Survey of Rent-to-Own Customers Federal Trade Commission Bureau of Economics Staff Report James M. Lacko, Signe-Mary McKernan, and Manoj Hastak Executive Summary

While there has been considerable debate concerning the rent-to-own industry over the past decade or more, with allegations of serious consumer protection problems and proposals for various forms of national regulation, there has been little independent systematic examination of the typical experience of rent-to-own customers. FTC staff attempted to fill this gap by conducting a nationwide survey of rent-to-own customers. Between December 1998 and February 1999, over 12,000 randomly selected U.S. households were surveyed, identifying over 500 rent-to-own customers who were interviewed about their experience with rent-to-own stores.

The survey had three primary goals: (1) to examine who uses rent-to-own transactions and how they differ from consumers who do not; (2) to determine whether rent-to-own transactions typically result in the purchase of the rented merchandise; and (3) to determine whether abusive collection practices are widespread in the industry. The survey also examined customer ownership of vehicles, credit cards, and bank accounts, the types of merchandise rented, customer purchase intentions, the duration of rentals, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.

The major findings of the FTC staff survey include:

- 2.3 percent of U.S. households had used rent-to-own transactions in the last year, and 4.9 percent had done so in the last five years. Compared to households who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, have lower incomes, have children in the household, rent their residence, live in the South, and live in non-suburban areas.

- Thirty-one percent of rent-to-own customers were African American, 79 percent were 18 to 44 years old, 73 percent had a high school education or less, 59 percent had household incomes less than $25,000, 67 percent had children living in the household, 62 percent rented their residence, 53 percent lived in the South, and 68 percent lived in non-suburban areas.

- Seventy percent of rent-to-own merchandise was purchased by the customer. The purchase rate was consistently high (at least 60 percent) across most demographic groups. Purchases also were widespread across most customers, with 70 percent of customers purchasing at least one item of merchandise.

- Sixty-seven percent of customers intended to purchase the merchandise when they began the rent-to-own transaction, and 87 percent of the customers intending to purchase actually did purchase.

- Seventy-five percent of rent-to-own customers were satisfied with their experience with rent-to-own transactions. Satisfied customers gave a wide variety of reasons for their satisfaction, favorably noting many aspects of the transaction, the merchandise and services, and the treatment they received from store employees.

- Nineteen percent of rent-to-own customers were dissatisfied with their experience, and most cited rent-to-own prices as the reason. Complaints about high prices were made by 27 percent of all rent-to-own customers, including nearly 70 percent of dissatisfied customers, and a significant percentage of satisfied customers. Smaller percentages of customers (between one and eight percent) complained about problems with the merchandise or repair service, the treatment received from store employees, the imposition of hidden or added costs, and other miscellaneous issues.

- Nearly half of all rent-to-own customers had been late making a payment. Sixty-four percent of late customers reported that the treatment they received from the store when they were late was either "very good" or "good," and another 20 percent reported that the treatment was "fair." Fifteen percent of late customers reported being treated poorly when they were late, including 11 percent who indicated possibly abusive collection practices.

Other findings of the FTC staff survey include:

- Eighty-four percent of rent-to-own customer households owned a car or truck, 44 percent had a credit card, 49 percent had a savings account, and 64 percent had a checking account. Seventy-seven percent of customer households had at least one of the three types of credit card or bank accounts, while 23 percent had none.

- Rent-to-own customers rented an average of 2.5 items of merchandise per customer over the last five years. Forty percent of rent-to-own customers rented merchandise on more than one occasion over that period.

- Thirty-eight percent of rented items were home electronics products, 36 percent furniture, and 25 percent appliances. The most common items were televisions, sofas, washers, VCR's, and stereos, which together accounted for over half of all rented merchandise.

- Merchandise purchased from the rent-to-own store was rented for an average of 14 months before being purchased, with 47 percent being purchased in less than a year. Merchandise returned to the rent-to-own store was rented for an average of five months before being returned, with 81 percent being returned within six months or less.

- Fifty-nine percent of the merchandise returned to the rent-to-own store was returned because the renter's need for the merchandise had changed, 24 percent was returned for financial reasons, and eight percent because of a problem with the merchandise or store.

- Ninety percent of the merchandise on which customers had made substantial payments towards ownership (of six months or more) was purchased by the customer, and ten percent was returned to the store.

The Rent-to-Own Industry

The rent-to-own industry (also known as the rental-purchase industry) consists of dealers that rent furniture, appliances, home electronics, and jewelry to consumers. Rent-to-own transactions provide immediate access to household goods for a relatively low weekly or monthly payment, typically without any down payment or credit check. Consumers enter into a self-renewing weekly or monthly lease for the rented merchandise, and are under no obligation to continue payments beyond the current weekly or monthly period. The lease provides the option to purchase the goods, either by continuing to pay rent for a specified period of time, usually 12 to 24 months, or by early payment of some specified proportion of the remaining lease payments. These terms are attractive to many consumers who cannot afford a cash purchase, may be unable to qualify for credit, and are unwilling or unable to wait until they can save for a purchase. Some consumers also may value the flexibility offered by the transaction, which allows return of the merchandise at any time without obligation for further payments or negative impact on the customer's credit rating. Other consumers may rent merchandise to fill a temporary need or to try a product before buying it. The rent-to-own industry trade association estimated that in 1998 there were 7,500 rent-to-own stores in the United States, serving nearly three million customers, and producing $4.4 billion in revenues.

Consumer Protection Issues

A number of consumer protection concerns have been raised about the rent-to-own industry by consumer advocates. The areas of concern have included the prices charged by the industry (which can be two to three times retail prices, and sometimes more), the treatment of customers during the collection of overdue rental payments, the repossession of merchandise after customers have paid substantial amounts towards ownership, the adequacy of information provided to customers about the terms and conditions of the rental agreement and purchase option, and the disclosure of whether merchandise is new or used. Consumer advocates also have argued that rent-to-own transactions are really credit sales, not leases, and should be subject to federal and state consumer credit laws.

Currently, rent-to-own transactions are not specifically regulated by federal law, either by the Truth-in-Lending Act (TILA) or the Consumer Leasing Act (CLA). Federal legislation that would specifically regulate rent-to-own transactions has been proposed several times in recent years. Some of the proposed legislation would apply federal and state credit laws to the rent-to-own industry, while other proposed legislation would regulate rent-to-own transactions as leases.

Forty-six states currently have rent-to-own laws that regulate rent-to-own transactions in a manner similar to leases, mandating a variety of disclosures and other requirements. The state laws generally have been supported by the industry but opposed by consumer advocates who believe that rent-to-own transactions should be treated as credit sales. Currently, no state has a rent-to-own law that specifically regulates rent-to-own transactions as credit sales. But courts in several states, most notably Wisconsin, Minnesota, and New Jersey, have ruled that rent-to-own transactions are credit sales and subject to state laws governing credit sales. Vermont does not regulate rent-to-own transactions as credit sales, but does require disclosure of the “effective-APR.”

A key factual issue in the debate over whether rent-to-own transactions are sales or leases has been the extent to which rent-to-own customers purchase the rented merchandise. The industry has consistently maintained that only 25 to 30 percent of rent-to-own merchandise is purchased, and that the rest is returned to the dealer after a relatively short rental duration. Some consumer advocates have presented a sharply different view, maintaining that most rent-to-own transactions result in the purchase of the rented merchandise.

Public Policy

Disclosure of total cost and other terms of purchase. The FTC staff survey found that most rent-to-own merchandise is purchased by the customer. Because most merchandise is purchased, information about the total cost and other terms of purchase is important for consumers entering into rent-to-own transactions. Information on the total cost of purchase, including all mandatory fees and charges, would allow potential customers to compare the cost of a rent-to-own transaction to other alternatives, and would be most useful if it were available while the customer was shopping and making a decision. The best way to provide total cost information that can be seen and used while the customer is shopping would be to provide it not only in the written agreement, but also on product labels on all merchandise displayed in the rent-to-own store. The other basic terms of the transaction, including the weekly or monthly payment amount, the number of payments required to obtain ownership, and whether the merchandise is new or used, also should be provided on product labels.

These same disclosures also should be provided in any advertisement or catalog that makes a representation concerning the weekly or monthly rent-to-own payment amount for a specific item of merchandise. All of the terms and conditions of the transaction also should be disclosed in the agreement document.

While disclosures in advertisements and rental agreements are required by law in almost all states, most states do not require label disclosures of the total cost or other terms of purchase. Disclosure of the total cost and other basic terms of purchase on product labels, along with disclosures in advertisements and agreement documents, would substantially benefit rent-to-own customers, providing information on the cost of a rent-to-own purchase while customers are shopping and making a decision, and allowing for an easier comparison to the cost of other alternatives.

APR disclosures. APR disclosures for rent-to-own transactions raise more difficult questions. While an APR disclosure would allow consumers to compare the cost of a rent-to-own transaction to a credit card purchase or other source of credit, APR calculations could be subject to manipulation by rent-to-own dealers, possibly resulting in inaccurate disclosures that mislead consumers. Dealers could inflate cash prices in order to understate the disclosed APR, without suffering a significant loss of business, because rent-to-own stores make few cash sales. The difficulties of implementing and enforcing an APR disclosure requirement for rent-to-own transactions must be compared to the benefits it would yield over and above a simpler disclosure of total cost. Disclosure of the total cost and other terms of purchase on product labels, along with disclosures in advertisements and agreement documents, may provide consumers with the information they need to evaluate the cost of purchasing through a rent-to-own transaction, and may avoid the potential for manipulation, misleading disclosures, and enforcement difficulties. These issues should be considered carefully if APR disclosures are contemplated.

Price restrictions. Similar difficulties also could affect a price restriction policy. Dealers could manipulate cash prices to evade or lessen the impact of price restrictions. The possible impact of effective price restrictions on the availability of rent-to-own transactions also must be assessed. These issues should be considered carefully if price restrictions are contemplated.

Regulation of collection practices. The FTC staff survey found that while some rent-to-own dealers may use abusive practices in the collection of overdue rental payments, abusive collection practices are not widespread and do not represent the typical experience of most rent-to-own customers who are late making a payment. These results suggest that federal regulation of industry collection practices may be unnecessary. The most serious abuses, however, such as unauthorized entry into customers' homes, remain troubling, even if they are not widespread, and warrant continued attention.

Regulation of reinstatement rights. The survey also found that few customers lost merchandise through a return or repossession after making substantial payments towards ownership. These results suggest that federal regulation of reinstatement rights may be unnecessary. Industry-supported federal legislation, however, includes a reinstatement rights provision that is broader than the current requirements in many states, and would extend reinstatement rights to customers in the few states that currently do not mandate such requirements.

Conclusion

Any regulation of the rent-to-own industry should recognize that most rent-to-own customers ultimately purchase the rented merchandise. Regulations should ensure that customers have the information and protections appropriate for a purchase transaction. Clear and accurate disclosure of the total cost and other terms of purchase would allow potential customers to compare rent-to-own transactions to other alternatives, and would help ensure that consumers choosing rent-to-own transactions do so on an informed basis. Disclosure of the total cost and other basic terms of purchase on product labels, along with disclosures in advertisements and agreement documents, would ensure that the information is available to consumers while they are considering the rent-to-own transaction.

Regulation of the rent-to-own industry should also reflect, where appropriate, the differences between rent-to-own transactions and other forms of purchase. Regulatory policies mandated for other types of purchases should be applied to rent-to-own transactions only after careful consideration of the potential costs and benefits. Careful analysis also should be undertaken before adopting policies that would substantially reduce the availability of rent-to-own transactions. Most rent-to-own customers are satisfied with their experience with rent-to-own transactions, suggesting that the rent-to-own industry provides a service that meets and satisfies the demands of most of its customers.

Rent-to-own transactions are not the lowest cost method of purchasing merchandise. Consumers with available cash or credit, or the willingness to wait until money for a cash purchase can be saved, will likely be able to obtain the merchandise elsewhere at a lower cost. Clear and timely disclosure of the total cost would ensure that consumers are aware of the cost of purchasing through a rent-to-own transaction, allowing them to weigh the cost of a rent-to-own purchase with the benefits.