

Rent-to-Own Ripoff:

Why Wisconsin Shouldn't Exempt the Predatory Rent-to-own Industry from Consumer Protection Laws

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Executive Summary

The 2013-2015 biennial executive budget, proposed by Governor Walker, includes an exemption for the rent-to-own industry from Wisconsin's consumer protection laws. Rent-to-own businesses are appliance and furniture retailers that arrange "lease agreements," rather than typical installment or credit sales contracts. These leases are regulated as a form of credit because the consumer is buying a product over time and paying a very high premium over the product's sale price. As such, rent-to-own businesses in Wisconsin currently are regulated under the Wisconsin Consumer Act, providing strong protections for consumers from a predatory industry. The rent-to-own industry has effectively dismantled similar strong consumer protections that apply to these installment contracts in most states and replaced them with industry-friendly laws. Wisconsin is one of four states that currently protect consumers from this special interest exemption. The executive budget proposal would add Wisconsin to the list of 46 states who have exempted this industry from strong consumer protections that apply to other credit sales, including disclosure of effective APRs, even though these sales are made at astronomic annual percentage rates.

In order to highlight why the rent-to-own industry should not be exempted from Wisconsin's consumer protection laws, WISPIRG staff conducted a survey of five rent-to-own (RTO) stores in the Rockford, IL area in March 2013. We compared the cost of rent-to-own to the cost of buying the same or similar goods at major appliance and electronics retailers.

Here is what we found:

- The RTO stores that we surveyed charge an average effective APR of 221 percent, which we calculated since rent-to-own businesses in Illinois are not required to disclose their APRs to consumers.
- RTO stores charge effective APRs ranging from 138 percent to 370 percent for the appliances that we surveyed, including televisions, washers and dryers, refrigerators, oven ranges, and laptops.
- Purchasing items via rent-to-own at RTO stores costs 2-7 times as much as purchasing the same items at major appliance and electronics retailers.

- 100 percent of the RTO stores surveyed, and 100% of the products surveyed in those stores, charged effective APRs of over 100 percent -- that is, over five times prevailing credit card rates (less than 20 percent).
- "Cash prices" at RTO stores for outright purchase are in most cases 50%-100% above the price of these products at major appliance and electronics retailers such as Best Buy, Walmart, and Menards.
- Using a slightly above average cost 18% APR bank credit card, and financing their purchase over an equivalent period to a rent-to-own contract, or 18-24 months, consumers typically would pay less than half and sometimes almost a quarter of what they would pay by renting to own the same product.
- Rent-to-own items are often discontinued models. By offering obsolete items, RTO stores are able to avoid direct price comparisons with the retailer down the street, thereby allowing them to inflate the price without concern for fair market value.
- The RTO business model includes carrying used items, and our survey found in every instance the rent-to-own "cash price" for used items was higher than the price for a comparable new item at other retailers.

In addition to exempting the RTO industry from disclosing their effective APR, the executive budget would put into place additional protections for the industry, including capping awards for enforcing consumer protection laws against the industry. Insidiously, there also is a purported consumer provision which would "limit" the total cost to RTO to double the outright cash price for in-store purchase. Since the cash price is set by the store and is often double fair market value, this restriction is virtually meaningless. The industry should not be able to claim that this purported limit on total cost is pro-consumer. It actually hides the true finance charge because it uses artificially inflated "outright cash prices" rather than market prices.

Wisconsin lawmakers should reject any effort that exempts the rent-to-own industry from Wisconsin's consumer protection laws. The legislature should also reject any special treatment or favors for the rent-to-own industry, such as hiding a major policy change serving a powerful special interest in the budget process.

Consumers should avoid rent-to-own contracts for any products, and instead either save their money and purchase the product outright at a much lower cost, or if necessary, purchase the product with a credit card, which will still be much cheaper than rent-to-own.

Background on the Rent-to-Own Industry

The U.S. rent-to-own business has grown from a fledgling industry 40 years ago to a nearly \$20 a year billion industry. Rent-to-own stores, whose primary chains are Rent-A-Center, Rentway,

and Aaron's as well as LeBakken's in Wisconsin, sell televisions, appliances, computers, jewelry and furniture by making consumers loans payable on a weekly or a monthly basis.

The predatory rent-to-own industry promises consumers the American dream of ownership. "For only 78 weekly payments of \$10, you, too, can own this television." The industry doesn't tell you that the effective interest rate on that loan, however, is 220% APR with \$560 in interest and finance charges. Unfortunately, the consumer isn't told that the total cost is easily more than double the cost of buying the TV at a department store, and if the executive budget exemption is passed, that the interest rate (APR) could be as high as 200% annually or more. Even worse, the majority of RTO consumers are unable to complete the long, difficult rental contract terms to achieve ownership.

Despite their advertising focused on ownership, industry studies claim that most consumers are simply renting to rent. Yet, according to the U.S. Federal Trade Commission, the vast majority of consumers want to complete the contracts and own the goods but are forced to refinance again and again. In recent testimony on behalf of WISPIRG's national office, U.S. PIRG, the Consumer Federation of America and Consumers Union (the advocacy arm of Consumer Reports magazine), the National Consumer Law Center's Margot Saunders explained:

"As both the RTO industry and the FTC statistics show, the customer base for RTO transactions is among the poorest Americans – and quite often young military personnel. The FTC statistics also show that the vast majority of these customers enter into these transactions as a method of purchasing goods.[...] The FTC says that seventy percent of RTO merchandise is purchased. The industry indicates in its promotional materials for this bill that "only 25 percent to 30 percent of rental purchase customers actually pursue the ownership option." The difference between these statistics is that the FTC is counting people and the industry is counting contracts. The reason for the difference in the numbers is that RTO customers frequently "refinance" their RTO contracts and continue making payments. Ultimately customers end up owning RTO goods. The 25% rate of initial contracts being completed all the way to purchase is more an indication of the industry's collection practices than it is an indication of customer intent to purchase.¹"

The industry argues that since a consumer can cancel the contract any time with no obligation other than to return the goods (and make previously unpaid payments), that rent-to-own is not

¹ Testimony of Margot Saunders, Before a Hearing of the U.S. House of Representatives Financial Services Committee, 26 July 2011, entitled "Examining Rental Purchase Agreements and the Potential Role for Federal Regulation" available at <http://financialservices.house.gov/calendar/eventsingle.aspx?EventID=252659>

like other forms of buying on time, or credit. Specifically, the industry vociferously opposes making interest rate, or APR, disclosures. That's not surprising when RTO APRs average 221%, according to our survey. WISPIRG and other groups argue that consumers deserve to compare the true costs of rent-to-own with other options, and that the APR is the only way to compare different alternatives.

Despite industry efforts to redefine their product as not a credit product, rent-to-own transactions have been held by the Wisconsin Court of Appeals to be credit transactions. Nonetheless, the industry seeks, through Governor Walker's budget proposal, to treat the transactions as leases, not credit sales. That would mean fewer protections for consumers.

According to an authoritative Business Week (21 May 2007) cover story, the rent-to-own industry has 8% of the "\$250 billion/year poverty business." As part of the so-called "fringe banking business," which also includes check cashing stores, pawn shops, and pay day loan stores, RTO stores aggressively target lower income and/or predominantly minority communities, where consumers may have more difficulty gaining access to less costly credit purchase options, or at least perceive that they do not have alternatives. The RTO industry aims its marketing efforts at low-income consumers by advertising in minority media, buses, and in public housing projects and even around the gates of military bases.

As stated above, statistics from the FTC show that the RTO customer base is among the poorest and that the vast majority of their customers enter into these transactions with the expectation of buying an appliance and are seldom interested in the rental aspect of the contract. 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.

Consumers in rent-to-own stores also have the option to purchase products outright at a "cash price," the cost of paying for and walking out with the goods today. But, even these prices are inflated and typically twice or more the fair market value at a non-RTO retailer. Moreover, these artificially high cash prices deflate the true APR the industry charges consumers. Worse, many RTO goods are used merchandise, not new, making the prices quoted even more out of line.

About 14 states with industry sponsored rent-to-own laws "limit" the total cost to RTO to double the outright cash price, but since the cash price is set by the store, not by fair market value, this restriction is virtually meaningless. As previously noted, the executive budget includes this deceptive provision, which appears to protect consumers, while doing nothing to actually protect them from over-priced goods.

While some 46 states have enacted industry-friendly laws with these and other weak provisions, a few states, including New Jersey, Wisconsin, Minnesota and Vermont, enforce tough consumer protection laws. Unable to win in all state legislatures, the RTO industry has also asked Congress to preempt, or over-ride, these strong state consumer protection laws and replace them with a weak industry-friendly federal law; thus far, that effort has failed.

Major Findings

Our survey of five Rent-to-Own stores in the Rockford, IL vicinity found that products in these stores were sold at prices far higher than in other major electronics and appliance retailers. In not a single instance did we find a consumer would be better served by any of the rent-to-own stores that we visited when comparing their products and pricing to other retailers. Here is what we found:

- Consumers have the option to purchase rent-to-own products outright and own the product without signing a rent-to-own contract, otherwise known as the “cash price.” On average, the “cash price” for rent-to-own products was 85% higher than the average cost of the same or similar products at other major retailers.
- Purchasing rent-to-own products through a rent-to-own contract costs as much as seven times the cost of purchasing the same product outright at non-rent-to-own retailers.
- Purchasing rent-to-own products costs consumers at least twice, and sometimes nearly four times what they would pay by purchasing the same product at another retailer with an 18% APR credit card.
- Sometimes rent-to-own products are previously rented and visibly worn, and as such, consumers are taking an increased risk that the product might not function as well as a new product.
- Rent-to-own items are often discontinued models. By offering obsolete items, RTO stores are able to avoid direct price comparisons with the retailer down the street, thereby allowing them to inflate the price without concern for fair market value.

Buying items with RTO is extremely expensive. A typical 78-104 week (one-and-one-half to two years) purchase plan for a television set may result in total payments, assuming the consumer completes the rental agreement to own the TV which many do not, equivalent to several times the TV's outright purchase price (“cash price”) at the RTO store. At a typical store in the survey, for example, a television set was offered for rent-to-own for 91 payments of \$35.99, for a total of \$3,275.09, but was available for an outright cash price of \$1,965.05 at a calculated APR of 64%. The total rent-to-own payment, then, was much greater than purchasing the product

outright. But, this outright purchase or “cash price” at the rent-to-own store was 2.5 times the average purchase price at other major retailers.

When a realistic “cash price” based on the fair market value, or the average cost for the same product at other retailers, the total rent-to-own cost actually has an effective APR of 233%. Artificially high cash prices at RTO deflate the true APR the industry charges customers, as shown in the chart below. Worse, many RTO goods are used merchandise, not new, making the price quoted even more out of line with prevailing fair market costs and prices.

To conduct our survey, we visited five rent-to-own stores in the Rockford, IL vicinity; the stores we visited were three Rent-a-Center and two Aaron’s Rent-to-Own stores. We compared these prices to the same models, where available, at other major retailers including Menard’s, Walmart, Best Buy, American Appliance, Sears and Home Depot.

Here are a few charts outlining the high cost of rent from the stores we surveyed:

Table 1: Outright Cash Prices at Rent-to-Own Stores Are Always Higher than the Average Cash Prices at other Retailers:

Product	Rent-to-Own Store	Other Retailers	% Higher at RTO
Magnavox TV LCD 32” 1080p*	\$935.61	\$333.44	280%
Toshiba TV LED 40” 1080p*	\$1,343.58	\$999.99	134%
LG TV LED 47” 1080p	\$1,965.05	\$789.00	249%
LG TV Plasma 42” 720p*	\$929.63	\$467.21	198%
Panasonic TV Plasma 50” 720p	\$1403.53	\$639.00	219%
Apple Notebook MacBook Air 13.3”*	\$1,967.51	\$1,199.00	164%
Toshiba Notebook Satellite 17.3”*	\$988.88	\$473.00	209%
Frigidaire Oven Electric Range 30”	\$539.99	\$369.50	146%
Whirlpool Refrigerator 17.6 cu*	\$966.80	\$629.05	153%
Whirlpool Refrigerator 21.9 cu*	\$1,926.09	\$997.00	193%
Amana Washer and Dryer	\$1,419.99	\$842.49	168%

*Denotes RTO Product is Used or an Outdated Model

Table 2: Total RTO Cost vs. Purchasing Same Product with 18% APR Credit Card at Other Retailers:

Product	Rent-to-Own Cost	Other Retailer Cost with 18% APR CC	Amount Saved with 18% credit card
Magnavox TV LCD 32" 1080p*	\$1,559.35	\$382.50	\$1,176.85
Toshiba TV LED 40" 1080p*	\$2,239.30	\$1,152.00	\$1,087.30
LG TV LED 47" 1080p	\$3,275.09	\$909.00	\$2,366.09
LG TV Plasma 42" 720p*	\$1,549.38	\$535.50	\$1,013.88
Panasonic TV Plasma 50" 720p	\$2,339.22	\$733.50	\$1,605.72
Apple Notebook MacBook Air 13.3"*	\$3,279.18	\$1,377.00	\$1,902.18
Toshiba Notebook Satellite 17.3"*	\$1,437.12	\$544.50	\$892.62
Frigidaire Oven Electric Range 30"	\$791.76	\$423.00	\$368.76
Whirlpool Refrigerator 17.6 cu*	\$1,487.38	\$720.00	\$767.38
Whirlpool Refrigerator 21.9 cu*	\$2,963.22	\$1,143.00	\$1,820.22
Amana Washer and Dryer	\$2,507.52	\$967.50	\$1,540.02

*Denotes RTO Product is Used or an Outdated Model

Table 3: Amount "Financed" and Effective APR of RTO Products Calculated Using Average Fair Market Value Cash Prices

Product	Total Rent-to-Own Cost	Average Fair Market Value Cash Price	Amount "Financed"	Effective APR
Magnavox TV LCD 32" 1080p*	\$1,559.35	\$333.44	\$1,225.91	370%
Toshiba TV LED 40" 1080p*	\$2,239.30	\$999.99	\$1,239.31	141%
LG TV LED 47" 1080p	\$3,275.09	\$789.00	\$2,486.09	233%
LG TV Plasma 42" 720p*	\$1,549.38	\$467.21	\$1,082.17	265%
Panasonic TV Plasma 50" 720p	\$2,339.22	\$639.00	\$1,700.22	236%
Apple Notebook MacBook Air 13.3"*	\$3,279.18	\$1,199.00	\$2,080.18	159%
Toshiba Notebook Satellite 17.3"*	\$1,437.12	\$473.00	\$964.12	279%
Frigidaire Oven Electric Range 30"	\$791.76	\$369.50	\$422.26	171%
Whirlpool Refrigerator 17.6 cu*	\$1,487.38	\$629.05	\$858.33	172%
Whirlpool Refrigerator 21.9 cu*	\$2,963.22	\$997.00	\$1,966.22	185%
Amana Washer and Dryer	\$2,507.52	\$842.49	\$1,665.03	138%

*Denotes RTO Product is Used or an Outdated Model

TABLE 4: Showing How Manipulation of "Cash Price" and "Total Cost of RTO" Are Used in RTO Business To Confuse Consumers and Showing Dramatically Lower Credit Card Cost

Product	CASH PRICE (OR THE PRICE TO BUY OUTRIGHT)	Number of Payments	Payments/year	Periodic Payment	Total Amount Paid or Total Cost of RTO	Amount "Financed"	Calculated APR
PRODUCT PURCHASED AT RTO STORE, COMPARING CALCULATED APR AND AMOUNT FINANCED USING RTO STORE "OUTRIGHT CASH PRICE" (\$1965) AND AVERAGE (FAIR MARKET VALUE) DEPARTMENT STORE PURCHASE PRICE (\$789)							
TV LED 47" 1080p	\$1,965.05	91	52	\$35.99	\$3,275.09	\$1,310.04	64%
TV LED 47" 1080p	\$789.00	91	52	\$35.99	\$3,275.09	\$2,486.09	233%
PRODUCT PURCHASED AT AVERAGE DEPARTMENT STORE PURCHASE PRICE AND FINANCED WITH CREDIT CARD OVER 21 MONTHLY PAYMENTS (EQUAL TO 91 WEEK RTO CONTRACT)							
TV LED 47" 1080p	\$789.00	21	12	\$44.00	\$924.00	\$135.00	18%

Recommendations/ Advice for Consumers

For policy makers:

- Wisconsin should reject any effort that exempts the rent-to-own industry from Wisconsin’s consumer protection laws. As a high-cost, predatory industry, rent-to-own should be required to comply with the same regulations as other credit products sold in the state of Wisconsin.
- Wisconsin should reject any special treatment or favors for the rent-to-own industry. For example, we should not cap damage awards for victims of the predatory rent-to-own industry.
- If the legislature wants to improve consumer protections for rent to own consumers, it could impose limits on maximum rent-to-own interest rates, as New Jersey requires.

For consumers:

- Consumers should avoid rent-to-own contracts for any products, and instead pursue the following alternatives:
 - Save your money until you are able to purchase and own the product outright. Often consumers could pay for a product they would rent-to-own by saving just the equivalent of 3-4 monthly payments in many cases.
 - Consider layaway plans, which may be available.
 - Purchase the product with a low-interest credit card. While we advise against increased credit, this option is much cheaper for consumers who will save 50% to 75% what they will pay over the life of a rent-to-own agreement.
 - Comparison shop on Ebay or look at Craigslist. Merchandise can be purchased at a fraction of what RTO stores charge, and in fact, oftentimes for the equivalent of only 1-2 months of payments for a similar item.

Conclusion

There should be no misunderstanding about the executive budget proposal – it is not designed to protect consumers. The purpose of the rent-to-own proposal is to overturn stronger state law that provides more meaningful consumer protections for rent-to-own transactions. A cursory reading of the bill might lead one to believe that some of the provisions would actually help consumers. However, a close evaluation reveals that there are no meaningful protections whatsoever in this proposal.

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