



Rent to own: Impatience has a price

Welcoming those cornered by bad credit, rent-to-own stores are thriving. But the costs of their convenient payment plans are equivalent to sky-high interest rates.

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MSN Money

What's it worth to you to get something right now and pay for it later?

An additional 30% a year? That's what you'd pay with a high-interest credit card. How about 400%?

That's what some people choose to pay instead.

If that sounds impossibly steep, you haven't heard how well the rent-to-own industry is doing these days.

Rent-to-own stores lease household appliances, furniture and electronics through weekly and monthly plans of one to two years. If you make all the payments, the item is yours. True, the markups are sky-high, but customers without credit can easily qualify.

- **Quick quiz:** [Estimate your credit scores](#)

Now that credit has dried up, business is booming, up 11% industrywide since 2007. Rent-to-own is now a \$7 billion industry serving more than 3.2 million U.S. households.

[Aaron's](#), an industry giant with 1,700 stores, has seen sales soar 27% in the past two years. And though rent-to-own stores have traditionally been a staple of low-income neighborhoods, the credit crunch has created new customers: households making above the U.S. median income of \$50,000 a year. Aaron's says it has customers who make up to \$80,000.

"If you don't have access to cash and you don't have a good credit rating, where are you going to get a brand-new 47-inch LCD TV?" asks Robin Loudermilk Jr., the company's president and CEO.

[Rent-A-Center](#), the industry leader with 3,007 stores, continues to boost its customer numbers, even though its prices sometimes quadruple those found in retail stores.

"That's quite a feat in this environment," says Bill Baldwin, who analyzes Rent-A-Center for Baldwin Anthony Securities.

Now, if only the customers could afford it.

The worry-free guarantee

Before coming down too hard on U.S. shoppers for blindly strip-mining their wallets -- again -- first consider the appeal of the rent-to-own model.

In a way, it offers the perfect solution for today's bewildered consumers. For years, banks, credit cards, stores, mortgage companies, auto dealers -- the entire marketplace -- encouraged shoppers to just charge it.

"Lenders did a bang-up job of teaching people how to focus only on the payments, rather than what things actually cost," says [Liz Pulliam Weston](#), a personal-finance columnist for MSN Money and the author of "[Your Credit Score: Your Money & What's at Stake](#)."

Then lenders turned off the spigot.

Rent-to-owns, meanwhile, got busy. They built bigger showrooms, expanded their product lines, crafted more-attractive payment options and pumped up their advertising. Rent-A-Center's new spokesman, former Dallas Cowboys quarterback [Troy Aikman](#), is quoted in the company's ads saying, "Winners do what it takes to get things done."

Call a rent-to-own store, and a live person answers the phone. Walk in, and clerks address you by name. They're nice. They don't care how much money you have, what you do for a living or how badly your credit has been bruised by that other, less-forgiving industry.

They just want to know where you live, in case you stop making payments. That way they can swing by and pick up the TV or the sofa bed or the washer and dryer, no hard feelings. In fact, you're welcome to come in again anytime.

"The rent-to-own contract does have a benefit to it," says Margot Saunders of the [National Consumer Law Center](#), a nonprofit consumer advocacy group. "The question is whether that benefit is worth the cost."

First, a look at those benefits, which have improved since the industry blossomed in the 1970s, during another credit crunch:

- **There are no credit checks.** Because you can cancel anytime, the store doesn't really care about your ability to continue paying. "I know the customer is strapped," Loudermilk says. "The major question is, if they don't pay, will they return the product? Because our value is in that TV." Items often get re-rented as "pre-owned," typically three more times.
- **You have flexibility in tough times.** If you run short of funds, just return the item -- no questions asked, no black marks. "You are never legally obligated to make the next payment," says Richard May, the public-affairs director for the Association of Progressive Rental Organizations, a trade group.
- **You can pick up where you left off.** Most states require stores to credit good customers in full if their contract is renewed within a month or two. Many stores now offer lifetime reinstatement rights.
- **You have a choice of plans.** Customers can opt for weekly or monthly plans, for one year, two or more. Or they can opt to pay in full within the first 90 or 180 days, for a price dubbed "same as cash." (Be warned, though, this "cash" price can still be twice the retail cost.)
- **There's same-day delivery, or close to it.** Don't have \$800 for a washer and dryer but do have \$20 for that first week's payment? Problem solved. Could you resist a seven-piece living-room set in hand for only \$29.99, right now?

- **Repairs are included.** Clerks may try to sell additional warranties, but before full ownership, stores should repair or replace defective items. Test shoppers in an Ohio study said salespeople at several locations were friendly, pleasant and repeatedly assured them, "We'll take care of you."
- **Eventually, it's yours** (if you make all the payments, of course). "We've got the best layaway program in the country," Loudermilk says. "You can come and layaway a TV in your house."

All this service has an "embedded value, and it comes at a cost," says Xavier Dominicis, the vice president of public affairs for Rent-A-Center. "When your refrigerator breaks, life doesn't go on hold." "For a lot of people it preserves their dignity," he says. "It allows them to take care of themselves and their families."

The customer pays and pays . . . and gives up

The problem is that dignity doesn't last long -- typically less than four months.

By then, three-quarters of rent-to-own customers have let the store's van haul the item away. Most people start out intending to pay through to ownership, analysts say, but lose the will or the ability to keep making payments.

Compared with other things people buy on installment, that's a dismal record. Even in this economy, just 2% of homes were foreclosed in 2008 because of inability to pay, and 5.4% of autos were repossessed (a quarter-century high). In addition, 20% of credit card customers lost a card to default.

To add insult to injury, by 17 weeks -- around the time most people give up on their rent-to-own plans -- the amount already paid in rental fees typically matches or exceeds what the item would have cost upfront.

The cost to rent, the cost to own*

Item	LG 42-inch flat-screen TV	Compaq 15-inch laptop	Whirlpool Cabrio washer and dryer	Ashley microfiber sofa
Weekly price	\$39.99	\$31.99	\$27.99	\$16.99
90-day 'same as cash' price	\$1,560	\$1,040	\$2,057	\$663
Own it in	78 weeks	65 weeks	147 weeks	78 weeks
Total if all payments made	\$3,119.00	\$2,079.00	\$4,115.00	\$1,325
Paid after 17 weeks	\$680	\$544	\$476	\$289
Available retail price	\$650	\$350	\$1,360	\$580

**Rental costs from Rent-A-Center stores in Oregon; retail prices from Bing shopping and major big-box stores*

Consumer advocates say government needs to cap rent-to-own price markups the way it caps interest rates.

"So many people go into it wanting to own the appliance or furniture, and they just never get there," says David Rothstein, who produced a [report on the industry](#) (.pdf file) for Policy Matters Ohio, a nonpartisan economic think tank. "The price is the thing that is the most detrimental to consumers, and that is the thing that is most loosely regulated."

Rent-to-own contracts do not fall under federal consumer-protection laws. And in the 1980s, the rent-to-own industry successfully lobbied for passage of state laws (they called them consumer protection acts) to classify rent-to-own as a leasing business and not a credit-sales business.

As a result, in 47 states, rent-to-own stores don't have to disclose the [APR](#), or annual percentage rate, as other lenders must. Consumers have no way to comparison shop. They simply aren't told, for instance, that paying \$3,119 over 78 weeks for a TV they could have bought "same as cash" for \$1,560 equates to an APR of 67% -- far more than the most outrageous credit card rate. You can find your state's requirements [here](#) (.pdf file).

Critics say such practices make it that much easier for people to get in over their heads.

"If you are selling something over time, you should be regulated by the laws that regulate selling over time," says Ed Mierzwinski of the [U.S. Public Interest Research Group](#), a nonprofit advocate for consumers. "Annual percentage rate is critical because it is the way we compare the cost of buying things over time."

Don't mess with the repo man

There's another risk to rent-to-own: the collection van.

"The credit card company doesn't come to your door, as far as I know, or your place of work," says Jim Sugarman, an assistant attorney general for Washington state.

Sugarman's office is suing Rent-A-Center for allegedly aggressive collection practices. In affidavits, former employees said they faced tremendous pressure -- including daily threats of firing -- to collect on accounts that were more than a day overdue.

"Some of (the employees) will do things they wouldn't normally do," Sugarman says. "Most of the (workers) are pretty sorry for what they do."

That includes making multiple phone calls a day, yelling from outside homes, peeking in windows, plastering doors with signs -- a shaming technique -- and even threatening to enter with a locksmith or have family members taken to jail if a customer doesn't pay immediately or return the goods.

In a rent-to-own contract, the store has the right to so-called self-help repossession. But workers cannot break into a home or engage in harassing or threatening behavior, Sugarman says.

"There comes a point when repeated calls violates the law," he says.

His advice: Just give the stuff back. "Consumers should know that they can return the merchandise and it's all over with," he says. "It's not a loan where they'll need to pay it anyway."

And, say experts, if you're drawn to that shiny TV in the window, take the \$30 a week the store wants and put it under your mattress instead. Rather than returning a TV in 17 weeks, you'll be able to buy one outright. That is, if a little patience is worth \$2,000 to you.