New York City Habitat for Humanity®

Rent-to-Own Industry

Habitat for Humanity - New York City has initiated a citywide education campaign to raise awareness of predatory lending practices targeted to Habitat homeowners and all low-income New Yorkers. Our goals are to shine light on some of the worst deceptive practices and provide better alternatives so New Yorkers keep more of their hard-earned wages for necessities such as food, medical care—and housing.

WHAT IS THE RENT-TO-OWN INDUSTRY?

Your refrigerator goes on the fritz in the middle of summer. You're living paycheck-to-paycheck, your savings are depleted, your credit rating is zilch. What's a family to do?

Many low-income families turn to rent-to-own businesses, which offer immediate and easy access to major consumer goods, with relatively low weekly or monthly payments.

Typically, rent-to-own stores offer a range of expensive products—appliances, furniture, computers, televisions and more—for long-term lease, with the option to purchase the item at the end of the lease agreement.

Typically, there are no down payments or credit checks. Consumers enter into a self-renewing lease and are under no obligation to continue payments beyond the current weekly or monthly period. The transaction usually provides the option to eventually purchase the goods by continuing the lease for a specified period of time or by making early payments to cover the remaining lease payments.

These terms are attractive to many consumers who cannot afford a large cash purchase, may be unable to qualify for credit, want only temporary access to an item, or are unwilling or unable to wait until they can save up to purchase it.

Statistics indicate that about 75% of rent-to-own customers return the item to the store and fewer than quarter of the customers continue renting long enough to own the item.

IT SOUNDS TOO GOOD TO BE TRUE. WHAT ARE THE RENT-TO-OWN DRAWBACKS?

Rent-to-own stores are considered "fringe banking" businesses or "predatory lenders." Like other fringe banking entities, New York City's rent-to-own businesses are located primarily in low-income communities of color, where many residents have poor or no credit history and cannot afford outright purchases of expensive items.

Too often, these businesses charge excessive rates, add hidden fees and charges, then profit by repossessing and reselling the merchandise (sometimes represented as "new").

Here are some of the primary consumer protection issues that have been raised about the rent-to-own industry:

- **Excessive Charges**: Many rent-to-own stores charge high "base prices" for their merchandise, then offer long-term leases with low weekly or monthly payments that mask the final price. Hidden charges, such as processing fees, delivery fees, sales tax, damage waiver fees, in-home collection fees, home pick-up fees, reinstatement fees, installation fees, product insurance fees and late payment fees. This long list of surcharges can add up to many hundreds of dollars.

- **Risk of Repossession**: A rent-to-own lease usually carries no long-term obligation. To the customer's benefit, that means the item can be returned at any time, with no further obligation. On the flip side, the store can repossess the item if even a single payment is missed. The customer can lose both the item—and all of the money he or she has invested in it.

- **Inadequate Information on Leasing Terms:** According to consumer advocates, many rent-to-own customers do not receive clear information on the terms and conditions of their agreements and purchasing options.

- **Used Items Misrepresented as "New:"** Many rent-to-own customers complain that the item they lease are misrepresented as "new." Because the rent-to-own business model depends on repossessing merchandise, then re-leasing it, used products frequently find their way back to the store shelves. Often, they are repackaged and represented as "new."

- **Disregard for a Customer's Ability to Pay:** Rent-to-own merchants do not take into account whether the consumer can afford his or her payments, and do not check into the amount of other debts and obligations that the consumer must pay. This laissez-faire approach makes it easy for low-income individuals to acquire necessities—but it also makes defaults and repossession more likely.

- **Poor Customer Treatment:** Many rent-to-own customers complain of abusive treatment once their leases are signed and merchandise is delivered. This includes frequent harassing phone calls and debt collectors who show up on their doorstep if a payment is late by even a single day.

- **Targeting Communities of Color:** In New York City, researched conducted by the nonprofit Neighborhood Economic Development Advocacy Project found that 32 of the 38 outlets of a major national rent-to-own chain are located in low-income communities that are Black or Hispanic.

Nationally, a survey conducted by the Federal Trade Commission found that rent-to-own customers are most likely to be African-American, younger, less educated and earning less that $25,000 annually. In addition, they are more likely to have children in the household, rent their residence and live in non-suburban areas.

WHO'S WATCHING THE RENT-TO-OWN STORE? ARE THERE ANY REGULATIONS?

Rent-to-own businesses are regulated by Article 11 of New York State's Personal Property Law, which was introduced in 1986 and signed by then-Governor Mario Cuomo. The law states that rent-to-own companies must set a "cash price" – typically much higher than the retail price – for all products offered for sale and allows them to charge consumers up to twice this "cash price." For example, a rent-to-own store could set a television's cash price at $500. Under New York State law, a consumer entering into a rental contract could pay up to but no more than $1,000, typically in weekly, biweekly or monthly payments. If a consumer chooses to purchase the television outright, she or he would only pay the $500 cash price.

Under these rental contracts, rent-to-own stores retain legal title to all rented items until the consumer makes the final payment. If a consumer misses a payment, the product can be repossessed, and the consumer does not have to be reimbursed for any previous payments. By law, a rental-purchase agreement must disclose the item's cash price, payment plans and early-purchase options.

Recently, Senator Charles Schumer introduced federal legislation designed to regulate the rent-to-own industry. These new laws would require increased information disclosures, and all fees would be classified as interest charges. This legislation would force the industry to abide by state usury laws and requires establishing a standard cash price.

Additionally, New York State Assemblyman James Gary Pretlow introduced legislation in the most recent legislative session that would regulate the rent-to-own industry on the state level. Assemblyman Pretlow's legislation would classify rent-to-own transactions as consumer credit transactions, subject to New York State usury laws.

WHAT DO RENT-TO-OWN PRODUCTS ACTUALLY COST?

The following findings were compiled by the New York City Council, in a report entitled, *Kick-Off to a Rip-Off: Loose Laws Lead to Inflated Prices for Rent-to-Own Consumers".*

37" LCD Flat Panel HDTV – Manufacturer's Suggested Retail Price $1,599.95

Average Retail Price	Rent-to-Own off the Floor Cash Price	Rent-to-Own Total Cost (Approx. $36.35 per week for up to 142 weeks)	Difference between Average Retail Price and Rent-to-Own Total Cost
$1,297.65	**$2,479.06**	**$5,186.61**	**$3,888.96 or 300%**

Front Load Electric Dryer – Manufacturer Suggested Retail Price $799.00

Average Retail Price	Rent-to-Own off the Floor Cash Price	Rent-to-Own Total Cost (Approx. $16.12 per week for up to 101 weeks)	Difference between Average Retail Price and Rent-to-Own Total Cost
$716.84	**$840.89**	**$1,631.54**	**$914.70 or 128%**

Queen Size Mattress

Average Retail Price	Rent-to-Own off the Floor Cash Price	Rent-to-Own Total Cost (Approx. $26.80 per week for up to 86 weeks)	Difference between Average Retail Price and Rent-to-Own Total Cost
$494.66	**$846.44**	**$2,307.40**	**$1,636.85 or 244%**

COMPARISON SHOPPING: SOME FURTHER EXAMPLES

A consumer is planning to buy a new refrigerator that sells for $1,000 at a local appliance store. He or she does not have the money to pay for it all up front, and is thinking about using a (1) a MasterCard/Visa credit card, (2) store credit card, (3) bank line of credit, or a (4) rent-to-own contract.

Below are some dollar amounts, comparing options.

How much will you pay for a $1,000 refrigerator?

Bank Line of Credit
27 monthly payments at $40/payment = $1,080
Annual percentage rate = 6%

MasterCard/Visa
32 monthly payments at $40/payment = $1,280
Annual percentage rate = 18%

Store Credit Card
38 monthly payments at $40/payment = $1,520
Annual percentage rate = 28%

Rent-to-Own
24 monthly payments at $80/payment = $1,920
Annual percentage rate = 72.5%

TIPS FOR RENT-TO-OWN CONSUMERS

- **Know what you are getting into** – Rent-to-own stores are allowed by law to double their own cash price for a product, and can repossess it if you miss a payment. Make sure you read the fine print.

- **Do the Math** – Make sure you budget the weekly cost with all your other expenses. Determine how long it will take you to pay off a rent-to-own contract.

- **Wait to buy the item** until you have saved enough money to pay cash.

- **To buy furniture or TVs, check to see if local department stores offer "layaway**" programs. With a layaway plan, you can buy the item at the retail price, but it is held by the store until all payments are made. Most businesses do not charge interest or fees for this service.

- **Look for used appliance stores** in your community, where you may find the appliance you need for a much lower cost.

- **Buy used items** at a garage sale, classified ad, Craig's List http://newyork.craigslist.org/