Background on Rent To Own Transactions

Rent to own ("RTO") businesses are essentially appliance, electronics, and furniture retailers which arrange lease agreements rather than typical installment sales contracts for those customers who cannot purchase goods with cash or who are unsophisticated about money management. These lease agreements contain several special features. First, the lease agreements contain purchase options which typically enable the lessees to obtain title to the goods in question by making a nominal payment at the end of a stated period, such as eighteen months. Second, the leases are short term, so that "rental payments" are due weekly or monthly. Third, the leases are "at will." In other words, the leases theoretically need not be renewed at the end of each weekly or monthly term. The RTO industry aims its marketing efforts at low income consumers by advertising in minority media, buses, and in public housing projects, and by suggesting it has many features attractive to low-income consumers: quick delivery, weekly payments, no or small down payments, quick repair service, no credit checks, and no harm to one's credit rating if the transaction is canceled.[1]

Most RTO customers enter into these transactions with the expectation of buying an appliance and are seldom interested by the rental aspect of the contract.[2] This attitude is encouraged by RTO dealers who emphasize the purchase option in their marketing even while they are minimizing its importance in the written contract. Of course, if and when a transaction is challenged in court, a RTO dealer will point to the rental provisions of the contract and claim that statutes which control traditional retail installment sales are irrelevant to RTO agreements.

The chief problem with RTO contracts is not only that these supposed leases are used to mask installment sales, but also that these sales are made at astronomic and undisclosed effective interest rates. Under most RTO contracts, the customer will pay between $1,000 and $2,400 for a television, stereo, or other major appliance worth as little as $200 retail, if used, and seldom more than $600 retail, if new. This means that a low-income RTO customer may pay 1 1/2 to 12 times what a cash customer would pay in a traditional retail store for the same appliance.

The finance charge and interest rate or annual percentage rate (APR) of an RTO contract depends on the retail cash value of the appliance (especially whether new or used) and the timing, amount, and number of payments. The following chart illustrates the APR computations:

52 Weeks	78 Weeks	104 Weeks

[1] The Federal Trade Commission conducted a survey of 532 RTC customers and found that 79% of those customers who used RTO in the previous year had incomes under $40,000. James M. Lacko, Signe-Mary McKernan & Manoj Hastak, Federal Trade Commission, Survey of Rent-to-Own Customers (Apr. 2000), *available at* www.ftc.gov/reports/index.htm.

[2] A telephone survey of RTO customers found that 90% of customers intended to own the product they were renting, but only 40% managed to keep the product. Ed Winn, *The RTO Customer Survey See-Saw*, Progressive Rentals, May–June 2004. The RTO industry claims on its website that less than one-quarter of its customers rent long enough to own the "rented" goods. *See* www.rtohq.org/apro-rto-industry-overview.html. The FTC' survey of RTO customers found that 70% of RTO merchandise was purchased by the customer. Furthermore, 90% of the merchandise on which customers had made substantial payments (of six months or more) was purchased. James M. Lacko, Signe-Mary McKernan & Manoj Hastak, Federal Trade Commission, Survey of Rent-to-Own Customers (Apr. 2000), *available at* www.ftc.gov/reports/index.htm.

Amount Financed	Weekly Payment	Finance Charge	APR	Finance Charge	APR	Finance Charge	APR
$200	$16	$632	408%	$1,048	415%	$1,464	416%
$500	$16	$332	111%	$ 748	148%	$1,164	159%
$700	$18	$236	60%	$ 704	106%	$1,172	122%

One example is a brand new big-screen television which sells for about $1,000 from a leading electronics retailer. If an RTO customer leases that big screen television (worth $1,000) for $37 per week for 52 weeks,[3] the APR would be about 192%. However, if the customer leased a *used* big screen television (worth $700 or less) for the same payment terms, the APR could be over 275%. The periodic payments charged for new goods and used goods are generally the same. The RTO dealer simply makes an adjustment in the total *number* of payments required to be paid to achieve ownership of the used item. This means that the rental value consumers are paying is the same for used goods as for new – costing the unsuccessful consumers far more for the rental of lower value goods.

Source: Testimony of Margot Freeman Saunders, Of Counsel, National Consumer Law Center, 1001 Connecticut Avenue, NW, Washington, D.C. 20036, before the Committee on Financial Services, Subcommittee on Financial Institutions & Consumer Credit, regarding "Examining Rental Purchase Agreements and the Potential Role for Federal Regulation (July 26, 2011) (also on behalf of Consumer Federation of America, Consumers Union, and U.S. Public Interest Research Group).

[3] This was the weekly rental fee reported for a big screen television in Rent-A-Center v. Duron, 2004 WL 2403571 (Tex. App. Oct. 28, 2004).