Policy Matters Ohio

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Rent-to-Own stores charge up to 4.5 times retail prices
Ohio law allows excessive prices, fails to protect consumers

For customers with limited savings, rent-to-own stores offer a tempting way to obtain appliances and furniture immediately but a new study from Policy Matters Ohio finds that shoppers usually ultimately pay a price that is several times the worth of the item. A Policy Matters survey of Ohio rent-to-own stores found that such stores charged 4.5 times what regular retail stores charged for certain items.

Ohio has more than its share of rent-to-own stores, with more than 400 stores in operation, more than all but two other states. Adjusted for population, Ohio has the eighteenth highest density of RTO stores in the nation. The study found that Ohio stores are concentrated in urban areas, but are found throughout the state, in 78 of Ohio's 88 counties. Cuyahoga, Franklin and Lucas counties have 36, 33 and 23 stores respectively.

The study found that most stores are in very low-income Census tracts. In the top five counties with stores, only two stores were in upper-income tracts while 31 percent were in middle-income tracts. Most stores (91 stores, 68 percent) were in low- or very low-income tracts.

Policy Matters surveyed 19 rent-to-own stores in Cleveland, Columbus, and Akron in July and August of 2008, comparing appliance prices with prices at four retail chains and two local appliance stores. We found that so-called cash prices were between 1.49 and 2.54 times higher than in other stores, despite the fact that many of the RTO store appliances were used while the retail appliances were primarily new.

Stores are permitted to charge up to twice the cash price. We found that on average, rent-to-own stores charged a total rental-purchase price of $1,399 for a stove, about 4.5 times the $311 average price at non rent-to-own stores. While this was the most egregious example, RTO stores charged more than 2.7 times more for a washer-dryer pair ($1,933 vs. $704) and 2.9 times more for a refrigerator ($1,332 vs. $462). Our surveyors also found:

- Employees were unable to explain APR.
- Most employees could not provide information about energy use or product comparison information.
- RTO stores sometimes failed to comply with the law requiring identification of used items, but complied with other price tag disclosure laws.

- Insurance packages were marketed in several stores, at $3 a week at Rent-A-Center and at 10 percent of each monthly payment at Aarons for example. What the warranty covered was often vague.
- Despite lower up front prices, retail stores may drive lower-income customers to RTO stores by charging for delivery and not offering layaway.

Ohio law could better protect the vulnerable consumers who are drawn to rent-to-own. The regulations here allow for high prices and profits. Although Ohio's law is not particularly strong, most states have similarly lax oversight, and Ohio has some protections that are better than elsewhere. We are one of nine states to limit rental-purchase prices, in our case to twice the inflated cash price. It is one of eighteen states requiring some disclosures on price tags and more in the contract. We are one of three states to forbid processing fees, mandatory insurance or agreement termination charges. Like nearly all states, Ohio has a reinstatement time frame for consumers who fail to make a payment.

We should start by better enforcing existing law, which our surveyors found was not always followed. Several policy changes could better protect Ohio consumers, including:

- Establish a price for used items that is significantly lower than the price of new items for products like appliances and furniture that depreciate quickly.
- Instead of artificially inflated cash prices, require stores to post a cash price that reflects the cost consumers would pay to purchase the item in a traditional store. The rental purchase price should then be limited to 200 percent of the now-accurate cash price. This would still allow rent-to-own stores to make an extremely high profit, but would better protect consumers.
- The price limits could work while retaining our current structure, which treats transactions as leases. However, since most consumers intend to and do actually purchase the products, it is more appropriate to treat them as credit transactions. We recommend that we treat RTO transactions under credit laws and subject them to usury ceilings, as Minnesota, New Jersey, and Wisconsin do.
- Provide warranty and replacement without charge to the consumer.

"Ohio provides modest protection to rent-to-own consumers by requiring disclosure and limiting prices to twice the inflated cash value of items," said David Rothstein, Policy Matters researcher and a report co-author. "But by allowing the cash value to be so deceptive, failing to require depreciation for used items, and allowing firms to charge up to twice the already-inflated cash value, we leave Ohio's most vulnerable consumers in the position of paying three to four times the retail price for products that are sub-par to start with. Better regulation of this industry will give Ohio's cash-strapped consumers a better deal."