

## LOW-INCOME CONSUMERS' DECISIONS REGARDING RENT- TO-OWN

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Since credit is a constant problem for many Americans, especially for the low-income, consumers are turning to rent-to-own agreements. Rent-to-own (RTO) plans have become increasingly popular because this method of obtaining goods offers services that are not available through traditional forms of credit. However, RTO offers disadvantages as well. The additional services, such as same-day delivery and no credit checks, come with an extremely high price tag. Also, information about the total cost of renting-to-own is usually not given to consumers when they make RTO decisions because the contract is usually not signed until the product is delivered to the consumer's residence.

Consumer advocates have indicated a special concern for the impact of RTO on low-income consumers. Consumer advocates have charged the RTO industry with targeting their services to the low-income population [3]. Since low-income consumers usually do not have access to credit, they may be a captive audience. Their lower education levels also make them the most vulnerable members of society [1].

Why are consumers willing to pay more for goods purchased through a RTO contract when less expensive options such as layaway, installment credit, and revolving credit are available? Using Lancaster's [2] theoretical approach, one must determine which characteristics of the condition of sale draw consumers to the RTO option rather than traditional forms of credit. For example, perhaps consumers choose RTO because of the utility they receive from characteristics such as service, same-day delivery, low opportunity cost of initial payment, and the absence of credit checks.

### Purposes of Study

This study produces practical information for consumer educators to assist consumers to make informed decisions about RTO transactions. It also illuminates the reasons why consumers choose RTO transactions

so frequently and pay more for goods under RTO plans, which appears irrational according to neoclassical economic theory. The purposes of this research were to investigate low-income consumers' RTO choices and the reasons why such choices are made. The study used an experimental design that combines aspects of a one group pretest-posttest design and a posttest-only control group.

The first objective was to determine the relationship between low-income consumers' knowledge of the total costs of RTO transactions and their choice to use rent-to-own to obtain a consumer good. The second objective was to identify and assess reasons other than price that are related to low-income consumers' choice of rent-to-own.

Two instruments, a pretest and posttest, were developed for use in this study. The pretest questionnaire consisted of two sections. The first section included a hypothetical situation about RTO choices to obtain a television and knowledge questions about RTO issues. The second section included general demographic questions. Since the primary purpose of the posttest was to assess whether the consumer's choice changed after being given information about RTO transactions, the posttest included a hypothetical question about RTO choice identical to the one in the pretest.

### Sample and Data Collection

The sample for this study (N=105) was selected from housing authority residents in Georgia attending monthly resident meetings. Data were collected from five complexes scattered across a city. Residents of two complexes served as the treatment group (n=53), and residents from three complexes served as the control group (n=52). Data available from the Housing Authority were used to verify that the housing units and the ages of the heads of households in each housing complex were similar in the treatment and control groups.

The sample consisted primarily of African-American women who had never married. Most of the sample were below age 40, with the highest proportion (39 percent) ages 30 to 39 years. The average income was \$5,060, which is well below the poverty level. Nearly 80 percent of the sample were not employed. Of those who were employed, most worked in "blue collar" positions such as maids, caring for the elderly, and restaurant workers. Many of the subjects (42 percent) reported having been denied credit in the past.

Each of the five housing complexes had monthly meetings at which various education programs are conducted. For this research project, a Cooperative Extension Agent conducted a rent-to-own workshop at each housing complex. The workshop included an in-depth discussion of advantages and disadvantages of renting-to-own, layaway,

installment credit, and revolving credit. Also, costs of each method of obtaining goods were compared.

Flyers were distributed to announce the workshops and to describe incentives for attending (refreshments and a drawing for grocery gift certificates and door prizes at each data collection session). Although the monthly meetings were mandatory, attendance was not enforced by the housing authority personnel. Therefore, subjects who did not regularly attend the monthly resident meetings may have opted to attend the workshop in hopes of winning a door prize. Data were collected from the control groups before the workshop and from the experimental group both before and after the workshop.

### Results

Cross-tabulation and a chi-square statistic were used to test the hypotheses. The first hypothesis was that consumers who are more knowledgeable about the total costs of RTO transactions will choose RTO less frequently than consumers who are less knowledgeable. In the experimental group, 14 of the 53 (26 percent) consumers chose RTO in the hypothetical pretest situation. Only two of those 14 consumers still chose the RTO option after the workshop. Just as important, none of the 39 consumers who chose a non-RTO option in the pretest changed their choice to the RTO option in the posttest. Also, while only two consumers chose RTO after receiving total RTO cost information, 10 (19 percent) consumers in the control group, which did not receive cost information, chose RTO. The statistically significant differences between the choices made by the experimental group before and after the workshop ( $X^2 = 5.790, p=.016$ ) and the choices made by the control and the experimental groups ( $X^2 = 6.195, p=.013$ ) support the conclusion that knowledge of the total cost of the RTO option affects consumers' choices.

Ideally, the ability of the consumers who attended the workshop to correctly identify the costs of renting-to-own should increase from the pretest to the posttest. However, the inconsistent results presented in Table 1 do not support this conclusion. Although total costs were explicitly revealed in the workshops, in the posttest the subjects did not uniformly identify RTO costs as being higher than traditional credit arrangements. Nor could they more accurately report the total cost of RTO items given typical RTO advertisement information. That consumers lack the skill to calculate the costs of renting-to-own relative to other methods of obtaining goods casts doubt on whether the consumers are truly making informed decisions about the rent-to-own option.

**Table 1. Changes in RTO Knowledge and Perceptions Among Subjects in Treatment Group**

Variables	Percent in Pretest (n=43)	Percent in Posttest (n=48)	Change
<b>Accuracy in Selecting the Most Expensive Option</b>			
Correct	58.5%	54.7%	- 3.8
Incorrect	41.5	45.3	3.8
<b>Knowledge of Cost</b>			
None Correct	20.8%	20.8%	0.0
One Correct	28.3	20.8	- 7.5
Two Correct	24.5	30.2	5.7
All Three Correct	26.4	28.3	1.9

Rent-to-own businesses advertise non-price reasons for consumers to use RTO transactions and suggest these as reasons why consumers are willing to rent-to-own despite the high costs. The second hypothesis was that consumers who chose RTO transactions would give non-price reasons for their choice more frequently than consumers who did not choose RTO transactions. The two variables used in this comparison were the reason given for the choice (price vs. non-price reason) and the choice (RTO vs. not RTO).

One-half of the 24 subjects choosing RTO transactions in the pretest gave price reasons for their choice and one-half gave non-price reasons (i.e., free delivery, free service, or no credit check) (see Table 2). Of the 81 subjects who chose other ways to obtain the TV, about 57 percent reported price-related reasons while the remaining consumers gave other reasons.

No statistically significant relationship was found among the choice and reasons for the choice. However, "low payments" and "no down payment" were coded as price reasons, but can also be considered non-price conveniences that low-income consumers seek. Of the 58 who gave price-related reasons, 38 (66 percent) of them indicated "low payments" and "no down payment" as their reason. The relative importance of *total* costs may be low to low-income consumers compared to the convenience of low monthly payments or no down payment.

**Table 2. Consumers Identifying Price and Non-Price Reasons for Choosing RTO (N=105)**

Pretest Choice	Reason Given For Choice			
	Price		Non-Price	
	n	Percent	n	Percent
RTO	12	50.0%	12	50.0%
Not RTO	46	56.8	35	43.2

$X^2=.345, p=.557$

### Implications

The data indicate that even when consumers realize the costs of RTO are high, they may be unable to calculate the total cost of RTO transactions when given basic information (i.e., weekly payments and number of weeks). Because knowledge about RTO costs appears to affect whether consumers will choose RTO transactions, consumer educators can plan effective workshops and publications that reveal the costs of RTO transactions. The data in this study suggest that low-income populations with lower education levels would not benefit from information about the mathematical calculations of RTO costs; therefore, the advantages and disadvantages of renting-to-own should be presented in addition to the total costs. These workshops, which could be conducted by Cooperative Extension agents, high school teachers, and social workers, should focus on presenting consumers with alternatives to rent-to-own. For example, the Council of Better Business Bureaus, Inc. recommends that consumers consider purchasing comparable products through layaway plans or personal savings. Consumers should check into all possibilities such as yard sales, appliance repair shops, or classified ads [1]. Additionally, information may be dispersed about specific state RTO legislation, as well as reinstatement rights, used products, service, and most importantly, decision-making skills.

RTO offers many conveniences such as same-day delivery to consumers. However, this research provided inconclusive evidence of the relative importance to low-income consumers of price and non-price factors in choosing RTO over other traditional options. Additional research is needed. In the meantime, realistic education programs will acknowledge the non-price factors as a potential influence in consumer choice.

### References

1. Council of Better Business Bureaus, Standards & Practices Division, *Rent-to-Own*, (May) 1990.
2. Lancaster, K.J., "A New Approach to Consumer Theory," *Journal of Political Economy*, (April) 1966, pp. 132-157.
3. Tateraka, S., "Rent-to-Own: An Expensive Way to Purchase," *Consumer Forum Concerned Consumers League*, (September) 1987, pp. 1-4.

#### Credit Card ID on Checks

Effective January 1, 1992, it is no longer legal in Illinois to record on the check the number of a credit card given as identification to cash a check. The merchant can ask to see a credit card as identification and record the type of credit card and issuer but not the number. The exception is when the check is written in payment of the credit card bill. Violators are subject to a fine not to exceed \$500. The law does not prohibit merchants from requesting a driver's license as identification and writing that number on the check.

#### Truth in Savings Legislation Passed

Truth in Savings legislation, signed by President Bush in 1991, requires banks and financial institutions to provide clear disclosure of interest rates and the methods of calculating payments so that consumers can compare costs and benefits at different institutions. For example, interest on savings accounts, fees imposed on checking accounts, and penalties for early withdrawal must be spelled out in a clear and uniform manner.