

Rent-To-Own: Still Costly for Consumers

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The rent-to-own (RTO) industry is a \$5.3 billion-a-year business of dealers who rent furniture, electronics, major appliances, computers, jewelry, and other products with an option to buy. The average store has 587 items available for rent at any one time (Association of Progressive Rental Organizations [APRO], 2002). Rentals are normally for one week or one month. At the end of the week or month, the consumer can terminate the agreement or renew the contract by making another advance rental payment. If the consumer makes a timely payment for a continuous term, generally 12-24 months, ownership of the item is transferred to the customer. The purpose of this paper is to present an overview of the RTO industry, profile of users, comparison of RTO prices and retail store prices, and laws regulating the contracts. Implications for consumer educators and suggestions for incorporating this consumer issue into educational programs are offered.

Rent-to-Own Industry

Rent-to-own transactions have existed since the 1960s, with stores now located in all 50 states. In recent years the industry has experienced consolidation with large multi-store chains acquiring smaller operations (Martin & Huckins, 1997). Despite consolidation, the number of stores has grown to 8,000 serving more than 3 million households (APRO, 2002). RTO retailers have added several new marketing features (PR Newswire, 1999a, 1999b, 2000). Consumers can now visit Web sites of RTO stores, select merchandise, and complete the contract using an on-line form. Corporate staff assigns the order to the appropriate store based on the consumer's location. Consumers also can use in-store,

multifunction ATM-X machines where, in addition to the standard ATM functions, they can cash checks, pay bills, get prepaid phone cards, and purchase products and services with cash. A few RTO retailers offer weekly Internet services to customers with no long-term commitment.

Profile of Users

Industry representatives suggest most of their customers are employed Caucasians with incomes between \$24,000 and \$49,999 (APRO, 2002). However, consumer researchers found low-income consumers are more likely to use RTO than other population groups (Lewis, Swagler, & Burton, 1997; Martin & Huckins, 1997; Zikmund-Fisher & Parker, 1999). Results of a recent Federal Trade Commission (FTC) survey indicated that 59% of RTO consumers had incomes less than \$25,000 and 31% were African American (Lacko, McKernan, & Hastak, 2000). Zikmund-Fisher and Parker found women, younger subjects, and less-educated respondents were more likely to demand rental-purchase services. Garman (2002, p. 99) reported that RTO stores most likely are located in poor inner city and rural areas, with 20% of the customers at one of the largest companies being unemployed and receiving government aid.

Consumers use RTO retailers because of accessibility, no credit checks, no down payment, no long-term financial obligation, freedom of responsibility for servicing the merchandise, and free delivery (Hill, Ramp, & Silver, 1998; Anderson & Jackson, 2001). Lacko et al. (2000) reported that 75% of RTO customers were satisfied with their experiences for a number of reasons including favorable aspects of the transaction, merchandise, services, and treatment received from store employees. Anderson and Jackson further stated that although not all consumers benefit from the additional features, it is possible that one or more of the features

may make RTO advantageous over installment credit for some customers.

The RTO industry reports that 75% of customers return the rented item within the first four months and fewer than 25% rent long enough to own the item (APRO, 2002). However, Lacko et al. (2000) found that 90% of the merchandise on which customers had made payments toward ownership for at least six months was purchased. Likewise, Zikmund-Fisher and Parker (1999) found 76% of customers reported completing the contract and obtaining ownership.

Rent-To-Own Prices Versus Retail Store Prices

Consumers frequently are unaware of the high costs of RTO transactions (Martin & Huckins, 1997). A number of states allow RTO retailers to charge add-on fees for services such as reinstatement, in-home collection, processing, damage waivers, and property insurance. Thus, a major concern of consumer advocates has been that RTO customers pay much higher prices than if they had purchased the same goods in retail stores (Hill et al. 1998; Lacko et al., 2000; Lewis et al., 1997; Martin & Huckins, 1997; Mierzwinski, 1997).

In July 2001 the authors conducted a comparison of RTO costs to retail store costs in a rural location in a southern state (see Table 1). Two televisions, a VCR, a refrigerator, a washing machine, and a small stereo were used for comparison. All items were similar in size, quality, and features. Three RTO stores and three retail stores were visited to obtain price information. In addition, an employee at each RTO store was interviewed.

Since consumers can pay cash for merchandise at RTO stores just as they can at other retail establishments, the authors compared RTO cash prices and retail store cash prices. RTO prices were 1.2 to 2.4 times higher than retail prices (see Table 1). Next, the price

Table 1

Price Comparison of Retail Stores and Rent-to-Own Stores

Product	Retail Stores ^a			Rent-to-Own Stores ^b			Times Higher than Retail Store Cost	Prices Leading to Ownership
	Cash Prices		Ave. Cost	Cash Prices ^c		Ave. Cost		
	Cost Range	Cost Range		Cost Range	Cost Range			
19" Color TV	100-200	240-350	147	298	2.0	500-658	559	3.8
25" Color TV	200-220	320-457	210	392	1.9	643-974	771	3.7
4-Head VCR	80-100	75-180	90	135	1.5	143-369	273	3.0
Washer	350-400	772-1273	370	944	2.6	399-500	433	1.2
18 cu. ft. Ref.	410-470	878-1637	433	1219	2.8	375-819	598	1.3
Stereo	130-200	572-878	160	750	4.6	319-448	279	2.4

^aRetail stores included Best Buy, Conns, and Sears. ^bRTO stores included Aarons Rent, Affordable Home Furniture, and Rent-Way. ^cRTO cash price is the cost of paying cash only (no rental agreement).

of a completed rental-purchase contract to the cash (no credit) price at retail stores was compared. As in past studies conducted in urban areas (Mierzwinski, 1997; Virginia Citizens Consumer Council & Virginia Poverty Law Center, Inc. 1997; Walden, 1990), RTO purchase prices were 2.6 to 4.6 times higher than retail prices (see Table 1). It should be noted that the additional value of the RTO features such as delivery, maintenance and repair, and weekly/monthly payments were not taken into account; however, Anderson and Jackson (2001) reported that RTO prices are still high even when the value of the additional services are included.

Legislation

Consumer advocates have expressed that the RTO industry should be governed by the Truth in Lending Act or Truth in Leasing Act (Martin & Huckins, 1997). However, they have been unsuccessful in having these federal laws apply to RTO transactions. Since customers contract to pay a weekly or a monthly rental for merchandise rather than for the value of the goods, the contract does not meet the Truth in Lending Act's definition of a credit sale (Martin & Huckins). The Consumer Leasing Act applies to consumer leases that obligate the consumer for more than four months. Since a key feature of RTO contracts is that the consumer is not obligated beyond the initial one week or one month rental, the Consumer Leasing Act does not require disclosures (National Institute for Consumer Education, 2001).

In the absence of federal regulations and to help stop consumers from being unknowingly overcharged (Garman, 2002, p. 122), all states except New Jersey, North Carolina, and Wisconsin now have RTO statutes (APRO, 2002). These laws support disclosure, making the actual cost of the RTO agreement apparent, and therefore easier for consumers to make decisions in their own best interests. For example, Illinois statutes require that every item of property offered

for rental-purchase must have attached to its front, or displayed as prominently as if attached to its front, a tag disclosing the amount to be paid to acquire ownership (Illinois General Assembly, 1994). Several state statutes require less disclosure. For example, only 14 states mandate that any disclosures must be made on a tag attached to the goods as opposed to disclosures made in the agreement (Martin & Huckins, 1997). When the authors visited RTO stores, personnel were vague about total costs saying, "It depends on the actual items purchased" and "That's all in the computer ~ we won't know until we print up your agreement." Responses like these make it difficult for consumers to make informed choices because they have incomplete information (Garman, 2002, pp. 6-7).

Implications for Consumer Educators

Consumer educators can help consumers realize the RTO option is just one purchasing alternative and a very expensive one. They can direct consumers to compare the costs and benefits of using other choices, i.e., cash purchase, lay-away, installment loans, and credit cards. Lacko et al. (2000) noted that most RTO customers have a motor vehicle, enabling them to have transportation to shop for similar merchandise at retail stores; most have experience with saving, obtaining credit, or both. If consumers need a durable good and less expensive alternatives are unavailable to them or if consumers perceive that the benefits of the RTO contracts justify the higher costs, these consumers should be encouraged not to purchase a more expensive item than necessary. Once again, comparison shopping is recommended as the current researchers found prices for similar goods vary among RTO stores.

Consumer educators can alert their students and other clientele of the user friendly resources available on-line. Several state cooperative extension services have RTO on-line publications. Their Web addresses follow.

<http://www.uaex.edu/OtherAreas/publications/HTML/FSHEC65.asp> (Arkansas)
<http://ifas.ufl.edu/www/extension/ces.htm> (Florida)
<http://www.ag.uiuc.edu/~disaster/replace/rent-to-own.htm> (Illinois)
<http://www.extension.iastate.edu/Publications/SP58.pdf> (Iowa)
<http://www.agnr.umd.edu/ces/pubs/pdf/FS706.pdf> (Maryland)

Possible educational applications of the information presented in this article include:

- Using Table 1 as a guide, conduct a survey of local RTO stores and compare their methods of price disclosure as well as add-on costs, late fees, reinstatement fees, etc.
- Lead a discussion of how this purchasing option is an example of "the poor pay more."
- Compare costs of urban and rural RTO stores; determine if location relates to cost.
- Conduct a survey of RTO customers to determine their satisfaction, merchandise rented, and intentions to purchase merchandise; compare findings to the FTC survey.
- Have students make presentations in the community using local television and radio stations and news media to make individuals aware of RTO strategies.
- Have students design a Web page alerting consumers about the RTO industry including links to information and government sites.

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