own dealers can charge. The maximum cash price is fixed at a multiple of the wholesale cost and varies by product category. The total Rent-to-Own price is capped as a multiple of the cash price.[14]

Table 2: Caps on Cash Price: Ratio of Maximum Legal Rent-to-Own Cash Purchase Price to Wholesale Prices

Category	California	Hawaii	Maine	New York	West Virginia
Appliances	1.65	2.0	1.75	1.75	1.56
Electronics (costing less than $150)	1.70	2.0	1.75	1.75	1.56
Electronics (costing more than $150)	1.70	2.0	2.0	2.0	1.56
Furniture	1.90	2.0	2.50	2.15	1.67

Source: Ed Winn II, "Rent-to-Own at the Federal Level," Association of Progressive Rental Organizations, 2010.

continued from page 5

Other states, including Connecticut and Ohio, cap the amount by which total payments can exceed the cash price of the item. But RTO stores can circumvent this cap by setting an unreasonably high cash price at the outset.

California, New York, and West Virginia also require RTO dealers to disclose the price of a similar item at other local retailers. This provides consumers with important information that helps them make an informed purchase decision.

Strengthening consumer protections through rate caps and disclosures has helped low- and moderate-income families in these states while allowing the RTO industry to continue to prosper. California has 289 RTO stores, New York has 281 stores, and West Virginia has 55. The RTO industry in those states has adapted to the mandated changes and remains profitable.

Maryland law does not treat Rent-to-Own transactions as credit sales and does not limit the finance charges or interest rates that Rent-to-Own dealers can charge.

Maryland's Rent-to-Own Industry

In Maryland, there are 101 RTO stores that generate more than $67 million in annual revenue.[15] The RTO industry in Maryland is dominated by a few national chains including Rent-A-Center, Aaron's, and ColorTyme, but smaller RTO dealers also operate in the state.

Mapping Rent-to-Own Stores

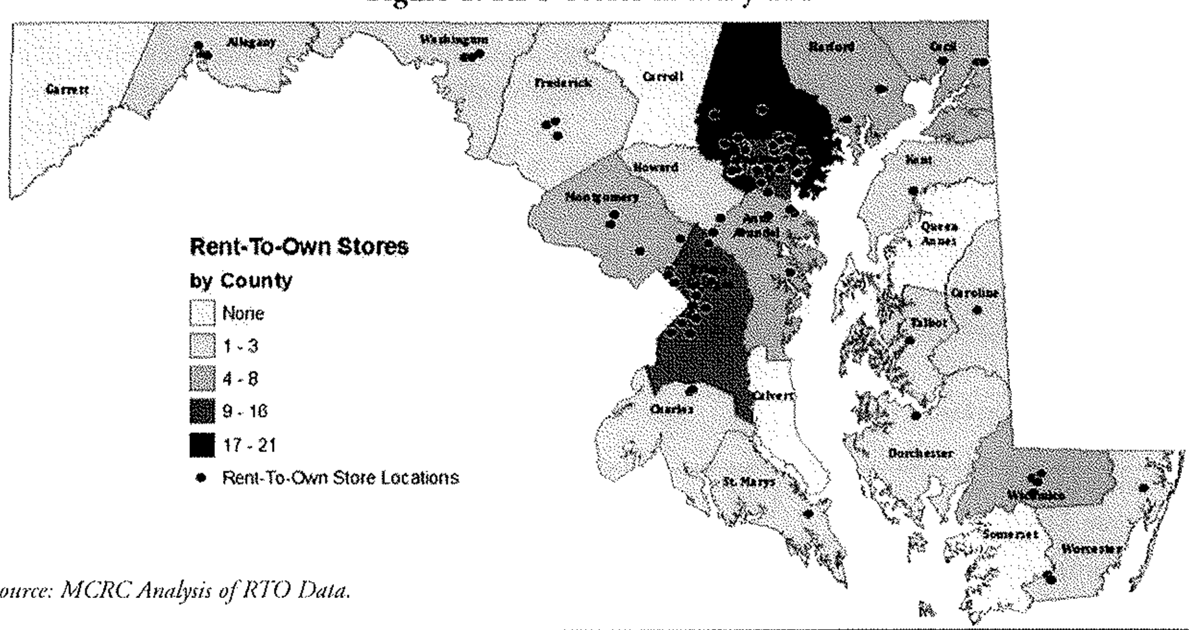
RTO stores can be found in 19 of Maryland's 24 counties, or in 79 percent of the state's jurisdictions. They are found in urban, suburban, and rural areas. The median number of stores per county is three. Baltimore County (21), Prince George's County (16), and Baltimore City (15) have the most stores in the state. The more darkly shaded areas in Figure 1, below, represent the places with a greater concentration of RTO stores.

Figure 2, (see page 7), correlates RTO stores to the percentage of households in poverty in Maryland counties. In Baltimore City, the map shows a strong correlation. The city has 15 RTO stores and is one of the Maryland jurisdictions where between 16 percent and 25 percent of households live in poverty. However, this relationship appears to be weaker in Baltimore and Prince George's counties.

Looking at poverty by census tract shows an even closer link between concentrations of low-income families and the location of Rent-to-Own stores (see Figure 3, page 7). Among Baltimore City's 15 RTO stores, three are located in census tracts where 70 percent to 100 percent of households are low-to-moderate income. Eleven stores are located in areas where 51 percent to 75 percent of households are low-to-moderate income, and one is in an area where 26 percent to 50 percent of homes are low-to-moderate income.

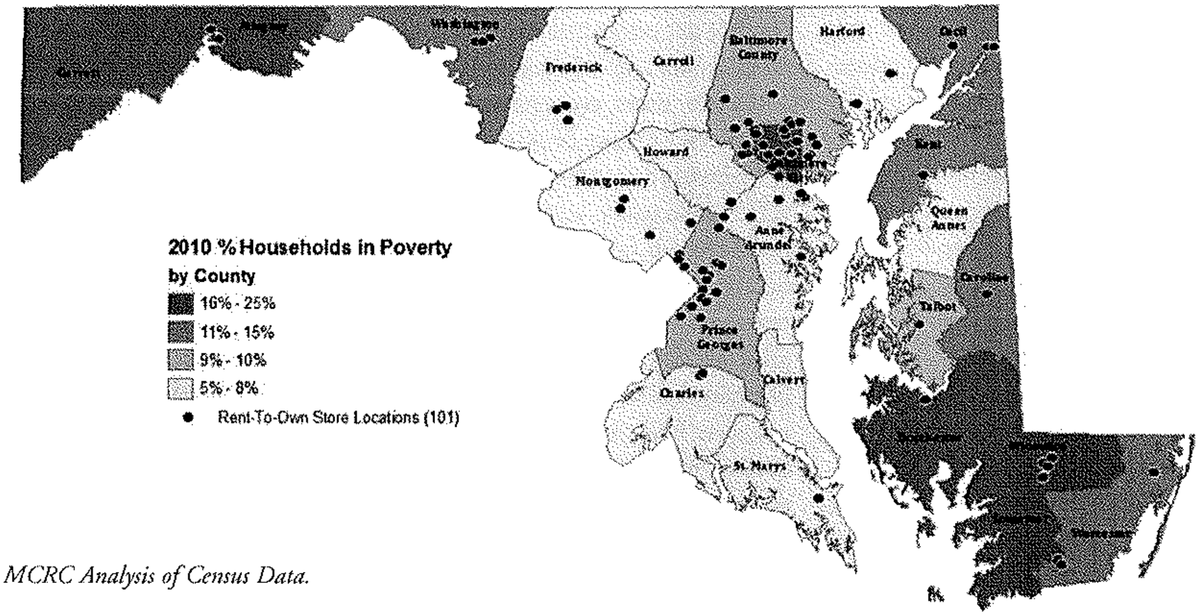
The MCRC's data also show that 62.5 percent of the Rent-to-Own

Figure 1: RTO Stores in Maryland



Source: MCRC Analysis of RTO Data.

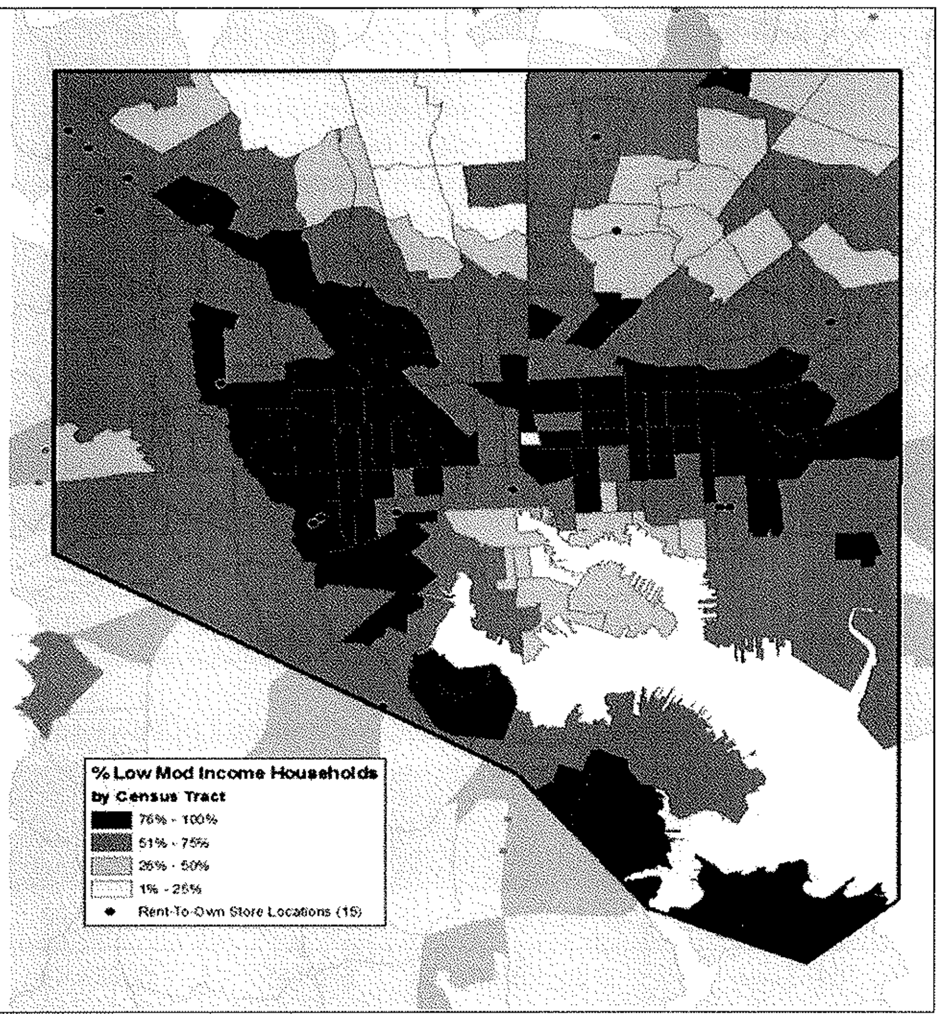
Figure 2. RTO Stores and the Percentage of Households in Poverty



Source: MCRC Analysis of Census Data.

Figure 3: Baltimore City RTO Stores by Percentage of Households in Poverty

Source: MCRC Analysis of 2010 Census Data.



continued from page 7

stores in Prince George's County and 57 percent of those in Baltimore County are located in areas where 51 percent to 100 percent of households are low-to-moderate income.

As the mapping demonstrates, RTO stores, like other fringe financial products such as pawn shops or check cashers, are predominately located in low-income areas where consumers have limited access to other retail options. These are also often the consumers who can least afford the high prices that RTO stores charge, but, lacking the assets to pay for many products in full, they often use RTO stores to buy merchandise.

Survey of Rent-to-Own Prices and Policies

As Table 3, below, shows, the cash purchase prices found at RTO stores were between 1.49 times and 1.68 times higher than the average cash prices at the retail stores. This price difference is particularly notable because several of the items priced at the RTO stores had obviously been used by others, but the prices had not been adjusted to reflect any depreciation.

While these cash prices are high compared to those of other retailers, it is important to remember that most RTO customers actually pay much more to gain ownership of their items because they pay the much higher rental purchase price (the cumulative total of all weekly or monthly rental payments) instead of the cash purchase price. As Table 4 illustrates, the average cost of renting-to-own is two to 3.5 times higher than purchasing the same merchandise from a retail store. Moreover, the average APR of the RTO transactions surveyed was nearly 150 percent, with actual APRs ranging from 65 percent to 305 percent.

These figures show that the low- and moderate-income families who often use RTO stores are paying more—far more—than what individuals who have access to more traditional retailers pay for the same merchandise. For struggling households to lose, on average, $1,312 when they purchase a refrigerator—or $1,814 when they buy a large television—means that they may very well need to sacrifice other needs to make the payments on their RTO items.

Major features of RTO sales practices identified by surveyors:

- Prices were often two to 3.5 times higher than those in retail stores.
- All stores surveyed complied with Maryland price disclosure rules and current law.
- Although merchandise was marked as used, salespeople were unable to tell surveyors how long it had been used, if it had been rented out more than once, or other information about the item's prior use.
- Used items often retailed for the same price or a price very similar to the cost of new items, even though their value had depreciated through use.
- Insurance packages that would cover the RTO customer for loss of or damage to the merchandise were

Table 3: Cash Prices at Rent-to-Own and Retail Stores

Item	RTO Store Average Cash Price	Non/RTO Store Average Cash Price	Price Difference	RTO/Non-RTO Cash Prices
Refrigerator	$1,016.87	$678.00	$338.87	149%
Television	$1,229.88	$728.55	$501.33	168%

Table 4: Total Cost of Leasing for Full Term[16] Compared to Purchasing From a Traditional Store

Item	Average Rental Purchase Price	Non-RTO Store Price	Price Difference	Total RTO Cost/Non-RTO Prices	Average APR of RTO Item
Refrigerator	$1,990.00	$678.00	$1,312.00	249%	249%
Television	$2,543.00	$728.55	$1,814.45	349%	146%

marketed in several stores. When asked, salespeople couldn't provide detailed information about what the insurance packages contained.

The high costs consumers pay for Rent-to-Own merchandise are also a loss for traditional merchants and other small businesses, and for the low- to moderate-income communities where most Rent-to-Own stores operate. Paying more than $1,000 extra for basic appliances like refrigerators and televisions cuts sharply into the disposable income that families of modest means have to spend on other goods and services, or invest in their homes and communities. That loss means less spending and less business at other area merchants, and it leaves fewer resources available to revitalize those communities.

Complaints From Maryland Consumers

A recent review of complaints filed with Maryland's attorney general found that the majority were against national RTO chains. Consumers frequently complained about price increases or price-gouging, and misrepresentation or omission of facts in sales offers. Other complaints involved collection activities, harassment by collection agents, and defective goods.

Just as the FTC found in its 1999 national survey, the leading topics of complaints against the RTO industry from Maryland consumers were price increases and price-gouging. The large number of price complaints strongly suggests that many Maryland consumers did not fully understand the pricing policies when they signed their RTO contracts.

Maryland's RTO Policies

Maryland's Rental Purchase Agreement Act was last revised in 1989. It gives consumers some safeguards but provides fewer protections against the high costs and hidden fees of the Rent-to-Own industry than consumers have in many neighboring states.

Maryland law does not place any limits on the finance charges or interest that Rent-to-Own dealers can charge. Dealers are not required to disclose an annual percentage rate (APR), the finance charges, or interest rate consumers end up paying to own the product.[17] Therefore, it is difficult for Maryland consumers to easily compare the cost of buying under a Rent-to-Own plan to buying on an installment plan.

Maryland law does contain some helpful provisions for consumers. A summary of key provisions is found in Table 5, below.

Alternatives to RTO

Save or Layaway

Many consumer advocates suggest that consumers consider either: 1) saving up money and buying the item for cash at a traditional retailer, or 2) opting for a layaway plan with a local retailer. The first option may be a good idea for nonessential items such as a television, but consumers often can't wait to replace household appliances such as refrigerators or washers and dryers. Although many stores had shelved their layaway plans several years ago, as households continue to suffer financial

Table 5: Selected Provisions of Maryland's Rental Purchase Agreement Act

Selected Disclosure Requirements	Rights of Consumers
* the total number, total amount, and timing of all rental payments necessary to acquire ownership * a statement that the consumer will not own the property until all payments are made * a description of the rental property including an identification number and a statement of whether the item is new or used * the cash price of the property * the initial amount due before delivery or acquisition of the item * a statement describing the right to an early purchase option and price, and the method for determining the early purchase price * the consumer's right to reinstate a contract after missing a payment	* RTO consumers may reinstate their contracts if within five days (for monthly contracts) or two days (for weekly contracts) they pay all past due charges, any re-delivery charges, and a reinstatement fee of no more than $5.

continued from page 9

stress during the recession, many stores have reintroduced them.

National retailers, including Wal-Mart, Sears, Best Buy, and Toys "R" Us have all revived their layaway programs. While these plans provide options for low-income consumers, particularly those without access to credit, the costs to consumers may outweigh the benefits.

Most of the layaway plans these stores tout are short-term solutions at best. The plans allow consumers to purchase merchandise by paying off the balance over eight- to 12-week periods. Once the balance is paid off, consumers receive the merchandise. Even though the fees and finance charges are quite high, this option is a lot less expensive than purchasing the same items at a Rent-to-Own store.[18]

Under all of these plans, consumers can cancel their layaway purchases and receive a refund of the payments they have made, with service and cancellation fees subtracted from their refund.

Credit Cards

As the FTC report noted, almost half of RTO customers have credit cards. Those consumers will find it much less costly, over time, to pay down their credit cards (if they are at or near their credit limit) and charge an item on credit than to purchase the same item on installment at an RTO store. As Table 6, below, indicates, consumers come out ahead financially, even if they use a high-interest credit card, when the cost of a credit purchase is compared to an RTO transaction.

Second-hand Stores, Craigslist, Local Shops

Consumers who don't have access to credit can also find options that are much more affordable than high-price RTO merchandise.

Reviewing Craigslist, for instance, the MCRC found refrigerators in similar sizes and models to those costing well in excess of $1,000 at RTO stores routinely priced between $100 and $300. Conducting a similar search for televisions, prices ranged from $150 to $500 for televisions of a similar size, model, and make to those sold in RTO stores for more than $1,000.

Even factoring in the cost of transportation to see and pick up the item, these prices are an enormous savings over RTO purchases.

Second-hand stores and thrift stores run by nonprofits such as Habitat for Humanity's ReStore and Goodwill Industries also offer consumers much lower prices for goods that in some cases are quite similar to those available in Rent-to-Own stores.

Conclusion

Rent-to-Own stores, like other fringe financial products, serve predominately low-income households and allow them to rent appliances, electronics, and furniture on a weekly or monthly basis. Although some consumers appreciate the ability to cancel their contracts and return the merchandise at any time, Maryland families are paying two to 3.5 times more for RTO merchandise than they would pay if they purchased the item for cash at another retail store. The effective APR rates on the RTO sales that the MCRC surveyed range from 65 percent to 305 percent.

These high costs impose hardships on families across Maryland, especially on vulnerable families struggling to make it through tough economic times. Many financially struggling consumers are unable to maintain these high payments and end up losing the money they've invested in RTO items when they have to return them or have them repossessed—while the RTO stores may go on to re-rent the same item four or five times.

Table 6: How Much Will You Pay for a $1,000 Refrigerator?

Type of Payment	Payment Schedule	Total Cost	Total APR
Bank Line of Credit	27 monthly payments of $40	$1,080	6%
MasterCard/Visa	32 monthly payments of $40	$1,280	18%
Store Credit Card	38 monthly payments of $40	$1,520	28%
Rent-to-Own	24 monthly payments of $80	$1,920	72.5%

Source: New York City Council, "Kick-Off to a Rip-Off: Loose Laws Lead to Inflated Prices for Rent-to-Own Consumers."

continued from page 10

RTO stores are not covered by federal regulations and in Maryland such transactions are treated as a short-term lease, rather than a credit purchase, even though national studies have found that the majority of RTO consumers intend to purchase the merchandise that they are renting.

Maryland consumers need more protections from, and better information about, the fees and policies of an industry that often imposes such high costs on consumers.

MCRC Policy Recommendations

As state previously, Maryland's Rental Purchase Agreement Act has not been amended since 1989, even as other states have enacted stronger protections for consumers. In this difficult economic climate, state policymakers can do more to inform consumers about the long-term economic costs of Rent-to-Own stores. This will enable families to make better-informed decisions when they buy appliances, electronics, and other items.

Several policy changes would help strengthen Maryland law and better protect consumers. These include:

- Establishing a price cap of 156 percent of the wholesale cost for appliances and electronics, and 167 percent of the cost of furniture and other goods. This price ceiling would allow RTO stores to continue to make an extremely high profit but would give consumers new protections.
- Capping the maximum total of all payments over the course of a rental purchase contract at twice the maximum cash price (several states have similar requirements).
- Giving consumers three days to reconsider and rescind a rental-purchase agreement.
- Extending the time consumers who miss a payment have to reinstate their contract to 60 days, for those renting on a monthly basis, and 21 days for those renting weekly. If a consumer has paid more than half the total rental purchase price of an item, he or she should have 90 days to reinstate the contract.
- Barring any requirement that a consumer obtain insurance, any penalty for early purchase, or any large balloon payments as part of a rental-purchase agreement.
- Expanding the disclosures in the sample form on an RTO contract to include the effective APR for the contract and the cost of the merchandise at traditional retailers.
- Treating RTO transactions as credit sales so that they would fall under Maryland usury laws.

About the Authors

Marceline White: Marceline White has been the executive director of the Maryland Consumer Rights Coalition since 2009. Earlier in her career, she advocated on international fair trade, gender and development, environmental justice, and reproductive rights issues. Her publications include: *Trading Women's Health and Rights? Trade Liberalization and Reproductive Health in Developing Economies* (2006), and *Women and Justice* (2004). At the MCRC, White authored "Debt Settlement in Maryland: Compounding Problems, Deepening Debt" (2010) and served on the Maryland Debt Settlement Task Force and the Maryland Foreclosure Task Force. She received her master's degree in public and international affairs from the University of Pittsburgh and a bachelor's degree in journalism from the University of Missouri-Columbia.

Franz Schneiderman: Franz Schneiderman is the communications director at the MCRC, and brings extensive experience in advocacy journalism, public affairs, and political communications. For more than 10 years, he worked for *The Baltimore Sun* as letters editor and an editorial board member, and has performed communications and advocacy work for a number of area campaigns and advocacy groups. Schneiderman is a graduate of Williams College and Johns Hopkins University.

For more information, contact us at: MCRC, 1209 North Calvert Street, Baltimore, MD 21202. facebook.com/marylandconsumers, twitter.com/mdconsumers, www.marylandconsumers.org, www.marylandconsumersblog.org

Endnotes

[1] www.rtohq.org/apro-rto-industry-overview.html

[2] "Rent-to-Own News: Aarons Same Store Revenues Increase 3.7%," Feb. 12, 2012, www.rtohq.org.

[3] Hines, Alice, "Rent-A-Center CEO: New Consumer Bureau Won't Have Authority Over Us," Feb. 3, 2012, Huffington Post, www.huffingtonpost.com.

[4] Ibid.

[5] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Federal Trade Commission Bureau of Economics Staff

continued from page 11

Report-Survey of Rent-to-Own Customers," last modified June 2007, www.ftc.gov/reports/renttoown/rtosummary.html.

[6] www.rtohq.org/apro-rto-industry-overview.html

[7] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Federal Trade Commission Bureau of Economics Staff Report-Survey of Rent-to-Own Customers," last modified June 2007, www.ftc.gov/reports/renttoown/rtosummary.html.

[8] Lacko, McKernan, and Hastak, Federal Trade Commission Study, op cit.

[9] Consumer Reports Investigation, "Would You Pay the Equivalent of 311 Percent Interest to Own a Big-screen TV?" June 2, 2011, consumerreports.org.

[10] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Customer Experience with Rent-to-Own Transactions," Journal of Public Policy and Marketing, 2001, 21(1): 126-138.

[11] Hansen, Louise, "Criminal Prosecutions Soar in the Rent-to-Own Sector," The Virginia Pilot, April 11, 2011.

[12] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Customer Experience with Rent-to-Own Transactions," Journal of Public Policy and Marketing, 2002, 21(1): 126-138.

[13] Ibid.

[14] Ed Winn II, "Rent-to-Own at the Federal Level," Association of Progressive Rental Organizations, 2010.

[15] The APRO stated that there were 91 RTO stores in Maryland, but a Google and Yellow Pages search revealed 101 stores. Stores that only rented one product such as musical instruments were not included in the results. The MCRC did not visit all the stores; therefore, some information may have changed since mapping the data.www.rto.org

[16] For this analysis, the MCRC calculated the payments based on weekly payments rather than monthly ones.

[17] Maryland Attorney General Consumer Publication List, "Rent-to-Own: Worth the Convenience?"www.oag.state.md.us/consumer/edge109.htm.

[18] Hyman, Louise, "Laid Flat by Layaway," The New York Times, Oct. 11, 2011.

ABELL SALUTES

continued from page 1

appears personable, confident and even, joyful—she is actually now a cheerleader at her new high school. What happened in those six months? What took Denise from the place in life she was in, sold as a sex worker, to the place in life she is now--in a mood light enough to inspire her to become a student in high school and even a cheerleader for its teams? She has an answer: "TurnAround became my family, and this is where I was reborn."

TurnAround is a non-profit organization that has been providing counseling for victims of domestic violence and sexual assault since 1978. In fiscal year 2010, with a budget of nearly $1.3 million, the agency provided direct services to 1,100 adult and child victims, including 122 adults and children who were sheltered, representing approximately 5,000 overnight stays. Responding to human trafficking calls is also the business of TurnAround; with Abell Foundation funding, TurnAround is now providing emergency shelter and support services for Baltimore City's victims of sex trafficking.

Sex trafficking is a form of modern day slavery where women and young girls are forced to engage in the commercial sex trade. By definition, a sex trafficking victim is anyone who engages in commercial sex as the result of force, fraud or coercion, or who is under the age of 18 (anyone underage cannot give consent to engage in prostitution).

* * *

"When we get these calls," Ms. Branson, says, "our anti-trafficking team quickly arranges for a 'hand-off'—that is, a safe place where the girl can be transferred from FBI custody to our program. It's usually a hotel, or police headquarters, or a parking lot—a McDonald's parking lot, for example.

"We find the victim has the clothes on her back and nothing else. We keep jogging suits in the trunk of the car, we get her dressed and then we get her fed and then—remember she is one scared girl now!—we take her to a safe hotel room and let her get a good night's rest. A staff member stays with her, and in the morning sees that she gets breakfast. Then, from there on out, well—every case is different. It depends on the victim's needs, and we are prepared to address all of them.

"But the key component to our programming is the treatment of the trauma that follows sexual violence. If you are raped a thousand times you have a very high level of violence to deal with—and we do. We find short term housing. We provide talk therapy. We assist with job training. We work on individual educational needs—some of these girls have not been in school since they were 13 years old. We do job placement and permanent shelter—sometimes in a foster home. We develop a life plan."

The TurnAround program now serves around 40 girls—all victims of sexual trafficking in Maryland.

Abell Salutes Rosalyn Branson, executive director of TurnAround--and also, "Denise," for making the long journey from sex victim to engaged student, and into a spirit of well-being that led her to become a cheerleader for her school. She does indeed have much to cheer about.