Paying More, Renting Debt:

Why Rent-to-Own is a bad deal for Ohio consumers

A Report From

Policy Matters Ohio

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Policy Matters Ohio, the publisher of this study, is a nonprofit, nonpartisan research institute dedicated to bridging the gap between research and policy in Ohio. Policy Matters seeks to broaden the debate about economic policy in Ohio by providing quantitative and qualitative analysis of important issues facing working people in the state. Other areas of inquiry have included unemployment compensation, wages, taxes, education, trade and economic development.

Executive Summary

For customers with limited savings, rent-to-own stores offer a tempting way to obtain appliances and furniture immediately but shoppers usually ultimately pay a price that is several times the worth of the item. This study from Policy Matters surveys local rent-to-own stores, maps these stores in Ohio, compares prices to those in retail stores, compares Ohio law to the law in other states, and makes proposals for strengthening protections for Ohio consumers.

The way rent-to-own works is that buyers make a low down payment and sign a contract agreeing to make weekly or monthly payments for one to two years. If they make all of those payments, they keep the product. If they miss payments, the item is reclaimed by the store, which keeps payments made prior to the return.

Stores in Ohio are required to disclose a *cash price* that a customer could pay immediately to buy the item. A Policy Matters survey of Ohio rent-to-own stores found that these prices were between 1.5 and 2.5 times as high as a regular retail store would charge. If customers make all payments they end up paying a total *rental-purchase price*, permitted to be up to twice as high as the cash price. Our survey found that this price was up to 4.5 times as high as prices charged by other retail stores.

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 stores are concentrated in the most urbanized counties, 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.

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.

Although Ohio's rent-to-own law is not particularly strong, most states have similarly lax oversight, and Ohio has some protections that are better than elsewhere. Ohio is 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.

Policy Matters surveyed 19 rent-to-own stores in Cleveland, Columbus, and Akron in July and August of 2008. We compared appliance prices at these stores 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 not offering layaway and charging for delivery.

We recommend better enforcement of 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. 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.

Introduction

For customers with limited savings, rent-to-own stores offer a tempting way to obtain appliances and furniture immediately. However, for this convenience, customers often end up paying a price that is several times the retail value of the item. Payments are made on a weekly or monthly basis, generally over a period of 12 to 24 months. At the end of that period, if all payments are made, the customer acquires ownership of the item. If the customer misses payments, the item will eventually be reclaimed by the store. And, if the customer decides to return the product, the store keeps the payments that the customer has made and repossess the item. These stores also sell products outright for a *cash price* that is set by individual stores and is higher – between 1.5 and 2.5 times higher – than a typical retail purchase price. If instead customers rent until they acquire ownership, they will end up paying a total, which is known as the *rental-purchase price*, even higher than the already inflated cash price. In Ohio, that rental-purchase price can be up to twice as much as the cash price, and is up to 4.5 times as much as the price charged by other retail stores.

The rent-to-own (RTO) industry traces its roots back to the 1950s and 1960s, when the early companies that would evolve into today's RTO behemoths first opened. The man often credited as the inventor of the rent-to-own concept is J. Ernest Talley. After founding an appliance store "Mr. T's" in Wichita, Kansas in 1963, Talley discovered that there was money to be made in renting, particularly to customers who had difficulty getting financed by banks. He turned his attention to the rent-to-own concept and by 1974 he owned fourteen rent-to-own stores scattered between Los Angeles and Norfolk, Virginia.[1] Rent-A-Center, the largest chain of rent-to-own stores today, was founded by Tom Devlin, a former employee of Talley's, in Kansas City in 1973.[2] The Aaron's chain was founded by Charles Loudermilk in Atlanta in 1955. Loudermilk began by renting out Army surplus chairs for ten cents a day and by 1987, when the store expanded from being a purely rental establishment to incorporating the renting-to-own model, he had built a chain that today has over 1,000 stores nationwide.[3]

An international trade association, the Association of Progressive Rental Organizations (APRO), was founded in 1980 as the RTO industry expanded in the United States. Today, according to APRO, RTO is a $6.8 billion industry with about 8,500 stores in all 50 states and Canada. By APRO's estimates, the industry serves 3 million households per year.[4] The industry continues to grow, even during the recent economic downturn. Aaron's, for instance, reported a 6.2 percent increase in store revenue at the end of 2008.[5]

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[1] Geri L. Dreiling, "Past Due," *The Pitch*, May 9, 2002. Available online at http://www.pitch.com/2002-05-09/news/past-due/1.
[2] Dan Bearth, "Rent-to-Own Businesses Broaden Client Base," UPI, BC Cycle, September 13, 1987.
[3] Christine Van Dusen, "50 Years of No-Frills Growth," *The Atlanta Journal-Constitution*, May 17, 2006. Available online at http://www.ajc.com/business/content/business/best2006/stories/0521sbiz100rents.html.
[4] Association of Progressive Rental Organizations, http://www.rtohq.org/apro-rto-industry-overview.html
[5] Murlin Evans. "Rent-to-own News - Aaron's Q4: Same store revenues up 6.2 percent," *Association of Progressive Renter Organizations*, February 16, 2009. Available online at http://www.rtohq.org/02072apro-aarons-q4-same-store-revenues-up-62-percent.html.

The state of Ohio has more than its share of rent-to-own stores. Over 400 RTO stores currently operate in Ohio, putting the state third nationwide in total number of RTO stores (see Appendix 1 for the full state list). Adjusted for population, Ohio has the eighteenth highest density of RTO stores in the nation. Of these, more than 40 percent are Rent-A-Centers, not counting wholly-owned subsidiaries of Rent-A-Center like ColorTyme and Rentway, and roughly 15 percent are branches of Aaron's. Figure 1 displays the RTO locations in Ohio.

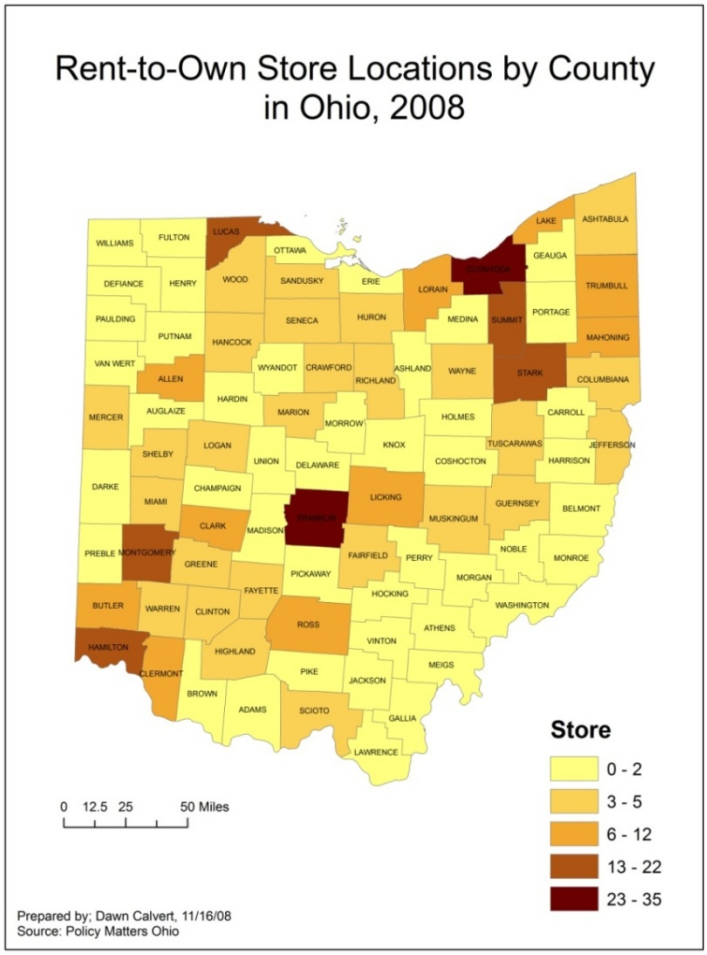
Figure 1

Source: Policy Matters analysis of date from the Association of Progressive Rental Organizations (APRO) and the Yellow Pages

Mapping Rent-to-Own locations in Ohio

Using store location data from the APRO and the Yellow Pages online database, Policy Matters mapped the locations of RTO stores in Ohio.[6] The stores are heavily concentrated in the most urbanized counties, but they are found throughout the state, in urban, suburban and rural locations. RTO stores are found in 78 of Ohio's 88 counties. The median number of stores per county is three, with Cuyahoga (36), Franklin (33), and Lucas (23) Counties having the most stores in the state. Northeastern and Southwestern Ohio have larger concentrations of stores than other parts of the state. The more darkly shaded areas in Figure 2 below represent a greater concentration of RTO stores.

Figure 2



Source: Policy Matters analysis of date from APRO and the Yellow Pages

[6] Since Ohio does not have a licensing or registration law for RTO stores, it is possible that there are more stores than the APRO and Yellow Pages data display. Data was updated in November, 2008.

The vast majority of store locations are in very low- or low-income Census tracts.[7] In the top five counties with RTO stores, only two stores were located in the upper-income tract designations (see Table 1). Some 41 stores or 31 percent were in middle-income tracts. The majority of stores (71 stores, 53 percent) were in the low-income tracts and 15 percent or 20 stores were in very low-income tract areas. The distinction between very low- and low-income tracts was sometimes fuzzy – stores in low-income areas were often just one to two miles from very low- income tracts.[8] Detailed maps of these five counties are provided in Appendix 1, followed by a list of RTO stores for each county.

Table 1
Census Tracts of Top 5 Counties with Rent-To-Own Stores

County	Number of stores	Very low-income tracts (50% or less of median family income)	Low-income tracts (50% to 80% of median family income)	Middle-income tracts (80% to 120% of median family income)	Upper (120% or more of median family income)
Cuyahoga	36	9	15	12	0
Franklin	33	4	26	3	0
Lucas	23	5	6	12	0
Hamilton	22	2	15	5	0
Montgomery	20	0	9	9	2
Total of top 5 counties	134	20	71	41	2
Percentage of total stores		15%	53%	31%	1%

Source: Policy Matters analysis of data from APRO and the Yellow Pages

The locations demonstrate that these high-priced products are, not surprisingly, targeted to those who have limited retail options and can least afford high prices. Consumers with more options are unlikely to pay such high prices. The next section compares the prices and interest rates of RTO products to those of other retail products. We find that RTO purchase prices can be up to 4.5 times higher than conventional retail products.

Who Rents?

An independent analysis of data from a nationwide survey conducted for the Federal Trade Commission sheds light on both the demographics and experiences of rent-to-own customers. The study, conducted by International Communications Research, examined 532 individuals, pulled from a nationwide telephone survey of 12,136 total respondents who had participated in RTO transactions in the previous five years. According to the 2002 report:

[7] The Census tract data is available from the Federal Financial Institutions Examinations Council (FFIC) at: http://www.ffiec.gov/webcensus/censusInfo.aspx.

> Compared with respondents who had not used RTO transactions, RTO customers were significantly more likely to be African American, younger, and less educated; have a lower income; have children in the household; rent their residence; live in the South; and live in non-suburban areas. There were no significant differences in the sex of customer and noncustomer respondents or in the percentage who were employed (though unemployed RTO customers were more likely to be temporarily unemployed, disabled, or handicapped, whereas unemployed noncustomers were more likely to be retired).[9]

The study also found that most RTO customers ultimately intend to purchase the merchandise when they begin the transaction. Two-thirds of those surveyed intended to purchase, while only a quarter of respondents said that they intended to rent the items for a while and then return them. The remaining RTO customers in the survey were unsure whether they intended to purchase the items. A sizable portion of respondents, 27 percent, complained of high prices.

Rent-to-Own Policies Nationwide

Legislation governing the RTO industry can take two broad forms. In the first, rent-to-own transactions are considered to be short-term leases that are renewed weekly or monthly. Though customers have the option of eventually owning the items, they can simply choose not to renew the lease at any time. This concept of "opting-out" is often used as the rationale for higher pricing by RTO stores because customers can discontinue use at any time. The second form of legislation treats RTO as a credit transaction, with the weekly or monthly payments acting like delayed payments on purchased items. Under this second form, RTO agreements are then subject to state regulations on interest rates, effectively regulating the differential stores may charge between the cash price and the rental-purchase price. Because nearly all customers say they intend to purchase the items, and because most customers do eventually pay the full price, most advocates argue that it is more appropriate to treat these transactions as credit transactions rather than rental agreements.

Despite this, all but three states (Wisconsin, New Jersey, and North Carolina) have statutes specifically classifying RTO transactions as a form of short-term lease agreements.[10] States with short-term lease regulations require the disclosure of the total cost of the rental-purchase relationship and both the amount and timing of payments. Also, these states, including Ohio, treat RTO agreements as weekly or monthly self-renewing leases.[11] Thus, RTO customers are not covered by the federal Truth in Lending Act or the Consumer Leasing Act. These two laws provide strict disclosure guidelines for transactions regarding either Annual Percentage Rates (in the case of the Truth in

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

[10] The statute in Minnesota has been superseded by court decisions that require rent-to-own agreements be subject to credit laws.

[11] A complete collection of state-by-state RTO regulations (as well as comparative charts) is available on the Association of Progressive Rental Organizations' website: http://www.rtohq.org/apro-state-rent-to-own-statutes-and-economic-impact.html.

Lending Act) or specific lease obligations.[12] There is no federal legislation that regulates RTO transactions. A handful of states, however, treat RTO as a credit transaction rather than a lease. Ohio does not consider RTO as a credit transaction but consumers get some modest protection under the recently reformed and strengthened Consumer Sales Practices Act.

States that treat these arrangements as credit transactions rather than leases tend to better control prices and outcomes for consumers. Judicial decisions in Wisconsin have played an important role in regulating the industry, mandating that RTO transactions be treated as credit transactions and that the APR is disclosed. Similarly, in 2006, the New Jersey Supreme Court ruled that RTO transactions in the state be subject to the state law governing credit sales, including the state's 30 percent APR law.[13] RTO transactions are also regarded as credit sales in Minnesota, due to a mix of legislative and judicial actions. The state of North Carolina has amended its laws in an attempt to classify RTO-type agreements as consumer credit sales but a significant loophole exists: RTO stores can avoid a credit sale designation by charging a final payment (a so-called "balloon payment") greater than ten percent of the item's cash price at the end of the payment period.[14]

As Table 2 shows, Minnesota, New Jersey, and Wisconsin—the states that strictly subject RTO transactions to the laws governing credit—are among the states with the fewest RTO stores per 100,000 people. West Virginia ranks low on the list, which might be related to the fact that the laws governing RTO stores in West Virginia are relatively strict in comparison to other states. RTO stores in West Virginia must disclose the retail value (instead of the potentially inflated cash price) and the rental-purchase price can be no more than 240 percent of the retail price.[15] The apparent connection between the regulatory climate of a state and the prevalence of RTO stores is suggestive but likely to be only one of many factors (not least of which is the geographical origin of the original RTO stores) that determine the present locations of stores. Data released in late 2007 shows that the industry continues to grow steadily, so the geographical layout of rent-to-own stores may change in the coming years.[16] A full list of states and RTO density is provided in Appendix 2.

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[12] The Truth in Lending Act regulates credit transactions and the Consumer Leasing Act applies only to leases that extend over a four month period or longer.
[13] Hilda Perez v. Rent-A-Center, Inc., A-124-04 (NJ Sup. Ct., 2006). Available online at http://lawlibrary.rutgers.edu/courts/supreme/a-124-04.opn.html.
[14] N.C. Gen. Stat. § 25A-2(b), Retail Installment Sales Act: "Consumer Credit Sale" Defined. Available at http://www.ncleg.net/EnactedLegislation/Statutes/HTML/ByChapter/Chapter_25A.html.
[15] Susan Lorde Martin and Nancy White Huckins, (1997) "Consumer Advocates vs. the Rent-to-Own Industry: Reaching a Reasonable Accommodation," *American Business Law Journal*, Vol. 34, 385-428.
[16] "Rent-to-Own Industry Reports Growth in Revenue, Customers, and Store Fronts," Business Wire, Dec. 3, 2007. Available at: http://www.reuters.com/article/pressRelease/idUS241610+03-Dec-2007+BW20071203.

Table 2 States with High and Low Rent-to-Own Density				
States With Lowest Density of Rent-to-Own Stores			States With Highest Density of Rent-to-Own Stores	
State	Stores Per 100,000 People		State	Stores Per 100,000 People
Minnesota	0.13		Arkansas	6.60
Alaska	0.59		Louisiana	6.29
New Jersey	0.74		Mississippi	6.06
California	0.86		Wyoming	5.55
Wisconsin	1.02		South Carolina	5.04
New York	1.34		Kansas	4.97
West Virginia	1.55		Missouri	4.93
Oregon	1.57		Oklahoma	4.87
Massachusetts	1.58		Tennessee	4.52
Maryland	1.60		Alabama	4.32

Source: Authors' calculations based on data from Association of Progressive Rental Organizations and Census state population estimates, 2008.

The outcomes of regulatory or policy changes in other states offer insights into the RTO industry's behavior. In 1999, the State of Wisconsin brought a suit against Rent-A-Center and its subsidiary ColorTyme, alleging that they were engaging in deceptive sales practices by not revealing the actual interest rates being charged to their customers. After a 2002 settlement requiring stores to disclose the APR on their rental purchases, Rent-A-Center converted all 23 of its Wisconsin locations from RTO stores to retail stores under the name Get It Now.[17] Get It Now only sells, not rents, products and no longer is a RTO store. One of the authors of the FTC report on rent-to-own, Manoj Hastak, has suggested that this indicates both that the RTO giant agrees with the FTC study showing that most of its customers are looking to buy rather than simply rent, and that it was unwilling to disclose the APR on its rental purchases.

Ohio's Rent-To-Own Law

Ohio's rent-to-own laws could do much more to protect the vulnerable consumers that are drawn to rent-to-own. The regulations here allow for high prices and profits. RTO stores are allowed to set a cash price that is higher than the price customers would pay in a regular retail establishment – up to 2.5 times higher according to our survey. They are then permitted to charge up to twice this already high cash price, meaning that customers can pay up to 4.5 times the price they would pay in a regular retail store (the highest ratio we found in our survey). Stores are also permitted to sell but cannot require the purchase of insurance to customers, even though the customers do not own the item and their home-renters' or homeowners' policy should already protect against theft.

[17] Manoj Hastak, "Regulation of the Rent-to-Own Industry: Implications of the Wisconsin Settlement with Rent-A-Center," *Journal of Public Policy & Marketing*, Vol. 23(1), Spring 2004, 89-95.

Although Ohio's law is not particularly strong, most other states have similarly lax oversight of this industry, and Ohio has some protections that are better than in other states. Ohio is one of nine states to legislate a limit to rental-purchase prices, in our case up to twice the inflated cash price. It is one of eighteen states requiring some disclosures on price tags in stores: the cash price, amount of periodic payment, number of payments required for ownership, and total rental-purchase price must all be displayed. Eleven additional items must be disclosed in the lease-purchase agreement. Ohio is one of only three states that do not allow RTO stores to charge a processing fee. Mandatory insurance and penalties for termination of the agreement are also forbidden. Ohio, like nearly all states, also has a reinstatement time frame for consumers who fail to make a payment on an item. A consumer who misses a payment is allowed either 21 or 90 days (depending on whether he rents weekly or monthly) to reinstate the original lease-purchase agreement without the loss of any rights or options. Table 3, below, provides a summary of Ohio's RTO law. The law has some decent disclosure requirements, but in the end, by allowing such high prices, it permits consumers to be dramatically overcharged.

Table 3
Select Provisions of Ohio's Rent-to-Own Law

Ohio's rent to own law allows rent-to-own stores to set a cash price that may have little relationship to the price a consumer would pay in a regular retail store. Our survey found that the cash prices were between 1.6 and 2.4 times as high as the price of the item at a competing store. RTO stores then use that cash price as the basis for setting the overall retail price, which can be as much as twice the inflated cash price. This means that customers can pay up to 4.5 times the price for the item that they would pay to purchase it immediately. The law contains some other more helpful provisions, outlined below.

Selected Disclosure Requirements	RTO Stores May Not:	RTO Customer May:
• Total cost of rental-purchase ownership* • Cash price of leased property* • Amount and timing of payments* • Brief description of leased property • Statement of whether property is new, used, or previously leased • Total initial payment due before delivery or acquisition • Itemized list of all other charges not included in lease payments	• Charge a rental-purchase price more than two times the cash price • Enact a penalty for early termination of lease-purchase agreement • Charge a reinstatement fee of more than $5 (though delinquency charges are allowed) • Require the purchase of insurance for leased property • Charge any payment in addition to the number of lease payments in the agreement	• Reinstate contract within 21 or 90 days (for weekly and monthly payments, respectively) of missing a payment • Be allowed a grace period of no less than 2 or 5 days (for weekly and monthly payments, respectively) for a missed payment • Acquire ownership at any time by paying half of remaining lease payments (which almost always works out to more than the inflated cash price).[18]

*Must be clearly and conspicuously disclosed on price tag

Source: Ohio Revised Code, ch. 1351.

[18] Buyers can purchase a product early by paying the weekly rate for half of the remaining weeks on the contract. For example, if the initial "cash price" for an item was $2,400, a contract might require an initial $212 payment, followed by 23 monthly payments of $180. If after 11 payments, the customer had paid $2,192 and wanted to complete the purchase, he or she could pay an additional $1,080 to own the item outright. While this overall price of $3,272 would be less than the $4,352 that would be paid if the whole contract were paid off month by month, it is far above the already-inflated cash value, which itself is usually between 1.5 and 2.5 times the price charged in a retail store. Numbers in this example were taken from an actual contract.

Survey results

To better understand the pricing and RTO industry as compared to other retail options, Policy Matters surveyed 19 rent-to-own stores in Cleveland, Columbus, and Akron, Ohio between July 14, 2008 and August 1, 2008. We compared the prices of common household appliances at these stores with price data gathered from 4 chain retail stores and 2 local appliance stores. The five surveyed items were:

- a 17.6 cubic foot refrigerator
- a 3.2 cubic foot washer
- a 6.5 cubic foot dryer
- a 42" television
- a 30" stove

Some variation exists in the items surveyed because, given many RTO stores' emphasis on furniture over appliances, a limited number of options are available to consumers in-store. When the exact item could not be located at a store, the closest substitute was surveyed. Furniture items were not included due to the lack of standardization of such items across stores.

Cash prices in RTO stores are usually much higher than those charged for comparable items in competitive retail stores. Table 4 shows that the average cash prices of items in rent-to-own stores was between 1.49 and 2.54 times the average cash prices of their retail counterparts (i.e. Lowes, Home Depot, and Best Buy). The difference is especially stark when one considers that all of the appliances surveyed in RTO stores, with the exception of televisions, were previously-used items, while only one of the non-RTO stores surveyed sold used appliances. Although Ohio law requires stores to disclose that the products were used, stores did not always do so. Further, prices were not adjusted because of depreciation, and customers were not given information about how old the product was or the duration of the previous rental. Surveyors noted that several of the products were obviously used and worn, especially compared to the same product in another part of the store but were priced the same and were sometimes not marked as used.

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

Item	RTO stores average cash price	Non-RTO stores average price	RTO/Non-RTO cash prices
Refrigerator	$754.74	$461.75	163%
Washer-Dryer pair[19]	$1.057.14	$703.64	150%
TV	$1,942.40	$1,299.99	149%
Stove	$789.03	$310.99	254%

Source: Policy Matters Ohio 2008 Rent-to-Own Survey

[19] For ease of comparison across stores, the washer and dryer prices for each store have been aggregated into a single washer-dryer pair price. This was necessary because Aaron's sells only washer-dryer pairs and does not price each item separately.

The cash price, at 1.5 to 2.5 times as much as prices in other stores, is still only about half what RTO customers who eventually purchase the items pay. The rental-purchase price, which is the price of all the weekly or monthly payments, can be up to twice as high as the cash price. As Table 5 shows, the average cost of renting to own any of the surveyed items is consistently much more than twice as high as the average price of the item in a retail chain or local appliance store, and is sometimes as much as 4.5 times as high.

Table 5
Total cost of item if leasing for full term until purchase compared to purchasing at a regular retail store

Item	Average rental-purchase price	Non-RTO store's average price	Total RTO cost/non-RTO prices
Refrigerator	$1,332.01	$461.75	288%
Washer-Dryer pair	$1,932.68	$703.64	275%
TV	$3,790.58	$1,299.99	292%
Stove	$1,399.33	$310.99	450%

Source: Policy Matters Ohio Rent-to-Own Survey

As noted, the rental-purchase price for an item has a ceiling imposed on it by Ohio state law: it cannot be more than twice the cash price the store charges for the item. Table 6 shows the extent to which RTO stores designate rental-purchase prices allowed under the law. A figure of 100 percent would indicate the stores charge exactly twice the cash price they set, the maximum allowable rental-purchase price under the law. Many stores (notably Rent-A-Centers) do charge 100 percent of the maximum legal amount that they can, and the average percentage of the legal limit that RTO stores charge is typically above 85 percent. According to this survey, RTO stores are setting rental-purchase prices considerably higher than the cash prices they set. This is especially problematic given that most of the items are used and the typical RTO consumer has lower income to spend on the item.

Table 6

Item	Average Percentage of Legal limit on rental-purchase price charged
Refrigerator	88%
Washer-Dryer pair	91%
TV	98%
Stove	89%

Source: Policy Matters Ohio Rent-to-Own Survey

In evaluating other features of RTO stores, our surveyors also found:

- Prices were several times higher than those found in retail stores.
- Some used items were not marked as being used, in violation of Ohio law. One employee told surveyors that the lack of posting was because "everyone knows these are used things."
- No rent-to-own employee was able to tell our surveyors the effective APR of the RTO transaction. While APR is often associated with longer-term rates of interests and fees of borrowing, it allows a consumer to effectively compare pricing and interest rates between products. Using APR is appropriate since most RTO customers are looking to own the product after renting for 12 to 24 months.
- With used items, employees at RTO stores were not able to tell our surveyors the condition of the product, how many times it had been used or rented, or the product age unless it was printed on the product.
- Employees at some RTO stores were able to answer energy use and lifetime questions about certain products, generally washers and dryers (which rarely included energy tags with relevant information). More often than not, however, they could not correctly answer questions or offer information about the energy usage or lifetime of an item relative to competing brands (e.g. how the lifetime of a Whirlpool refrigerator compares to that of a Maytag refrigerator).
- The RTO stores visited for the survey complied with the price tag disclosure laws with the exception of posting information on whether the product was used.
- Delivery at the RTO stores was free. Some of the retail stores had free delivery or a rebate for delivery and haul-a-way of an old appliance. Others charged a range of fees based on the purchase (see below).
- Insurance packages were marketed in several stores. For example, Rent-A-Center sells a "Benefits Plus" plan for $3 a week, which includes a damage liability waiver for the merchandise. Aaron's markets "Aaron's Service Plus" for an extra ten percent of each monthly payment. This plan covers repairs and a warranty. Many stores had difficulty describing the warranty program but indicated that if something breaks, they would come and replace it without charge. Two different employees of RTO stores said "we will take care of you" in response to warranty questions, not providing exact information on the actual policy. None of the surveyors reported that they understood the warranty policy of the RTO stores that they evaluated.

Despite their lower upfront prices, retail stores have policies in place that may drive lower-income customers to RTO stores. None of the stores we visited (including Best Buy, Home Depot and Lowe's) offered a layaway option. When a saleswoman at a Home Depot was asked about layaway, she mentioned the possibility of getting a Home Depot credit card. Despite the lack of layaway options, stores did offer six or 12 months with no interest on their credit card balances.[20] Credit cards are often a poor choice for low-

[20] The effective APR of these credit cards can be high, particularly if the total balance is not paid after the "no interest" promotion is over. The interest due is generally from the beginning and not the end balance on

income consumers, because fees and interest are poorly regulated, making it likely that borrowers will get mired in debt. Further, credit cards are not a viable option for customers with poor credit. The two local appliance stores we visited offered layaway. They required at least ten percent of the price down but did not charge fees for the service. Both the retail chain stores and the local appliance stores charge for delivery. The fees range from $25-$30 at the local stores up to $69.95 at Home Depot. Depending on the week visited, many of the stores had promotions for free delivery, haul away, and installation.

Policy Recommendations

Rent to own stores are concentrated in poor and urban neighborhoods but are located throughout Ohio. They provide customers with an ability to quickly obtain items that they may not feel that they can immediately afford. However, buyers pay between two and 4.5 times as much as they would if they purchased these items in retail establishments. The industry relies especially on low-income, less-educated, young, and minority customers, all of whom may be constrained, geographically and financially, in their shopping choices.

Our survey found that Ohio's law is not always well enforced. For example, some stores did not indicate on price tags that items were used. We should start with enforcement of existing law.

Several policy changes could better protect Ohio consumers. These include:

- Ohio law should establish a cash 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, stores should be required 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 from these transactions, but would better protect consumers.

- The price limits could work while retaining our current structure, which treats these 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 improved usury ceilings rather than self-renewing leases. Minnesota, New Jersey, and Wisconsin subject RTO stores to state small loan usury and consumer protection laws.

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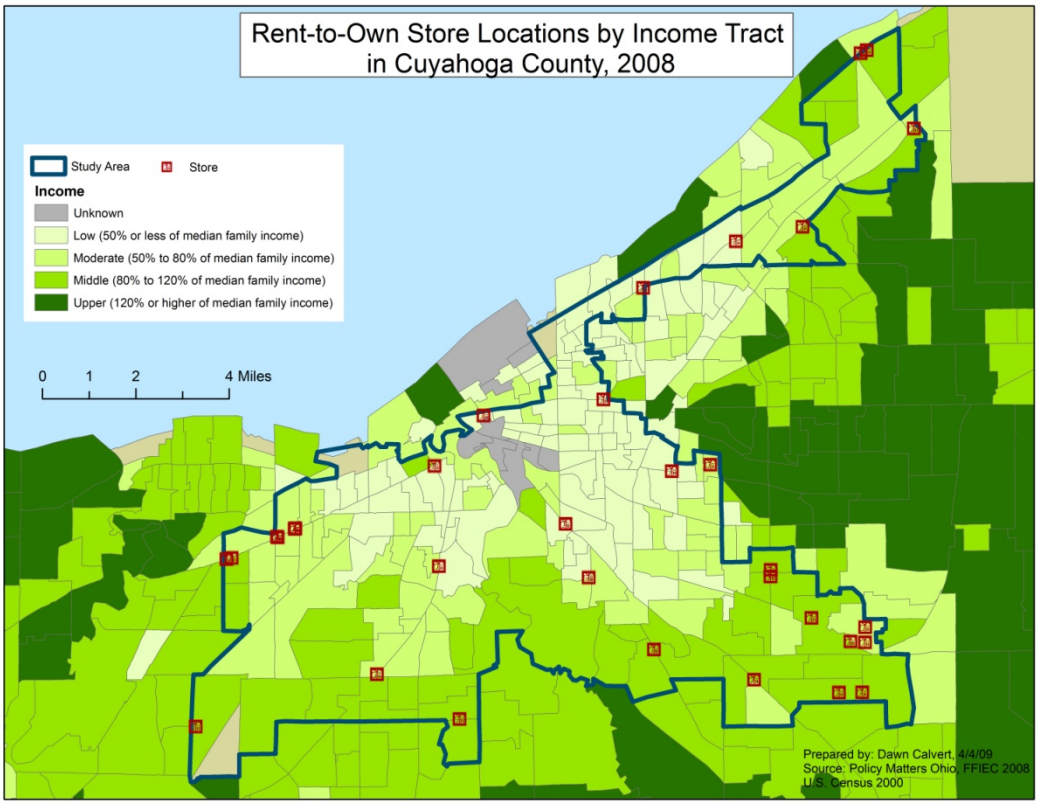
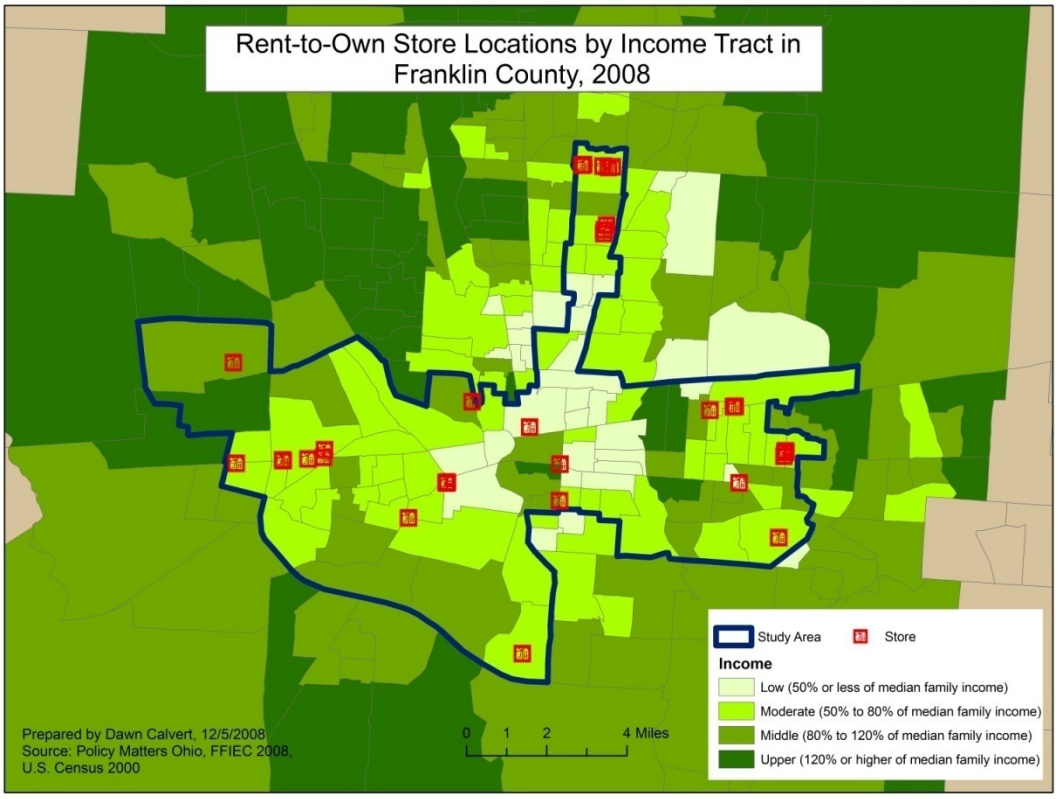
the credit card. However, if the balance and interest are paid off in the proper time frame, this option could be less expensive for a consumer than purchasing a RTO product.

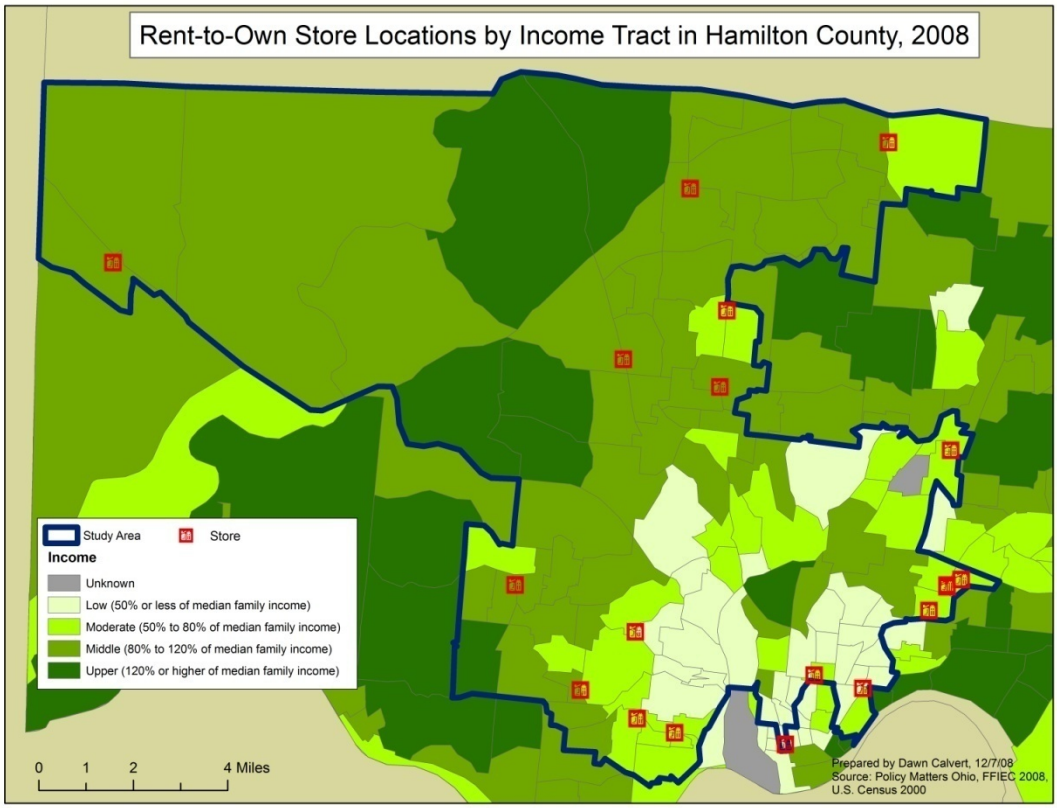
- Stores should be required to provide warranty and replacement without charge to the consumer. Consumers should not have the option to pay insurance or extended warranty protection on products they don't own, especially since most of the products are used. These fees can add considerable amounts to the total paid over time, especially for customers who rent multiple items.

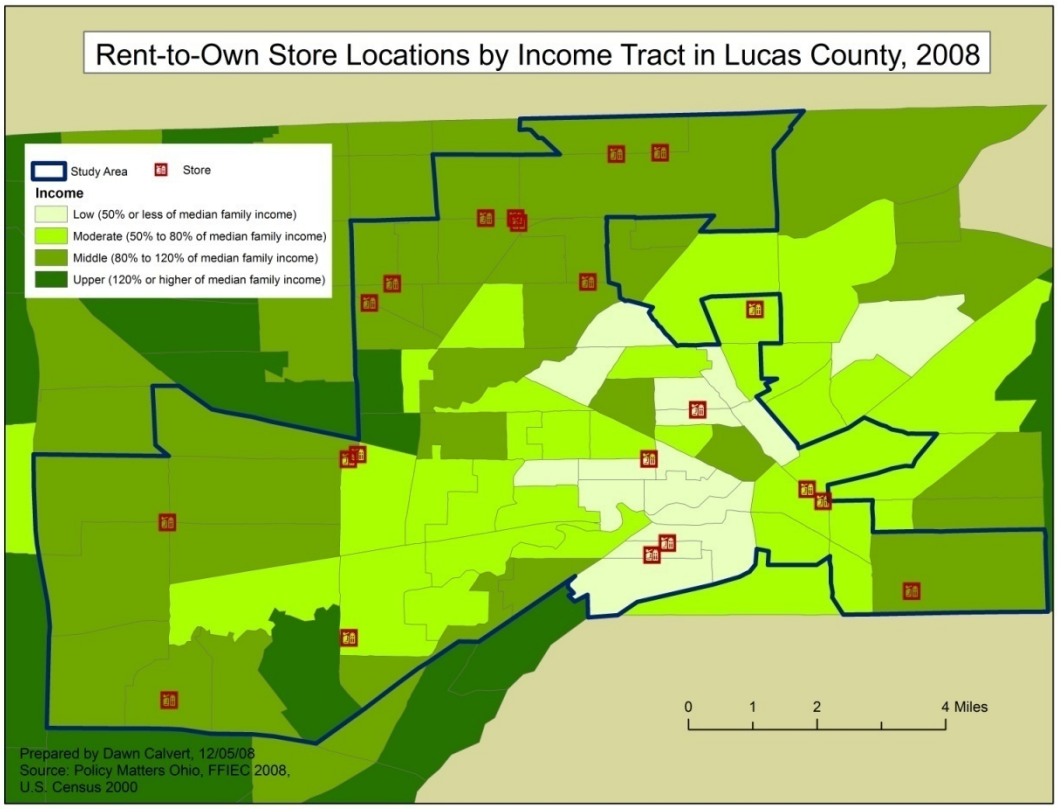
Ohio provides modest protection to rent-to-own consumers by requiring disclosure and limiting prices to twice the inflated cash value of items. But by allowing the cash value to be so deceptive, failing to require depreciation for used items, and allowing firms to charge up to twice the already-inflated 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.

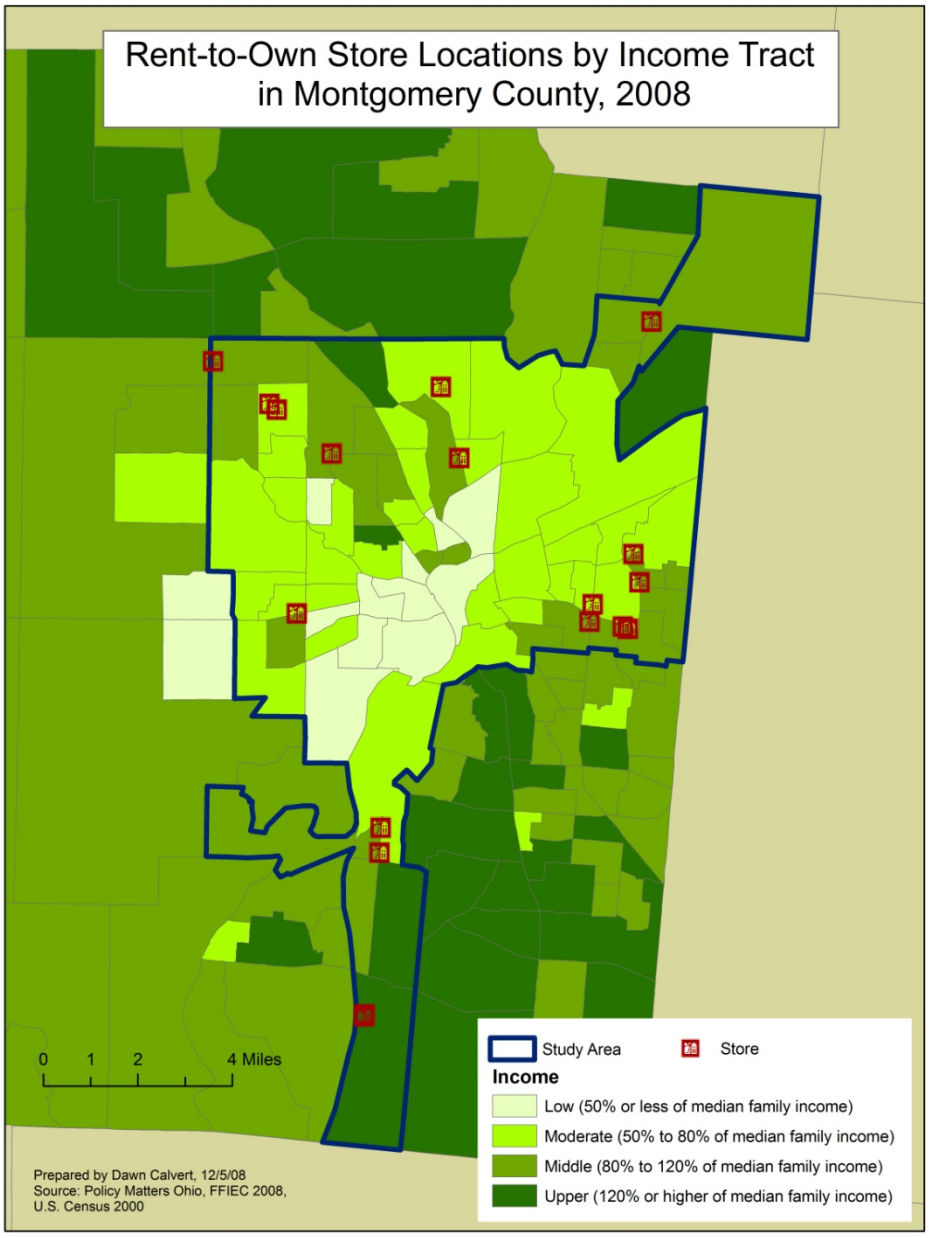
Appendix 1
Rent-to-Own Maps




Rent-to-Own Store Locations by Income Tract in Franklin County, 2008
Study Area
Store
Income
Low (50% or less of median family income)
Moderate (50% to 80% of median family income)
Middle (80% to 120% of median family income)
Upper (120% or higher of median family income)
0 1 2 4 Miles
Prepared by Dawn Calvert, 12/5/2008
Source: Policy Matters Ohio, FFIEC 2008,
U.S. Census 2000


Rent-to-Own Store Locations by Income Tract in Hamilton County, 2008
Study Area
Store
Income
Unknown
Low (50% or less of median family income)
Moderate (50% to 80% of median family income)
Middle (80% to 120% of median family income)
Upper (120% or higher of median family income)
0 1 2 4 Miles
Prepared by Dawn Calvert, 12/7/08
Source: Policy Matters Ohio, FFIEC 2008, U.S. Census 2000


Rent-to-Own Store Locations by Income Tract in Lucas County, 2008
Study Area
Store
Income
Low (50% or less of median family income)
Moderate (50% to 80% of median family income)
Middle (80% to 120% of median family income)
Upper (120% or higher of median family income)
0
1
2
4 Miles
Prepared by Dawn Calvert, 12/05/08
Source: Policy Matters Ohio, FFIEC 2008,
U.S. Census 2000


Rent-to-Own Store Locations by Income Tract in Montgomery County, 2008
0 1 2 4 Miles
Study Area
Store
Income
Low (50% or less of median family income)
Moderate (50% to 80% of median family income)
Middle (80% to 120% of median family income)
Upper (120% or higher of median family income)
Prepared by Dawn Calvert, 12/5/08
Source: Policy Matters Ohio, FFIEC 2008, U.S. Census 2000

Appendix 2

State	Number of Rent-to-Own Stores	Employees	Stores per 100,000 Population	Rank of Total Number of Stores	Rank of Stores per 100,000 Population
Arkansas	187	1122	6.55	18	1
Louisiana	270	1620	6.12	9	2
Mississippi	177	1062	6.02	20	3
Wyoming	29	174	5.44	40	4
South Carolina	222	1332	4.96	14	5
Kansas	138	828	4.92	23	6
Missouri	290	1740	4.91	7	7
Oklahoma	176	1056	4.83	21	8
Tennessee	278	1668	4.47	8	9
Alabama	200	1200	4.29	17	10
Kentucky	183	1098	4.29	19	11
Texas	983	5898	4.04	1	12
Delaware	35	210	4.01	39	13
Indiana	255	1530	4.00	11	14
Georgia	387	2322	4.00	4	15
Maine	52	312	3.95	34	16
North Carolina	340	2040	3.69	5	17
Ohio	**407**	**2442**	**3.54**	**3**	**18**
South Dakota	28	168	3.48	42	19
New Mexico	69	414	3.48	30	20
New Hampshire	44	264	3.34	36	21
North Dakota	18	108	2.81	47	22
Virginia	218	1308	2.81	15	23
Florida	506	3036	2.76	2	24
Iowa	82	492	2.73	28	25
Vermont	16	96	2.58	48	26
Nebraska	43	258	2.41	37	27
Rhode Island	24	144	2.28	44	28
Montana	22	132	2.27	46	29
Colorado	110	660	2.23	25	30
Arizona	138	828	2.12	22	31
Connecticut	73	438	2.08	29	32
Michigan	205	1230	2.05	16	33
Pennsylvania	245	1470	1.97	12	34

State	Number of Rent-to-Own Stores	Employees	Stores per 100,000 Population	Rank of Total Number of Stores	Rank of Stores per 100,000 Population
Washington	127	762	1.94	24	35
Idaho	28	168	1.84	41	36
Illinois	234	1404	1.81	13	37
Hawaii	23	138	1.79	45	38
Nevada	44	264	1.69	35	39
Maryland	90	540	1.60	27	40
Utah	43	258	1.57	38	41
Massachusetts	102	612	1.57	26	42
Oregon	59	354	1.56	32	43
West Virginia	28	168	1.54	43	44
New York	259	1554	1.33	10	45
Wisconsin	57	342	1.01	33	46
California	316	1896	0.86	6	47
New Jersey	64	384	0.74	31	48
Alaska	4	24	0.58	50	49
Minnesota	7	42	0.13	49	50

Appendix 3

County	Number of RTO Stores	County	Number of RTO Stores
Adams	2	Knox	2
Allen	6	Lake	8
Ashland	2	Lawrence	2
Ashtabula	3	Licking	7
Athens	2	Logan	3
Auglaize	2	Lorain	7
Brown	3	Lucas	23
Butler	9	Madison	2
Carroll	1	Mahoning	11
Champaign	2	Marion	4
Clark	8	Medina	2
Clermont	3	Mercer	4
Clinton	3	Miami	7
Columbiana	5	Montgomery	20
Coshocton	2	Morrow	1
Crawford	4	Muskingum	4
Cuyahoga	36	Paulding	2
Darke	2	Pickaway	2
Defiance	2	Pike	1
Delaware	2	Portage	2
Erie	2	Preble	1
Fairfield	5	Richland	5
Fayette	4	Ross	5
Franklin	33	Sandusky	5
Fulton	2	Scioto	4
Gallia	2	Seneca	4
Geauga	1	Shelby	4
Greene	4	Stark	17
Guernsey	4	Summit	16
Hamilton	22	Trumbull	9
Hancock	5	Tuscarawas	4
Hardin	2	Union	4
Henry	1	Van Wert	1
Highland	3	Warren	3
Hocking	2	Washington	1
Holmes	1	Wayne	5
Huron	4	Williams	2
Jackson	2	Wood	4
Jefferson	3	Wyandot	1
		Total	410

Appendix 4

RENT-TO-OWN & RETAIL TESTER VISITS, CUYAHOGA, FRANKLIN, AND SUMMIT COUNTIES					
NAME	STORE TYPE	ADDRESS	CITY	ST	ZIP
Rent-A-Center	Rent-to-Own	10688 Lorain Ave.	Cleveland	OH	44111
Rent-A-Center	Rent-to-Own	2021 W. 25th St.	Cleveland	OH	44113
Rent-A-Center	Rent-to-Own	7981 Euclid Ave	Cleveland	OH	44103
Rent-A-Center	Rent-to-Own	11481 Buckeye Rd	Cleveland	OH	44104
Rent-A-Center	Rent-to-Own	1400 Arlington St	Akron	OH	44306
Rent-A-Center	Rent-to-Own	1100 Tallmadge Ave	Akron	OH	44310
Rent-A-Center	Rent-to-Own	138 Wilson Rd	Columbus	OH	43204
Rent-A-Center	Rent-to-Own	3841 E. Broad St.	Columbus	OH	43213
Rent-A-Center	Rent-to-Own	4129 W. Broad St	Columbus	OH	43228
Rent Max	Rent-to-Own	1400 Arlington Plaza	Akron	OH	44306
Aaron's	Rent-to-Own	15029 Snow Rd	Cleveland	OH	44142
Aaron's	Rent-to-Own	1860 Snow Rd.	Cleveland	OH	44134
Aaron's	Rent-to-Own	11629 Lorain Ave.	Cleveland	OH	44111
Aaron's	Rent-to-Own	1490 Arlington St	Akron	OH	44306
Aaron's	Rent-to-Own	1430 Hawkins Ave	Akron	OH	44320
Aaron's	Rent-to-Own	917 S. Hamilton Rd	Columbus	OH	43213
Aaron's	Rent-to-Own	5025 W. Broad St	Columbus	OH	43228
Color Tyme	Rent-to-Own	3545 Ridge Road	Cleveland	OH	44102
Showplace Rent-to-Own	Rent-to-Own	4178 W. Broad St	Columbus	OH	43228
Best Buy	Retail Chain	3506 Steelyard Dr.	Cleveland	OH	44109
Best Buy	Retail Chain	445 Howe Ave.	Cuyahoga Falls	OH	44221
Lowes	Retail Chain	7327 Northcliffe Ave	Cleveland	OH	44144
Home Depot	Retail Chain	3355 Steelyard Dr.	Cleveland	OH	44109
W. 25th Furnishing & Appliances	Local Appliance	2104 W 25th St	Cleveland	OH	44113
Rell's Family Appliance	Local Appliance	9800 Madison Ave	Cleveland	OH	44102

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Joyce, Gund, Cleveland, Public Welfare, KnowledgeWorks, New World, Annie E. Casey, Sisters of Charity and W.K. Kellogg Foundations, the Economic Policy Institute, and Greater Cleveland Community Shares. To those who want a more fair and prosperous economy... Policy Matters.

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