MCRC The Voice For Maryland Consumers
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Rent to own: Profiting from the Poor

A Report from the Maryland Consumer Rights Coalition

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with Franz Schneiderman
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The Maryland Consumer Rights Coalition (MCRC) advances and protects fairness and justice for Maryland consumers through research, education, and advocacy.

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Executive Summary

Each year, Maryland rent-to-own stores (RTO) generate $67 million by charging consumers from 2 to 3.5 times the prices other retailers charge for the same merchandise. In Maryland, there are more than 100 RTO stores.

The majority of RTO customers cannot afford the kind of costly credit these stores offer. Surveys have found that most RTO customers have no more than a high school education and earn less than $36,000 a year.

MCRC's research found that RTO customers in Maryland regularly pay more than $1,000 more for refrigerators and televisions than customers at traditional retail stores do. The money families lose renting from RTO stores rather than purchasing merchandise at other stores could be spent on bills or used to build savings. RTO customers also frequently have their merchandise to repossessed and complain about price-gouging, harassment, and misrepresentation of RTO policies.

Maryland lags behind many surrounding states in our protections for consumers making purchases through rent-to-own contracts. West Virginia, New York, New Jersey, and North Carolina have stronger laws regulating RTO stores than Maryland does. Maryland's RTO law was last revised in 1989 and hasn't kept pace with current economic conditions and changes in the RTO industry.

MCRC's research also shows that rent-to-own stores, like payday lenders, charge high fees to those who can least afford them and have little access to traditional retail options. We found that RTO customers pay the equivalent of 65% to 305% annual interest to lease televisions and appliances.

Mapping RTO Stores

MCRC's research mapped the location of RTO stores throughout the state and found that RTO stores can be found in 19 of Maryland's 24 counties, or in 79% of the state's jurisdictions. Baltimore City, Prince George's County, and Baltimore County have the largest number of RTO stores in the state. The majority of stores are located in low- and moderate-income communities. In Baltimore City, 93% of RTO stores are located in areas where 51% to 100% of the households are low-to-moderate income. In Prince Georges County, 62.5% of RTO store are in areas where 51% to 100% of households are low-to-moderate income. Finally, in Baltimore County, 57% of RTO stores are in low- and moderate-income neighborhoods.

Cost comparison:

MCRC's research compared the prices Maryland consumers pay for refrigerators and televisions at rent-to-own stores with the prices charged at other retailers. We found that RTO customers pay more than $1,000 more than consumers who shop at traditional retail stores.

Table 1: Comparison of purchasing an item at a traditional retailer and at a rent-to-own store[1]

Item	Average Rental purchase price	Non-RTO store price	Price Difference	Total RTO cost/non RTO prices	Average APR of RTO item
Refrigerator	$1,990	$678	$1,312	294%	149%
Television	$2,543	$728.55	$1,814.45	349%	146%

Policy Recommendations:

- **Fair prices:** Cap the cash price RTO stores can charge and the total cost of an RTO contract. With reasonable price caps, RTO stores will still be able to make a substantial profit, but not an outrageous one.
- **Fair practices**: Prohibit large balloon payments, as well as more than one late fee or reinstatement fee, in RTO contracts.
- **Transparency**: Require RTO stores to clearly disclose the cash price, the total cost, the effective APR, and the cost of a similar item at a traditional retail store in the RTO contract before a customer signs a contract.
- **Reinstatement Rights**: Expand the time RTO customers have to reinstate their contract, without losing any rights, from five days to 60 days, for a monthly rental, and from two days to 21 days, for a weekly rental.
- **Right to rescind**: Give RTO customers three days to cancel a contract. Maryland's Door-to-Door Sales Act gives other consumers three days to reconsider. RTO customers need the same right.
- **Clarity**: Require RTO contracts to be written in plain English or in a plain form of any other language used by an RTO dealer in an advertisement related to the deal.

[1] For this analysis, MCRC based its calculations on weekly payments on 18 to 24 month contracts.

Introduction

MCRC researched Maryland's $67 million rent-to-own industry, investigating the structure of the industry, mapping the location of stores throughout the state, and comparing the cost of purchasing merchandise at RTO stores to the cost at traditional retail stores.

Methodology

MCRC conducted qualitative and quantitative analyses of the RTO industry in Maryland. MCRC's research included a literature review, stakeholder interviews with RTO customers and former sales associates, analysis of complaints to the Attorney General's office, and legal analysis comparing Maryland law to that of other states.

Additionally, MCRC conducted mapping and cost-comparison analyses. Using online Yellow Pages as well as store locators, MCRC mapped the locations of RTO stores in Maryland. The research and mapping were conducted from Nov. 2011 to Dec. 2011.

To investigate the prices offered by RTO stores in Maryland, MCRC surveyed 15 rent-to-own stores in Baltimore City, Baltimore County, and Prince George's County between June 2011 and August 2011. The survey compared the cost of 42-inch televisions and 18-cubic-foot refrigerators at RTO stores with the prices at four local chain retail stores (Lowe's, Target, Home Depot, and Best Buy) as well as at other non-traditional retailers including Craigslist, appliance outlets, and second-hand stores. We also calculated the annual percentage rates RTO contracts carried.

MCRC focused on these items because it is easier to make a clear-cut comparison between the costs of the same model of electronic goods and appliances at various stores than to compare the prices of similar pieces of furniture or other goods. However, there were some variations among the items we surveyed, in part because many of the RTO stores surveyed carried only a limited selection of appliance and electronic items.

When we couldn't locate the identical model in each RTO store, we cited the prices for the closest available substitute and compared that price to the cost for the same model (or a very similar one) at local retail stores, second-hand stores, and on Craigslist.

Overview: Rent-to-Own Industry

Nationally, Rent-to-Own (RTO) stores are a $7 billion industry, with approximately 8,500 RTO stores serving 4.1 million households. The industry started in the 1960s, and now is composed of dealers who use rent-to-own contracts to sell furniture, electronics, major appliances, computers, musical instruments, jewelry, and other products.

As the economy continues to founder and credit is tightened, struggling families are increasing opting for rent-to-own products. As the chart indicates, the industry has grown from 3 million customers in 2006, to 4.1 million in 2009.[2] More recent figures suggest that the industry continues to expand. Recently, Aaron's rent-to-own stores announced that 11% more consumers rented items from their stores in 2011, enabling the company to increase revenue by 8% and generating more than $2 billion in profit for the firm.[3] Similarly, the CEO of Rent-A-Center noted that it had increased its sales by 8.9% in the last quarter of 2011, earning the businee $737.5 million in the past three months.[4] Rent-A-Center also opened up 445 new locations last year.[5]

Consumers sign contracts to pay weekly, bi-weekly, or monthly to rent merchandise. Although the products are considered lease items and consumers have the option of returning them, the majority of rent-to-own users intend to purchase the items. According to a Federal Trade Commission study, almost 70% of RTO consumers intend to purchase the products they lease.[6]

Consumers can purchase the goods by continuing to rent them through the full term of the lease (most lease agreements run for between 12 months and 24 months), by making an early payment of some portion of the remaining lease balance, or by paying the "cash purchase price," the price the RTO store charges to buy the item outright. Customers can usually choose to pay that cash price within the first three to six months of renting the item. Some consumers who may not qualify for credit, cannot afford a cash purchase, or value the industry's flexible return policies may appreciate the rent-to-own industry.

Yet critics contend that the high cost and high interest rates RTO contracts carry make them a predatory financial product. Consumers who buy from RTO stores usually end up paying much more than they would pay to buy the same product, even with a high-interest credit card, at a traditional retailer. And because the industry focuses on those with few resources, RTO stores, like payday lenders, charge high rates to those who can least afford them.

Rent-to-own stores ranked fourth in MSN Money financial columnist Liz Weston's Jan. 2012 ranking of five types of businesses that prey on the poor. She noted that, "if you fall into the clutches of any of these outfits, you can find yourself in a far deeper hole than you're in now,

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[2] www.rtohq.org/apro-rto-industry-overview.html

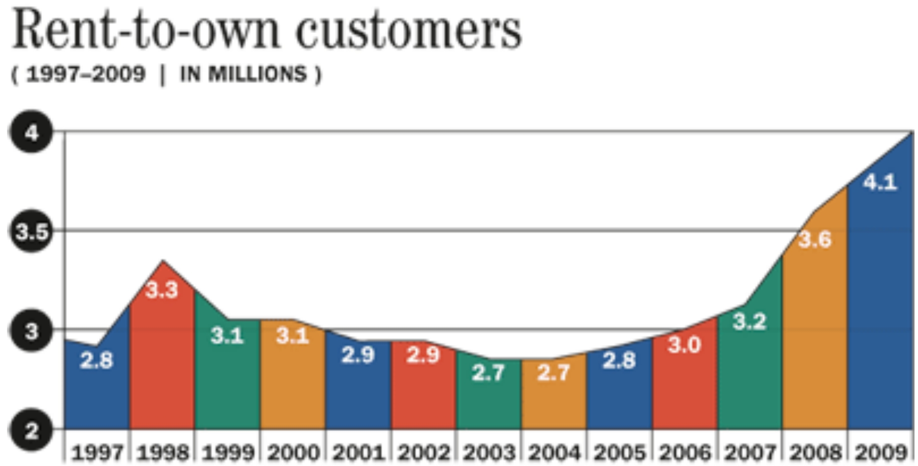
[3] "Rent to Own News: Aarons Same Store Revenues Increase 3.7%," Feb. 12, 2012, www.rtohq.org

[4] Hines, Alice "Rent-A-Center CEO: New Consumer Bureau Won't Have Authority Over Us," Feb. 3, 2012 Hufffington Post, www.huffingtonpost.com

[5] Ibid

[6] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak "Federal Trade Commission Bureau of Economics Staff Report-Survey of Rent-to-Own Customers," last modified June 2007.www.ftc.gov/reports/renttoown/rtosummary.html

with much less money available to help you climb out.”[7]



Today, the rent-to-own industry in Maryland generates about $67 million in annual revenue as it charges consumers, on average, 2 to 3.5 times more than traditional retail stores charge to purchase appliances and electronics.

One of the reasons the industry can impose such high costs on consumers is that it is under-regulated, both at the national level and under Maryland state law. The major federal fair lending laws do not apply to the rent-to-own industry. Maryland has not updated its rental purchase laws in more than 20 years, and does less to protect consumers from the industry’s high fees and hidden costs than many neighboring states do.

Who Uses Rent-to-Own and Why

The RTO industry recognizes that many of its customers are low- to moderate-income individuals and families. According to the Association of Progressive Rental Organizations (APRO), 61% of the industry’s customers are between the ages of 35 and 54, 84% are white, 61% have no more than a high school education, 68% are female, and 59% earn between $15,000 and $36,000. APRO found that 70% of the industry’s customers owned their own homes.[8]

The results of the FTC’s survey of RTO customers differ substantially from APRO’s findings. The FTC conducted a nationwide survey of RTO customers between December 1998 and February 1999, interviewing 500 RTO customers about their experiences. It found that 31% of RTO customers were African-American (APRO estimates that about 15% of its customers are African-American), 73% had a high school education or less, and 59% earned less than $25,000.[9]

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[7] Weston, Liz, “5 Businesses that rip off the poor,” MSN, Money, Jan. 6, 2012, http://money.msn.com/shopping-deals/5 businesses-that-rip-off-the-poor-weston.

[8] www.rtohq.org/apro-rto-industry-overview.html

[9] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak “Federal Trade Commission Bureau of Economics Staff Report-Survey of Rent-to-Own Customers,” last modified June 2007, www.ftc.gov/reports/renttoown/rtosummary.html

The FTC also found that 67% had children living in the household, 62% rented their homes, and nearly 45% of RTO customers had a credit card.

Yet both studies confirm that the majority of individuals who purchase RTO products are from families of modest means. The FTC and APRO agree that most RTO customers have a high school education or less and earn less than $36,000. Many of these customers cannot afford to buy appliances, furniture, or other large items outright and do not have enough credit available to buy them with a credit card. Although the weekly or monthly installment payments required to lease an RTO item may be manageable for these families in the short-term, over the life of the contract, RTO merchandise is quite costly.

The FTC study found that electronics were the most popular RTO products -- 38% of RTO contracts were for electronics, while 36% were for furniture, and 25% were for appliances.

Characteristics of a Rent-to-Own Transaction

RTO stores offer electronics, computers, furniture, musical instruments, and appliances to individuals. RTO stores are profitable because their customers routinely pay 2 to 3.5 times more than they would pay to purchase the same item at a traditional retail store. The industry contends that it must charge higher prices because it assumes more risks by allowing people to return items, has higher losses than traditional retailers do, and incurs higher labor costs because it has to deliver and often pick-up rented items.

Although many items are returned, the FTC study cited above found that more than two-thirds of those surveyed intended to purchase the RTO merchandise they leased, while only one-quarter intended to rent and return the item. And, as Jonathan Mintz, Commissioner of the New York City Department of Consumer Affairs notes, “Customers that have made six months or more of payments are 90 percent likely to follow through and complete the full contract and purchase the merchandise.”[10]

Some consumer advocates argue that the business model RTO stores utilize is similar to that of payday lenders. Dr. Robert Manning, a former Director of the Center for Consumer Financial Services at the Rochester Institute of Technology, argues that rent-to-own contracts are designed to maximize the possibility of consumer default.[11] Rent-A-Center, Inc., has indeed admitted that each item of merchandise in individual stores is rented, on average, to four or five different customers.[12]

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[10] Department of Consumer Affairs Commissioner Jonathan Mintz testifies before the city council committees on consumer affairs and civil rights at their joint oversight hearing on rent-to-own retailers in New York City // www.nyc.gov/html/dca/html/pr2009/012609.shtml

[11] NEDAP Memorandum in Opposition Bill A. 3083E/S.577-C, July 26, 2010.

[12] Ibid.

In the end, the RTO business model is a win-win for the industry. If the borrower defaults, the RTO store takes possession of the item and re-rents it, making money again and again as multiple consumers rent the same item. If the borrower succeeds in making all the required payments, the company has often realized (and the consumer has paid) anywhere from 2 to 3.5 times more than a traditional retailer would get for the same item.

Problems with Rent-to-Own

Cost

Many consumer complaints about the industry focus on the high prices RTO stores charge. The FTC survey cited earlier found that 27% of all RTO customers complained about high prices.[13] RTO transactions are costly because dealers can inflate the price in two ways: by marking up the "cash purchase price" of merchandise on the store floor and by charging interest rates that can exceed 300% interest on the purchase.

How the Industry Sets Prices

Michael Sherba of Dundalk, MD. worked for 20 years in the rent-to-own industry. He worked in the customer service,sales, and collection departments for years before leaving the industry eight years ago in the face of what he saw as a rising tide of misconduct.

In his days in customer service, Michael learned how the stores established the high prices they charged customers. The cash price the store charged was three times what it cost the store to buy the item from the manufacturer. The cost of the rental contract would be three times that cash price, or nine times the manufacturer's cost for the product.

In January 2012, Mark Speese, CEO of Rent-A-Center discussed his store's current mark-up policy, which differs from the one Sherba saw when he worked in the industry. Speese explains, "we work under what we call a two-by-two pricing formula. So, our wholesale cost times two would be our average stated cash price. That cash price times two would be the total rent-to-own cost if a customer would rent all the way to term to take ownership of the product." Speese stated that Rent-A-Center makes a 50% profit off of items that are purchased for the cash price and a 75% profit from merchandise that is purchased through 12 to 24 month installment payments.

Sources: MCRC interview, October 2011, and Hines, Alice "Rent-A-Center CEO: New Consumer Bureau Wont' Have Authority Over Us" February 3, 2012 Hufffington Post, www.huffingtonpost.com

[13] Lacko, McKernan, and Hastak, Federal Trade Commission Study, op cit.

Table 2 (below) shows the results of a recent *Consumer Reports*[14] investigation. The study found that the interest rates for RTO items ranged from 84% to 311% and that households would save a significant amount of money over the long term if they avoided rental purchase agreements. The typical savings ranges from $385 on a dinette set to $1,733 for a washer and dryer. The money financially struggling households would save by avoiding RTO stores could provide an important financial cushion.

Table 2: Rent-to-Own vs. Saving and Buying

	Rent to Own	Rent to Own	Rent to Own	Saving and Buying	Saving and Buying
Item	**The Deal**	**Total Cost**	**Equivalent interest rate**	**Total Cost**	**Savings over Rent-to-Own**
17.3 inch Toshiba laptop	$38.99 weekly	$1,872 after 48 weeks	311%	$612 after 16 weeks	$1,260
32 inch Toshiba television	$14.99 weekly	$1,169 after 78 weeks	101%	$388 after 26 weeks	$781
Whirlpool washing machine and dryer	$19.99 weekly	$2,699 after 135 weeks	99%	$966 after 49 weeks	$1,733
Signature Design dinette set	$12.99 weekly	$935 after 72 weeks	84%	$550 after 43 weeks	$385

Source: Consumer Reports Investigation "Would you pay the equivalent of 311 percent interest to buy a big-screen TV?" June 2, 2011, www.consumerreports.org

In Maryland and most other states, consumers see the cash price required to immediately purchase the item listed in the store. Many states, including Maryland, also require that RTO stores post the amount and number of payments and total amount of money a consumer will spend to purchase merchandise through installment payments. Yet RTO consumers rarely see the effective APR of the deal listed on the pricetags and labels provided in RTO stores.

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[14] Consumer Reports Investigation: "Would you pay the equivalent of 311 percent interest to own a big-screen TV?" June 2, 2011, consumerreports.org

In a 2003 study on RTO transactions, the FTC found that many consumers needed more information to make accurate price comparisons. The study suggested that, in the absence of clear disclosure of the total cost of the RTO deal, some consumers will underestimate the costs of RTO purchases. It concluded that disclosing the total cost would more fully inform these customers, leading some to make different decisions.[15]

Repossession

Under current RTO laws, consumers have very limited property rights. If a consumer misses a payment, many RTO stores move quickly repossess their merchandise. This practice imposes large losses on consumers -- a person who has made most of the payments on an item can lose both the merchandise and all those payments by missing a single payment.

Many RTO stores do allow consumers to reinstate their rental agreement after they miss a payment. To do so, the consumer generally must pay the outstanding balance plus an additional reinstatement fee. However, to exercise the reinstatement option, the consumer usually must reinstate the contract within two to five days. Customers often find this impractical and miss the deadline.[16]

Many RTO stores also allow customers to reinstate their contracts after a longer period of time – but only after they have returned the merchandise they were late in paying for.

Used Merchandise

If consumers do reinstate their leases, they often find that the replacement goods they receive are even more worn than the merchandise they gave up. The used merchandise is often priced the same as new products, although the contract may be shorter for a used item than a new one. Although many states, including Maryland, require RTO stores to disclose whether an item is new or used, there is no requirement to disclose the number of times an item has been re-rented.

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[15] Signe, Mary McKernan, James Lacko & Manoj Hastak, *Empirical Evidence on the Determinants of Rent-to-Own Use and Purchase Behavior*, 17 Econ. Dev. Q. 33 (2003).

[16] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Customer Experience with Rent-to-Own Transactions," *Journal of Public Policy and Marketing,* Vol. 21 (1), 2002:126-138.

Rent-a-Center pays Washington state more than $300,000 to settle harassment suit

In March 2010, Washington State attorney general's office settled a case with Rent-A-Center that accused the chain of coercive collection activities including cursing at customers, pounding on doors, peering in windows, and threatening arrest.[13] Affidavits filed with the attorney general's office by former Rent-A-Center employees testify that employees were rarely, if ever, disciplined for abusive collection practices but were regularly reprimanded, demoted, or fired if they failed to meet weekly collection quotas.

Although the company did not admit to any wrongdoing, it did agree to settle the case. Rent-A-Center paid $243,000 in attorney's fees and legal costs plus another $100,000 to monitor and enforce an order demanding that Rent-A-Center and its employees not:

- speak to a customer more than six times a week to discuss an overdue account;
- engage in violence;
- trespass on a customer's property;
- call or visit a customer at home or work after receiving legal notice the customer has filed for bankruptcy;
- impersonate others or fail to identify themselves when making collection calls;
- use profanity;
- call or visit a customer's workplace after having been told not to do so;
- threaten legal action.

Source: Washington State Office of the Attorney General "Rent-a-Center settles harassment and contract claims," press statement, March 1, 2010.

Harassment/abuse

In addition to their high financial cost, RTO items often come with another cost -- peace of mind. Consumers regularly protest that RTO stores use a number of harassing tactics to collect payments; they often complain that RTO collection agents call them multiple times a day, at all hours of the day and evening, use foul language, issue threats, and even call their employer to press for payment.

Michael Sherba, the RTO veteran MCRC interviewed about the industry's practices, saw such high-pressure tactics first-hand during his years in the industry. He explained to MCRC that RTO customer service staff would get a list of delinquent accounts in the morning and that it was standard practice to call the customers three times a day to demand payment.

According to Sherba, collection calls would begin the day after a missed payment. On day two of a delinquency, the store would begin to call relatives of its customers. There was zero grace period and zero credit for those who had already made most of the payments on their merchandise.

In Sherba's experience, only about 50 percent of installment customers managed to complete their contracts.

When phone calls fail to elicit a response, RTO dealers often turn to the law to help collect on their contracts or regain the merchandise. Virginia law allows RTO stores to bring criminal charges against delinquent consumers, and a growing number of state residents who fall behind on their RTO contracts are being charged with felonies. The number of these cases rose from 70 in 2006 to more than 200 in 2010.[17]

Some consumers have disputed the charges, noting that they returned the merchandise. In those cases, the charges are dropped but the consumer may have been jailed in the meantime.

Contracts and reference checks

Before customers can lease an item from an RTO store, they are often asked to sign a mandatory arbitration agreement in which they waive their right to a trial by jury if they have legal claims against the store. One consumer MCRC interviewed was told that if she didn't want to sign such an agreement, she would have to write a letter to the company headquarters in Texas explaining why she didn't want to sign it. She didn't do so because she knew this would add a major delay to the approval process.

The approval process itself is also quite extensive. Consumers are often asked to provide three personal references, pay stubs, bank statements, and appear in person with photo identification.

How the credit check process works:

The complaint that Elizabeth Rice of Baltimore, MD filed with the Maryland Attorney General's Office after she rented a washer from Rent-A-Center in Nov. 2010 explains how invasive the reference check can be:

"The approval process for renting was as invasive as applying for a mortgage or more so. I was required to provide 3 personal references, 2 of whom had to be family members. I had to provide pay stubs, bank statements, mortgage information and appear in person with photo identification. The called each of my references while I was in the store. They asked each reference 3 questions:

1) How do you know the applicant?
2) How often do you speak to the applicant?
3) If we were unable to reach the applicant, can we leave them a message with you?

These questions focused on how Rent-a-Center would reclaim their washing machine should I default, not on my ability to pay."

Source: MCRC Interview, October 2011

Regulating the industry

National Laws on Rent-to-Own

Rent-to-own transactions generally fall outside federal lending regulations, largely because federal law, like the laws of most states, treats them as short-term leases rather than installment lease transactions.

[17] Hansen, Louise, "Criminal Prosecutions Soar in the rent-to-own sector," *The Virginia Pilot*, April 11, 2011.

Since almost 70% of rent-to-own consumers intend to purchase the items they lease, consumer advocates often argue that it would be more appropriate to treat RTO transactions as credit purchases. Under the credit model, the weekly or monthly payments for rent-to-own items would be seen as a delayed payment on a purchased item. Most federal and state laws, however, treat RTO deals as short-term leases that a consumer can opt-out of at any time.

Characterizing RTO transactions as short-term leases has serious consequences for RTO consumers: It deprives them of important consumer protections that they would have if the agreements were treated as credit transactions.

Specifically, if the transactions were treated as credit purchases, the industry would have to comply with the federal Truth-in-Lending Act (TILA), state usury laws, and other credit regulations. Under TILA, RTO stores would have to disclose the actual annual percentage rate (APR) of their contracts, among other disclosures.[18]

Consumer leases are covered under the federal Consumer Leasing Act (CLA) but that law only applies to leases with terms of four months or longer. Since RTO transactions can be cancelled at any time, they do not fall under the CLA.

Since RTO transactions are not covered by either TILA or CLA, RTO transactions are not specifically regulated at the national level.[19]

However, the Association of Progressive Rental Organizations has put forward an industry bill (H.R. 1588/S.B. 881) that would introduce federal regulation as a way to trump the laws of those states that extend more consumer protections to RTO transactions by treating them as credit purchases. The industry bill includes some new consumer disclosure requirements but mandates that all RTO transactions be treated as short-term leases.[20]

State Laws on Rent-to-Own

Three states (Wisconsin, New Jersey, and Minnesota) clearly treat RTO transactions as credit purchases; the courts in each of these states have ruled that they are credit sales and must be subject to the state laws that govern those sales. In 2006, the New Jersey Supreme Court further ruled that RTO transactions be subject to the state's 30 percent APR law.

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[18] Lacko, James M., Signe-Mary McKernan, and Manoj Hastak, "Customer Experience with Rent-to-Own Transactions," Journal of Public Policy and Marketing Vol. 21 (1), 2002:126-138.

[19] Ibid.

[20] www.thomas.gov last accessed Jan. 15, 2012.

North Carolina has also amended its laws to treat RTO-type agreements as credit sales but a loophole exists: RTO stores can avoid a credit sales designation by charging a balloon payment greater than 10 percent of the item's cash price at the end of the payment period.

Other states treat RTO agreements as sales lease transactions. However, many of these states have implemented policies that give significant protections to RTO consumers, including capping the cash price and total rent-to-own price of items, requiring stronger consumer disclosures in RTO contracts, and regulating collection activities.

West Virginia requires RTO stores to disclose the retail value (instead of the potentially inflated cash price) of their merchandise and the rental purchase price can be no more than 240 percent of the retail price. Vermont requires disclosure of the effective APR of rent-to-own contracts.

California, Hawaii, Maine, and New York have fixed both the cash price and total price rent-to-own dealers can charge. The maximum cash price is fixed at a multiple of the wholesale cost and varies by product category. The total rent-to-own price is capped as a multiple of the cash price.[21]

Other states, including Connecticut and Ohio, cap the amount by which total payments can exceed the cash price of the item. But RTO stores can circumvent this cap by setting an unreasonably high cash price at the outset.

Table 3: Caps on Cash Price: Ratio of maximum legal rent-to-own cash purchase price to wholesale prices

Category	California	Hawaii	Maine	New York	West Virginia
Appliances	1.65	2.0	1.75	1.75	1.56
Electronics (costing less than $150)	1.70	2.0	1.75	1.75	1.56
Electronics (costing more than $150)	1.70	2.0	2.0	2.0	1.56
Furniture	1.90	2.0	2.50	2.15	1.67

Source: Ed Winn, II, "Rent-to-Own at the Federal Level," Association of Progressive Rental Organizations (2010).

[21] Ed Winn II, "Rent-to-Own at the Federal Level," Association of Progressive Rental Organizations, 2010.

In addition to capping the cash price, California, New York, and West Virginia also require RTO dealers to disclose the price of a similar item at other local retailers. This provides consumers with important information that helps them make an informed purchase decision.

Strengthening consumer protections through rate caps and disclosures has helped low- and moderate-income families in these states while allowing the RTO industry to continue to prosper. California has 289 RTO stores throughout the state, New York has 281 stores, and West Virginia has 55. The RTO industry in those states has adapted to the mandated changes and remains profitable.

Maryland law does not treat rent-to-own transactions as credit sales and does not limit the finance charges or interest rates rent-to-own dealers can charge.

The Rent-to-Own Industry in Maryland

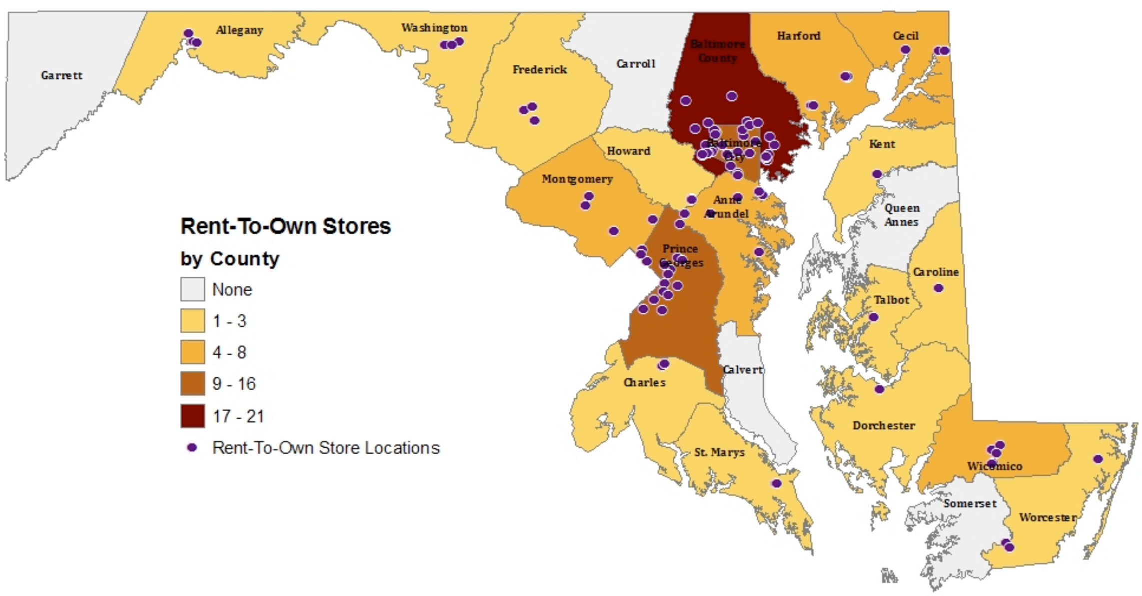
In Maryland, there are 101 RTO stores that generate more than $67 million in annual revenue.[22] The RTO industry in Maryland is dominated by a few national chains including Rent-A-Center, Aaron's, and ColorTyme, but smaller RTO dealers also operate in the state.

[22] APRO stated that there were 91 RTO stores but a Google and Yellow Pages search revealed 101 stores. Stores that only rented one product such as musical instruments were not included in the results. MCRC did not visit all the stores so some of this information may have changed since we mapped the data. (www.rto.org)

Mapping Rent-to-Own Stores

RTO stores can be found in 19 of Maryland's 24 counties, or in 79% of the state's jurisdictions Just five counties (Garrett, Carroll, Calvert, Queen Anne's, and Somerset) have no RTO stores. The stores are found in urban, suburban, and rural areas. The median number of stores per county is three. Baltimore County (21), Prince George's County (16) and Baltimore City (15) have the most stores in the state. The more darkly shaded areas in Figure 1 below represent the places with a greater concentration of RTO stores.

Figure 1: RTO Stores in Maryland

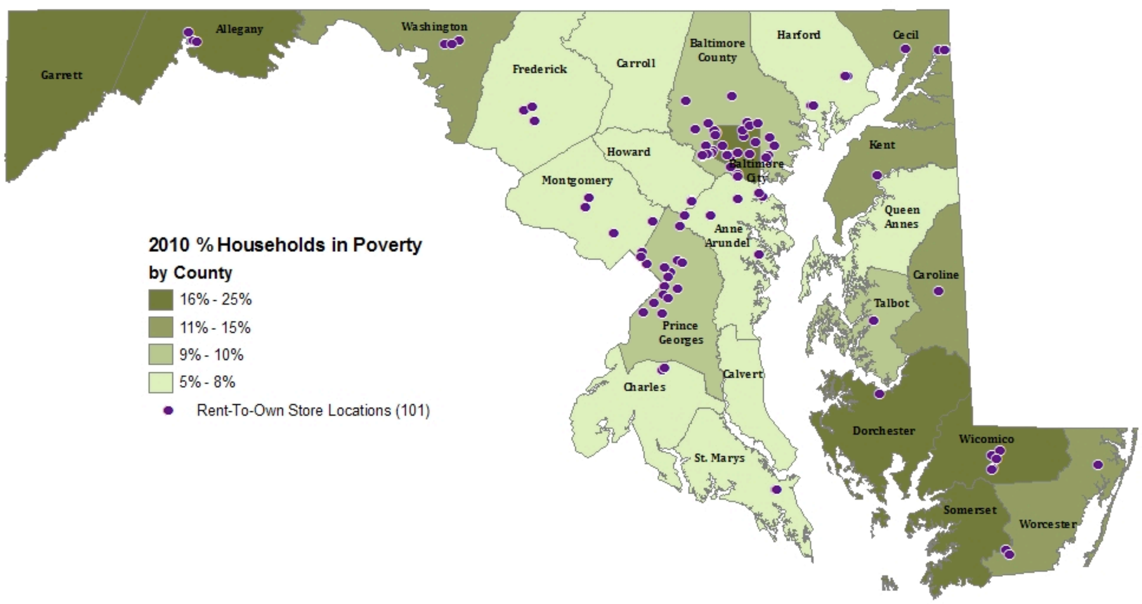


Source: MCRC analysis of RTO data.

Although the majority of stores are located in counties where the median income is relatively low, this map makes clear that there are also a number of RTO stores in more affluent counties.

Figure 2 correlates RTO stores to the percentage of households in poverty in Maryland counties. In Baltimore City, the map shows a strong correlation. The city has 15 RTO stores and is one of the Maryland jurisdictions where between 16% and 25% of households live in poverty. However, this relationship appears to be weaker in Baltimore and Prince George's counties. Both Baltimore County (21) and Prince George's County (16) have a large number of RTO locations even though each county has just 9% to10% of households living in poverty.

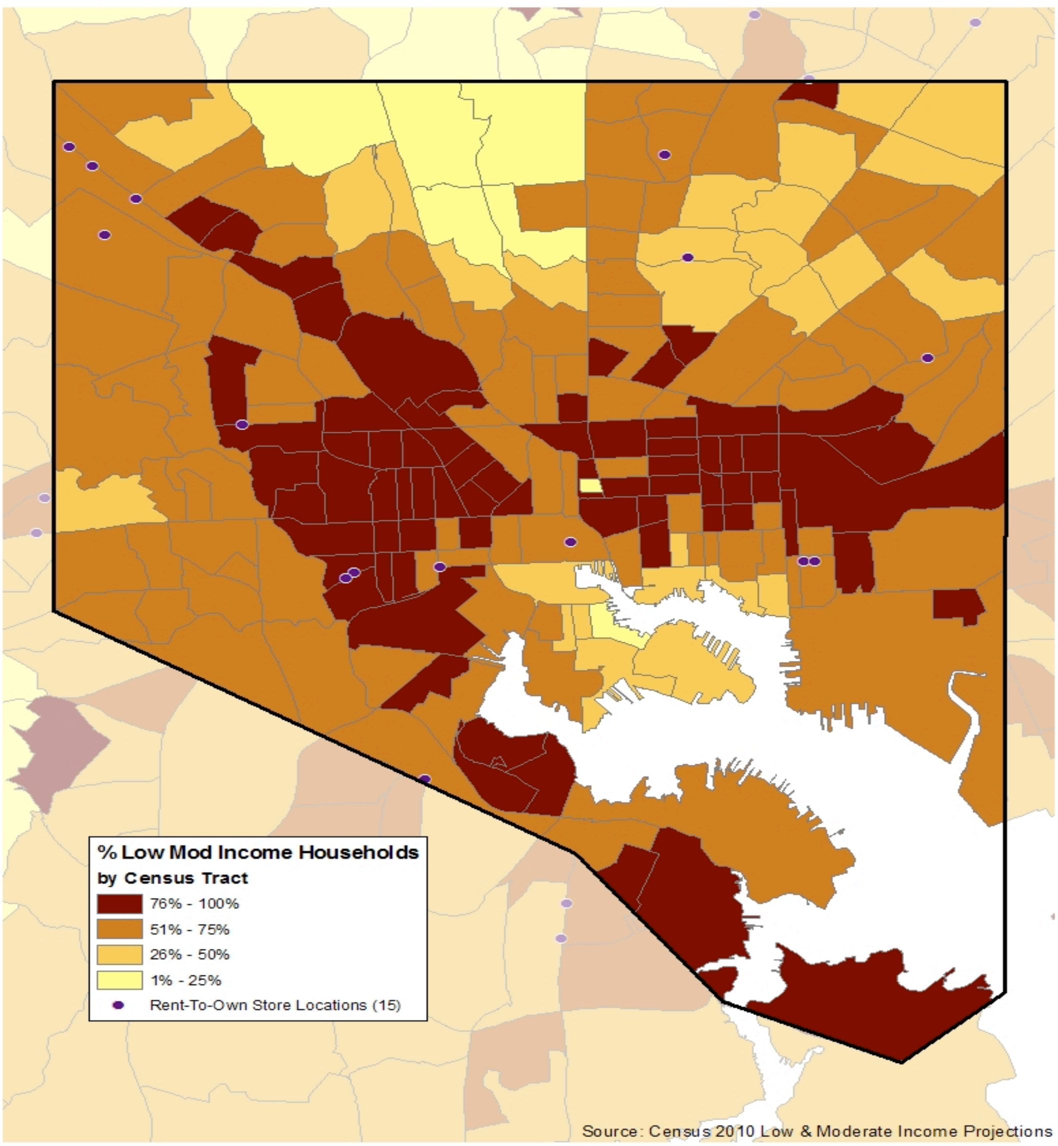
Figure 2. RTO Stores and the Percentage of Households in Poverty



Source: MCRC Analysis of Census Data.

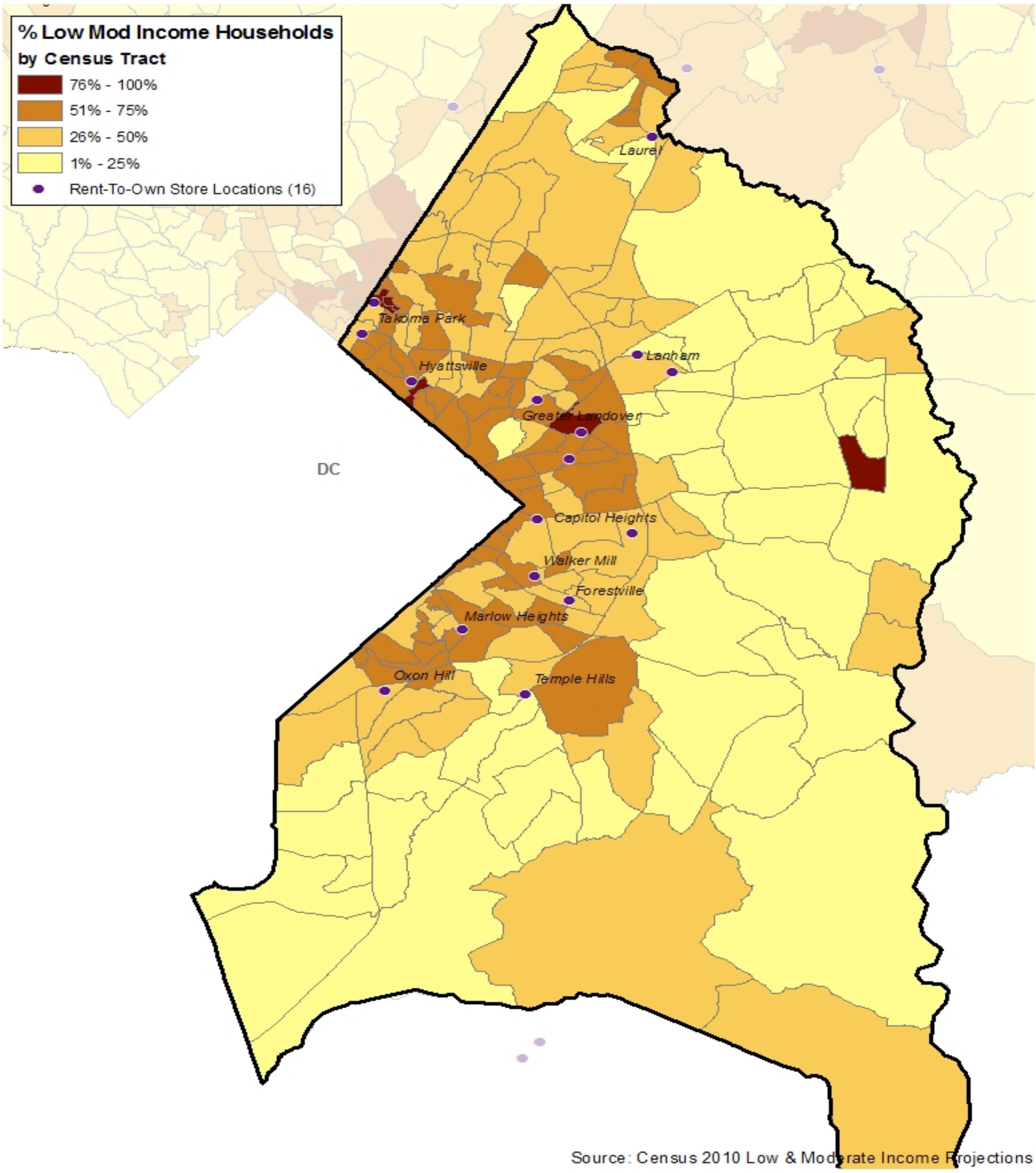
However, when we look at the poverty data by census tract (Figure 3), we find that the RTO stores in all three counties are located near or in pockets of poverty. Among Baltimore City's 15 RTO stores, three are located in census tracts where 70% to 100% of households are low-to-moderate income. Eleven stores are located in areas where 51% to 75% of households are low-to-moderate income and one is in an area where 26% to 50% of homes are as low-to-moderate income. In summary, 93% of Baltimore's RTO stores are located in areas where 51% to 100% of the households are low-to-moderate income.

Figure 3: Baltimore City RTO stores by percentage of households in poverty
poverty



Source: MCRC analysis of 2010 Census Data

Figure 4: Prince George's County RTO stores by percentage of households in poverty

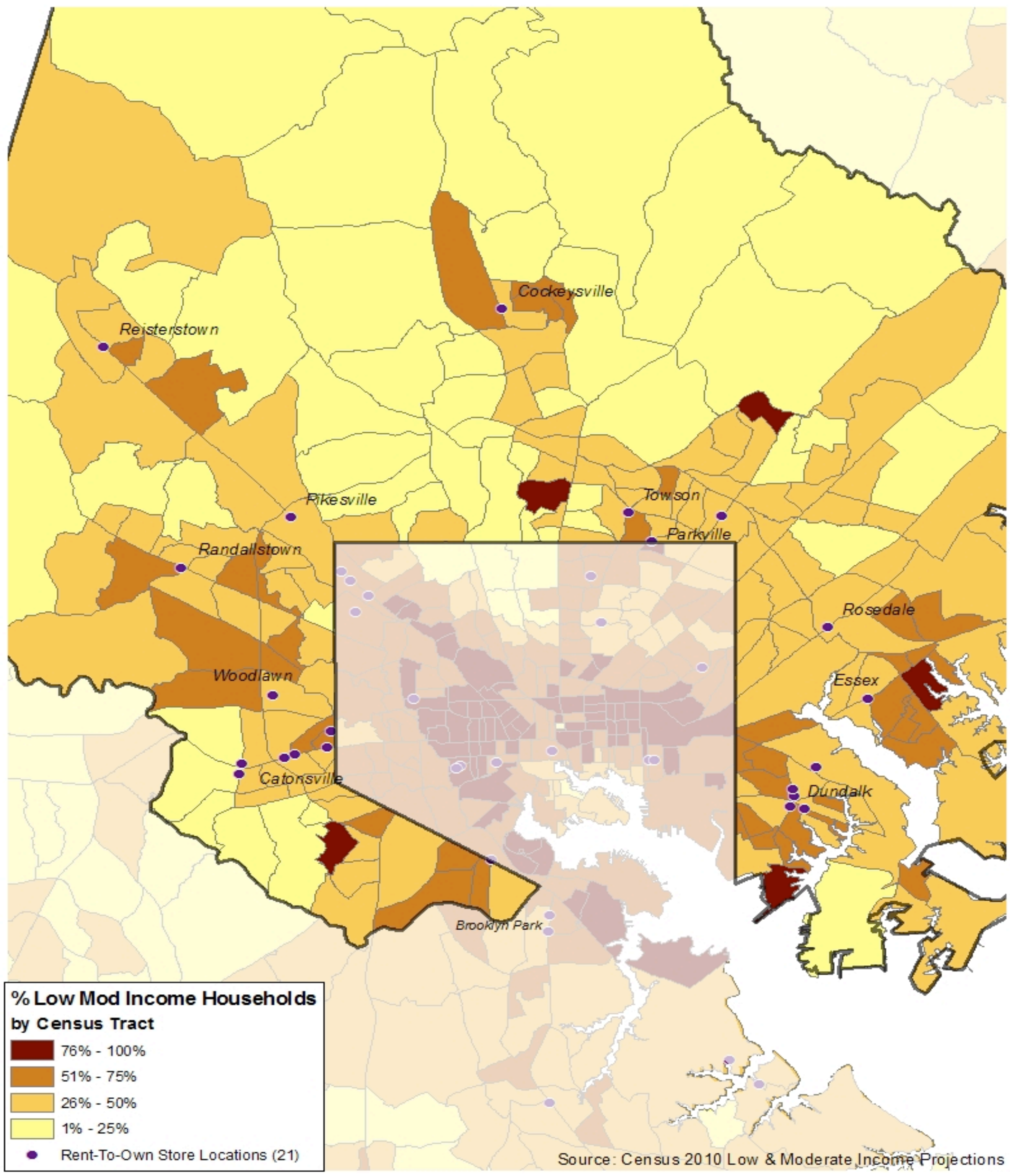


Source: MCRC Analysis of 2010 Census Data.

The pattern is similar in Prince George's County (Figure 4). Among the county's 16 RTO stores, three are in areas in areas where 76% to 100% of households are low-to-moderate income and seven are in areas where 51% to 75% of the households are low-to-moderate income. The other six are in areas where 26% to 50% of households are low-to-moderate income. In other words, 62.5% of RTO stores in Prince George's County are in areas where 51% to 100% of households are low-to-moderate income.

The picture looks somewhat different in Baltimore County (Figure 5) below. Among the 21 RTO stores in this county, 12 are located in areas where 51% to75% of the households are low-income and nine are located in areas where 26% to 50% of the households are low-income. No RTO stores are located in the most destitute areas of the county but, overall, 57% of RTO stores in Baltimore County are located in low-to-moderate income areas.

Figure 5 Baltimore County RTO stores by percentage of households in poverty



Source: MCRC analysis of 2010 Census data.

As the mapping demonstrates, RTO stores, like other fringe financial products such as pawn shops or check cashers, are predominately located in low-income areas where consumers have limited access to other retail options. These are also often the consumers who can least afford the high prices that RTO stores charge but, lacking the assets to pay for many products in full, they often use RTO stores to buy merchandise.

B. Survey of rent-to-own prices and policies

As Table 4 (below) shows, the cash purchase prices we found at RTO stores were between 1.49 times and 1.68 times higher than the average cash price at the retail stores. This price difference is particularly notable since several of the items we priced at the RTO stores had obviously been used by others, but the prices had not been adjusted to reflect any depreciation. Moreover, although items were marked as used, RTO salespeople were not able to answer our surveyors' questions about how long the item had been in use or whether it had been rented to more than one person.

Table 4: Cash Prices at Rent-to-Own and Retail Stores

Item	RTO Store Average Cash Price	Non/RTO Store Average Cash Price	Price Difference	RTO/Non-RTO cash prices
Refrigerator	$1016.87	$678	$338.87	149%
Television	$1,229.88	$728.55	$501.33	168%

While these cash prices are high compared to those of other retailers, it is important to remember that most RTO customers actually pay much more to gain ownership of their item because they pay the much higher rental purchase price (the cumulative total of all weekly or monthly rental payments) instead of the cash purchase price. As Table 4 illustrates, the average cost of renting-to-own is 2 to 3.5 times higher than purchasing the same merchandise from a retail store. Moreover, the average APR of the RTO transactions we surveyed was nearly 150%, with actual APRs ranging from 65% to 305%.

These figures show that the low- and moderate-income families that often use RTO stores are paying more – far more -- than individuals who have access to more traditional retailers pay for the same merchandise. For struggling households to lose, on average, $1,312 when they purchase a refrigerator or $1,814 when they buy a large television means that they may very well need to sacrifice other needs to make the payments on their RTO items.

Table 5: Total cost of leasing for full-term[23] compared to purchasing from a traditional store

Item	Average Rental purchase price	Non-RTO store price	Price Difference	Total RTO cost/non RTO prices	Average APR of RTO item
Refrigerator	$1,990	$678	$1,312	294%	149%
Television	$2,543	$728.55	$1,814.45	349%	146%

Major features of RTO sales practices our surveyers identified:

- Prices were often 2 to 3.5 times higher than those in retail stores.
- All stores surveyed complied with Maryland price disclosure rules and current law.
- Although merchandise was marked as used, salespeople were unable to tell surveyors how long it had been used, if it had been rented out more than once, or other information about the item's prior use.
- Used items often retailed for the same price or a price very similar to the cost of new items, even though their value had depreciated through use.
- Insurance packages that would cover the RTO customer for loss or damage of the merchandise they were renting from the store were marketed in several stores. When asked, salespeople couldn't provide detailed information about what the insurance package contained. Many renters who purchase insurance for their domiciles would already have coverage that provided for loss or damages.

The high costs consumers pay for rent-to-own merchandise are also a loss for traditional merchants and other small businesses and for the low- to moderate-income communities where most rent-to-own stores operate. Paying more than $1,000 extra for basic appliances like refrigerators and televisions cuts sharply into the disposable income that families of modest means have to spend on other goods and services or invest in their homes and their communities. That loss means less spending and less business at other area merchants and leaves fewer resources available to revitalize those communities.

Complaints about the industry from Maryland consumers

In Maryland, a recent review of complaints filed with the Office of the Attorney General found that the majority of complaints were against national RTO chains. Consumers frequently complained about price increases or price-gouging, misrepresentation of facts/false advertising,

[23] For this analysis, MCRC calculated the payments based on weekly payments rather than monthly.

or omission of facts in sales offers. Other complaints involved collection activities, harassment by collection agents, and defective goods.

Just as the FTC found in its 1999 national survey, the leading topics of complaints against the RTO industry from Maryland consumers were price increases and price-gouging. The many price complaints strongly suggests that many Maryland consumers did not fully understand the pricing policies when they signed their RTO contracts.

Rent-to-Own Policies in Maryland

Maryland's Rental Purchase Agreement Act was last revised in 1989. It gives consumers some protections but, overall, it provides Maryland consumers with fewer protections against the high costs and hidden fees of the rent-to-own industry than consumers in many neighboring states have.

Maryland law does not place any limits on the finance charges or interest rent-to-own dealers can charge. Dealers are not required to disclose as an annual percentage rate (APR) the finance charges or interest rate consumers end up paying to own the product,[24] Therefore, it is difficult for Maryland consumers to easily compare the cost of buying under a rent-to-own plan with, for example, buying on an installment plan.

Maryland law does contain some helpful provisions for consumers. A summary of key provisions is found in Table 6 (following page).

[24] Maryland Attorney General Consumer Publication List, "Rent-to-Own: Worth the Convenience?" www.oag.state.md.us/consumer/edge109.htm.

Table 6: Selected Provisions of Maryland's Rental Purchase Agreement Act

Selected Disclosure Requirements	RTO Consumer May
* the total number, total amount, and timing of all rental payments necessary to acquire ownership; * a statement that the consumer will not own the property until all payments are made; * a description of the rental property including an identification number and a statement of whether the item is new or used; * the cash price of the property; * the initial amount due before delivery or acquisition of the item; * a statement describing the right to an early purchase option and price and the method for determining the early purchase price; * consumer's right to reinstate a contract after missing a payment.	* reinstate their contract if within five days (for monthly contracts) or two days (for weekly contracts) the consumer pays all past due charges, any re-delivery charges, and a reinstatement fee of no more than $5.

Alternatives to RTO

Save or Layaway

Many consumer advocates suggest that consumers consider either: 1) saving up money and buying the item for cash at a traditional retailer or 2) opting for a layaway plan with a local retailer. The first option may be a good idea for non-essential items such as a television but consumers often can't wait to replace household appliances such as refrigerators or washers and dryers. Although many stores had shelved their layaway plans several years ago, as households continue to suffer financial stress during the recession, many stores have reintroduced layaway plans.

National retailers, including Wal-Mart, Sears, Best Buy, and Toys "R" Us have all revived their layaway programs. While these plans provide options for low-income consumers, particularly those without access to credit, the costs to consumers may outweigh the benefits.

Most of the layaway plans these stores tout are short-term solutions at best. The plans allow consumers to purchase merchandise by paying off the balance over 8 to 12 week periods. Once the balance is paid off, the consumer will receive the merchandise.. Even though the fees and finance charges are quite high, this option is a lot less expensive than purchasing the same items at a rent-to-own store.[25]

Under all of these plans, consumers can cancel their layaway purchases and receive a refund of the payments they have made, with service and cancellation fees subtracted from their refund.

Credit Cards

As the FTC report noted, almost half of RTO customers have credit cards. Those consumers will find it much less costly, over time, to pay down their credit card (if they are at or near their credit limit) and charge an item on credit than to purchase the same item on installment at an RTO store. As the table below indicates, consumer come out ahead financially, even if they use a high-interest credit card, when the cost of a credit purchase is compared to an RTO transaction.

Table 7: How much will you pay for a $1,000 refrigerator?

Type of Payment	Payment schedule	Total Cost	Total APR
Bank line of credit	27 monthly payments of $40	$1,080	6%
Master Card/Visa	32 monthly payments of $40	$1,280	18%
Store Credit Card	38 monthly payments of $40	$1,520	28%
Rent-to-Own	24 monthly payments of $80	$1,920	72.5%

Source: New York City Council "Kick-Off to a Rip-Off: Loose Laws Lead to Inflated Prices for Rent-to-Own Consumers."

[25] Hyman, Louise, "Laid Flat by Layaway," *The New York Times*, Oct. 11, 2011.

Second-hand stores, Craigslist, Local Shops

Consumers who don't have access to credit can also find options that are much more affordable than high-price RTO merchandise.

Reviewing Craigslist, for instance, MCRC found refrigerators in similar sizes and models to those costing well in excess of $1,000 at RTO stores routinely priced between $100 and $300. Conducting a similar search for televisions, we found prices ranging from $150 to $500 for televisions of a similar size, model, and make to those sold in RTO stores for more than $1,000.

Even when factoring in the cost of transportation to see and pick-up the item, these prices are an enormous savings over RTO purchases.

Second-hand stores and thrift stores run by nonprofits such as Habitat for Humanity's ReStore and Goodwill Industries also offer consumers much lower prices for goods that in some cases are quite similar to those available in rent-to-own stores.

Conclusion

Rent-to-own stores, like other fringe financial products, serve predominately low-income households and allow them to rent appliances, electronics, and furniture on a weekly or monthly basis. Although some consumers appreciate the ability to cancel their contracts and return the merchandise at any time, Maryland families are paying 2 to 3.5 times more for RTO merchandise than they would pay if they purchased the item for cash at another retail store. The effective APR rates on the RTO sales MCRC surveyed range from 65% to 305%.

Those high costs impose hardships on families across Maryland, especially on vulnerable families struggling to make it through tough economic times. Many financially struggling consumers are unable to maintain these high payments and end up losing the money they've invested in RTO items when they have to return them or have them repossessed -- while the RTO stores may go on to re-rent the same item four or five times.

RTO stores are not covered by federal regulations and in Maryland such transactions are treated as a short-term lease, rather than a credit purchase, even though national studies have found that the majority of RTO consumers intend to purchase the merchandise that they are renting.

Maryland consumers need more protections from, and better information about, the fees and policies of an industry that often imposes such high costs on consumers.

MCRC Policy Recommendations

Maryland's Rental Purchase Agreement Act has not been amended since 1989, even as other states have enacted stronger protections for consumers. In this difficult economic climate, Maryland policymakers can do more to inform consumers about the long-term economic costs of rent-to-own stores. This will enable families to make better-informed decisions when they buy appliances, electronics, and other items.

Several policy changes would help strengthen Maryland law and better protect consumers. These include:

- Establishing a price cap of 156% of the wholesale cost for appliances and electronics and 167% of the cost of furniture and other goods. This price ceiling would allow RTO stores to continue to make an extremely high profit but give consumers new protections. Such caps would be consistent with the average RTO prices we found in Maryland even as they curb the prices of RTO stores that charge even higher fees.

- Capping the maximum total of all payments over the course of a rental purchase contract at twice the maximum cash price (several other states have similar requirements).

- Giving consumers three days to reconsider and rescind a rental-purchase agreement.

- Extending the time consumers who miss a payment have to reinstate their contract to 60 days, for those renting on a monthly basis, and 21 days for those renting weekly. If a consumer has paid more than half the total rental purchase price of an item, he or she should have 90 days to reinstate the contract.

- Barring any requirement that a consumer obtain insurance, any penalty for early purchase, or any large balloon payments as part of a rental-purchase agreement.

- Expanding the disclosures in the sample form on an RTO contract to include the effective APR for the contract and the cost of the merchandise at traditional retailers. This will give consumers more information about the costs of each transaction and help them make better-informed decisions.

- Treating RTO transactions as credit sales so that they would fall under Maryland usury laws.

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Appendices

A. Maryland consumers speak out about their dealings with Rent-to-Own stores

Harassment

Shana Thrasher, Hyattsville Md

Shana Thrasher is a 911 operator from Hyattsville, Maryland. She rented a bedroom set from Rent-a-Center and made weekly payments of $25 to $30 for months before falling behind on the payments. Once she fell behind, she began to get harassing phone calls from the same man again and again. He threatened to beat her up if she didn't pay her bills and called her profane names. She repeatedly asked if she could speak to someone else about the debt but the store wouldn't allow that.

The store also called her at work repeatedly to demand payment, even after Shana explained that she was a 911 operator and that she and her colleagues couldn't take personal calls. The store spoke to her supervisor several times and called her sister to demand payment. They even called her when she was current on the payments to make sure that she was planning to make the scheduled payments.

Eventually, she filed a complaint about the harassment and talked to an attorney who worked for Rent-a-Center about the case. Rent-A-Center's lawyer agreed to drop outstanding charges if she dropped the harassment complaint. As part of the arrangement, she agreed not to go back to Rent-a-Center.

She finds that ironic because "I never harassed anybody."

Price-Gouging

Elizabeth Rice, Baltimore MD

Elizabeth bought a new washer at Sears. But delivery was delayed for some weeks, so she went to a rent-to-own center to get a washer for a few weeks. She experienced what she calls "egregious price gouging" and a very invasive credit reference application and was angry about being asked to sign a waiver of right to file a class action legal claim against the store.

She found that any rental for less than one month is considered an "event rental." To do one, she had to make a minimum payment of four weeks of rent (at $19.99/week for the washer) plus a $400 security deposit up front. The security deposit was taken as a charge (not a hold) on her credit card, so she had to pay the $400 upfront. The store would not credit the deposit back to her card over the phone or when they picked up the washer at the end of the rental, so she had to physically go to the store to get the deposit credited back to her card.

The price on the washer was very high. It listed in retail for about $800 and could be found on sale for less than $700. But the cash price to buy the washer outright within the first three months of the rental contract was $1,169.42. To acquire the washer by paying the rent through the full 24-month term of the lease would have cost her $2,479.23, or more than three times the retail price of the appliance.

B. .Things to Consider Before Making a Rent-to-Own Purchase

Shop Around

When you decide what you want, look into purchasing the item used off of Craigslist or at a second-hand store. Televisions and appliances can frequently be found on Craigslist at reasonable prices. Compare the prices from Craigslist with those from traditional local and big box retailers as well as RTO stores. Being aware of what each store charges for the same (or very similar) merchandise helps you become an informed consumer.

Save for It

If the item is something you want but don't need, consider putting aside money each week or month until you can purchase the item from a traditional retail store (or second-hand store) outright. You might save a bundle.

Look into other forms of credit

If you have a credit card, consider whether you can pay for the merchandise on your card, or pay down your card until you are able to do so. If so, you will end up paying a much smaller interest rate than the interest charged at an RTO store -- and saying money that can be put to better use as well.

Do the Math

If you do decide to make a purchase at an RTO store, be aware that you will need to add the weekly or monthly cost of the item in with all of your other expenses. And remember to figure out how long it will take you to pay off a rent-to-own contract.

C. Questions to Ask before Making a Rent-to-Own Purchase

1. What is the total cost if I purchase the item after 12 months? 24 months?
2. What is the effective APR for this purchase?
3. Does the rental fee include any other charges such as warranties, renter's insurance, special services, or other fees?
4. Is this item new or used?
5. If it is used, how old is it and how many other homes has it been in?
6. Do you require a security deposit?
7. If a security deposit is required, is the security deposit a credit hold or is it charged immediately to my credit card?
8. What are my legal rights if there is a dispute?
9. What references are required? How will these references be used?
10. What is the reinstatement policy if I miss a payment?

D. Consumer Education Flyers on Rent-to-Own


IF YOU
BUY USING
RENT TO OWN
YOU COULD PAY
$1,000
FOR ONE SMALL TV
RENT TO OWN
That's right folks —
this is not a misprint!
You can buy *one* small TV for $200 cash at a department store — or — you can buy the same one small TV for **$1,000** by ***RENTING*** it from Rent to Own!
Which would you rather pay:
$12 per *week* at Rent to Own — or
$12 per *month* on your credit card!
$1,000 COULD BUY YOU *FIVE* TVs
CASH
CASH
CASH
CASH
CASH
The choice is yours!
COMPARISON: THREE WAYS TO BUY A $200 APPLIANCE
RENT TO OWN $12/week x 87 = $1,044
CREDIT CARD $12/month x 20 = $240
CASH $200 x 1 = $200
For more information,
send a stamped, self-addressed envelope to:
Consumers League Education Fund
60 South Fullerton Ave., Montclair, N.J. 07404