WOODSTOCK INSTITUTE
Advancing Economic Security and Community Prosperity

Rent-to-Own Issues and Policy Recommendations

Addressing concerns with cash price, and total purchase price for rental-purchase transactions

Industry overview:

Rent-to-own transactions allow customers to purchase household goods, such as furniture, electronics or other items, by making a low down payment and signing a contract agreeing to make periodic payments for one to two years. If they make all of those payments, the customer keeps the product. If the customer misses payments, the item is reclaimed by the store, which keeps payments made prior to the return.

Woodstock Institute concerns:

The cash price of both new and used goods available in rent-to-own stores is drastically inflated and the cost purchasing the item through a rental-purchase contract is higher still. We believe that customers who enter into rental-purchase agreements do so to purchase the item, rather than rent the item short-term, and that the regulation of this industry in Illinois fails to protect customers from practices that make the purchase process extremely expensive.

We believe that the proposed cap on rental purchase prices of 250 percent of cash value is far too high and that, to best address the high cost of the rent-to-own transaction, it is necessary to require a cash price that better reflects the true cost of the item.

Actual example of a rental-purchase transaction:

In July 2010 a customer entered into a rental-purchase agreement for a used television with an average new sale price of $1019.[1] The rent-to-own company established the cash value for this item at $1,760, a considerable markup. The customer agreed to make payments for 89 weeks totaling $3,801. The customer defaulted on the contract after three weeks and the company is claiming compensation for the value of the item at $890. The rent-to-own store's cash price was 73 percent higher than the average available price for item, and the rental purchase price was 116 percent higher than the cash price. Likewise, the rental-purchase price was 273 percent higher than the average available price for this item.

Existing regulation and recommended changes:

The rent-to-own industry is regulated in Illinois by the Rental-Purchase Agreement Act.

1. **Disclosure:** Rent-to-own companies currently disclose two prices: the cash price, or the price necessary to buy the product outright without making payments, and the rental-purchase price, or the total of payments necessary to purchase the product over time.[2] While no data have been collected in Illinois, an Ohio survey of rent-to-own stores found that the cash prices at rent-to-own stores were between 1.5 and 2.5 times as high as comparable products at a retail store.[3] The same survey of rent-to-own stores in Ohio found that the rental-purchase price was up to 4.5 times as high as prices charged by other retail stores.[4]

[1] Average sale price of a new Mitsubishi WD-60C9 available at http://www.google.com/products as of September 29, 2010.
[2] 815 ILCS 655/2(g)(7)
[3] Rothstein, David, and Mike Stanek. *Paying More, Renting Debt: Why Rent-To-Own is a Bad Deal for Ohio Consumers*. Cleveland, Ohio: Policy Matters Ohio, 2009. Web. 28 Sep 2010.
[4] ibid.

Recommended Change: (a) disclose the **manufacturer's recommended price** or **wholesale price** to prevent inflating cash price to shroud the difference between the cash price and total of payments, **(b)** require that the cash price reflect the true value of the item, particularly for used items, **(c)** ensure that any cap on the cost of rental-purchase agreements is not higher than existing market costs.

2. **Reinstatement:** The Illinois Rental-Purchase Agreement Act requires a right to reinstate the rental-purchase contract if the customer is in default for not less than a week or up to half the days of a payment period and has made payments totaling less than 60 percent of the total of payments. If the customer has made payments totaling at least 60 percent of the total of payments, the customer may reinstate the contract up to 30 days after default.[5]

   No recommended changes

3. **Insurance:** The Illinois Rental-Purchase Agreement Act permits optional insurance for products bought under a rental-purchase agreement.[6]

   Recommended change: prohibit insurance or other ancillary products to be sold in conjunction with a rental-purchase agreement, or require that the insurance for used items be considerably less than the insurance for new items. Post-purchase warranties should be sold only after the customer has met the terms of the rental-purchase agreement.

4. **Contracts for Used Items:** The Illinois Rental-Purchase Agreement Act requires that used items be clearly labeled as such.[7]

   Recommended changes: (a) The periodic payment for used items should be less than the periodic payment for new items –customers who do not make all the payments and return the item should pay less for used items, rather than be required to make fewer payments. If a customer is required to make 24 payments for a new item or 20 payments for a used item but returns the item after only six payments, the customer would effectively pay the same amount regardless of whether the item is new or used. (b) Furniture, electronics and other household items depreciate quickly and the rent-to-own cash price should be significantly less than the price for new items.

Industry representation

The rent-to-own industry in Illinois is represented by the Illinois Rental/Purchase Dealers Association. The IRPDA lobbyist is Herman Bodewes of Griffin, Winning, Cohen & Bodewes. His contact information is (217) 525-1571 or hbodewes@gifwinlaw.com.

Other consumer groups working on rent-to-own issues

David Rothstein
Policy Matters Ohio
(216) 361-9801
drothstein@policymattersohio.org

Margot Saunders
National Consumer Law Center
(202) 452-6252 x104
margot@nclcdc.org

[5] 815 ILCS 655/2(f)
[6] 815 ILCS 655/2(c)(4)
[7] 815 ILCS 655/2(g)(7)

(815 ILCS 655/) Rental-Purchase Agreement Act.

(815 ILCS 655/0.01) (from Ch. 121 1/2, par. 1800)

Sec. 0.01. Short title. This Act may be cited as the Rental-Purchase Agreement Act.
(Source: P.A. 86-1324.)

(815 ILCS 655/1) (from Ch. 121 1/2, par. 1801)

Sec. 1. Definitions. In this Act:

(1) "Advertisement" means a commercial message in any medium that directly or indirectly promotes or assists a rental-purchase agreement.
(2) "Cash price" means the price for which the merchant would have sold the merchandise to the consumer for cash on the date of the rental-purchase agreement.
(3) "Consumer" means an individual who leases personal property under a rental-purchase agreement.
(4) "Merchandise" means the personal property that is the subject of a rental-purchase agreement.
(5) "Merchant" means a person who, in the ordinary course of business, regularly leases, offers to lease or arranges for the leasing of merchandise under a rental-purchase agreement, and includes a person who is assigned an interest in a rental-purchase agreement.
(6) "Rental-purchase agreement" means an agreement for the use of merchandise by a consumer for personal, family or household purposes for an initial period of 4 months or less that is automatically renewable with each payment after the initial period and that permits the consumer to become the owner of the merchandise.

(Source: P.A. 85-957.)

(815 ILCS 655/2) (from Ch. 121 1/2, par. 1802)
Sec. 2. Form.

(a) A rental-purchase agreement must be written in plain English and clearly and simply in any other language used by the merchant in any oral or written advertisement related to the rental-purchase agreement. Numerical amounts must be stated in figures.

(b) Disclosures required by this Act must be printed or typed in each rental-purchase agreement in a size equal to at least 10 point bold-faced type.

(c) A rental-purchase agreement may not contain a provision:
(1) requiring a confession of judgment;
(2) authorizing a merchant or an agent of the merchant to commit a breach of the peace in the repossession of merchandise;
(3) waiving a defense, counterclaim or right the consumer may have against the merchant or an agent of the merchant;
(4) requiring the purchase of insurance from the merchant to cover the merchandise;
(5) requiring the payment of a late charge or reinstatement fee unless a periodic payment is delinquent for 3 days and the charge or fee is in an amount not more than $5; or
(6) requiring a payment at the end of the scheduled rental-purchase term in excess of or in addition to a regular periodic payment in order to acquire ownership of the merchandise. In no event shall the consumer be required to pay a sum greater than the total amount to be paid to acquire ownership, as disclosed in item (3) of subsection (g) of this Section.
(d) Only one late charge or reinstatement fee may be collected on a payment regardless of the period during which it remains in default.

(e) A rental-purchase agreement must provide that:

(1) a charge in addition to periodic payments, if any, must be reasonably related to the service performed; and

(2) a consumer who fails to make a timely payment may reinstate an agreement, without losing rights or options previously acquired, by taking the required action before the later of one week or half of the number of days in a regular payment period after the due date of the payment.

(f) Notice of the right to reinstate an agreement must be disclosed in the agreement. This Act does not prevent a merchant from attempting repossession of merchandise during the reinstatement period, in accordance with the agreement, and the consumer's right to reinstate an agreement does not expire because of such a repossession. If the merchandise is returned to the merchant during the applicable reinstatement period, other than through judicial process, the right to reinstate the agreement shall be extended for a period of not less than 30 days if the consumer has paid less than 60% of the total amount to be paid to acquire ownership of the merchandise and shall be extended for a period of not less than 60 days if the consumer has paid 60% or more of the total amount to be paid to acquire ownership of the merchandise. On reinstatement, the merchant shall provide the consumer with the same merchandise or substitute merchandise of comparable quality and condition. If substitute merchandise is provided, the merchant shall also provide the consumer with the disclosures required in subsection (g) of this Section.

(g) A rental-purchase agreement must disclose:

(1) whether the merchandise is new or used;

(2) the amount and timing of payments;

(3) the total number of payments necessary and the total amount to be paid to acquire ownership of the merchandise;

(4) the amount and purpose of any payment, charge or fee in addition to the regular periodic payments;

(5) whether the consumer is liable for loss or damage to the merchandise, and, if so, the maximum amount for which the consumer may be liable;

(6) that the consumer does not acquire ownership rights unless the consumer has complied with the ownership terms of the agreement; and

(7) the cash price of the merchandise, whether the merchandise is new or used.

(Source: P.A. 87-256; 88-644, eff. 9-9-94.)

(815 ILCS 655/3) (from Ch. 121 1/2, par. 1803)

Sec. 3. Advertisement.

(a) An advertisement for a rental-purchase agreement that refers to or states the amount of a payment or the right to acquire ownership of any one particular item under the agreement must clearly and conspicuously state:

(1) that the transaction advertised is a rental-purchase agreement;

(2) the total amount and number of payments necessary to acquire ownership; and

(3) that the consumer does not acquire ownership rights unless the merchandise is rented for a specified number of payment periods.

(b) Every item of property displayed or offered for rental-purchase by a merchant shall have attached to its front or displayed as prominently as if attached to its front a tag disclosing the amount to be paid to acquire ownership of the merchandise.

(Source: P.A. 88-644, eff. 9-9-94.)

(815 ILCS 655/4) (from Ch. 121 1/2, par. 1804)

Sec. 4. Enforcement. (a) A consumer damaged by a violation of this Act by a merchant is entitled to recover from the merchant:

(1) actual damages;

(2) 25% of an amount equal to the total amount of payments required to obtain ownership of the merchandise involved, except that the amount recovered under this item (2) may not be less than $250 nor more than $1,000; and

(3) reasonable attorney's fees and court costs.

(b) A merchant is not liable under this Section for a violation of this Act caused by the merchant's error if before the 31st day after the date the merchant discovers the error, and before an action under this Section is filed or written notice of the error is received by the merchant from the consumer, the merchant gives the consumer written notice of the error and makes adjustments in the consumer's account as

necessary to assure that the consumer will not be required to pay an amount in excess of the amount disclosed and that the agreement otherwise complies with this Act.
(Source: P.A. 85-957.)

(815 ILCS 655/5) (from Ch. 121 1/2, par. 1805)
Sec. 5. Penalty. Any person intentionally violating this Act shall be guilty of a petty offense and fined not more than $500.
(Source: P.A. 85-957.)

RENTAL-PURCHASE AGREEMENT

Jul 03, 2010
Rent-A-Center
2613 W Cermak Rd
Chicago IL 60608-3719
(773) 890-0039 LOC: 1352-M

Agreement Number: [redacted]
Consumer(s): [redacted]

RT: 01

[illegible] As used in this agreement "you" and "your" mean the person(s) signing this Agreement as lessee/renter/consumer; "we" and "our" mean the lessor/owner (the rental company); "merchandise" means the items described in the disclosures; and "lease" means this Rental-Purchase Agreement including the disclosures.

RENTAL-PURCHASE DISCLOSURES

[illegible] - Weekly Rental payments are due at the beginning of each term that you choose to rent the merchandise. There are no refunds if you choose to return the merchandise before the end of the term.

[illegible]

Unit#	Item Description	Model #	Serial #	Condition
0135205163	TELEVISION /DIGITAL LIGHT	WD-60C9	136164	USED

[illegible] Your initial payment will include the following charges:

Lease Payment	Optional Damage Waiver	Tax	Total
$.00	$.00	$.00	$.00

[illegible] You are not obligated to renew this Agreement beyond the initial term. However, if you choose to renew this Agreement beyond the initial term, or beyond any subsequent renewal term, you may do so by making an advance payment on Saturday of each Week, or you may choose to make advance payments on a Semi-Monthly or Monthly basis.
Your first renewal payment is due on Saturday (Day) Jul 03, 2010 (Date)

Payments	Rental Payment	Optional Damage Waiver	Tax	Total
Weekly	$39.99	$3.00	$3.20	$46.19
Semi-Monthly	$86.57	$6.49	$6.93	$99.99
Monthly	$173.27	$13.00	$13.86	$200.13

[illegible] These charges must be reasonably related to the cost of the services we perform.

Optional Damage Waiver Fee			Late Fee
$3.00/Week	$6.49/Semi-Month	$13.00/Month	$5.00 if a payment is more than 3 days late.

[illegible] If you choose to rent to ownership, you must rent the merchandise for the number of weeks, semi-months or months shown below. The Total Cost stated includes all rental payments plus sales tax, but does not include optional liability damage waiver fees and other charges, such as late charges you may incur by late payment renewal, or reinstatement fees. You should read the contract for an explanation of these charges.

Weekly — If you choose to acquire ownership through weekly rental, you will make 89 payments: the initial rental payment of $.00, 87 weekly payments of $39.99 and a final payment of $39.99 for a total of $3,519.12 in rent and sales tax of $281.60 for a Total Cost of $3,800.72.

Semi-monthly — If you choose to acquire ownership through semi-monthly rental, you will make 42 payments: the initial rental payment of $.00, 40 semi-monthly payments of $86.57 and a final payment of $51.94 for a total of $3,514.74 in rent and sales tax of $281.36 for a Total Cost of $3,796.10.

Monthly — If you choose to acquire ownership through monthly rental, you will make 22 payments: the initial rental payment of $.00, 20 monthly payments of $173.27 and a final payment of $51.98 for a total of $3,517.38 in rent and sales tax of $281.36 for a Total Cost of $3,798.74.

If you choose to renew this Agreement on a frequency different from your initial rental payment term, your Total Cost will be calculated based on the above amounts and on the number of payments made at each frequency. Free rent allowance will not reduce total rent or purchase-option amounts. Sales taxes are subject to changes in the applicable tax rate.

[illegible] $1,759.56 , plus tax.

[illegible] You are liable for destruction, loss and damage in excess of normal wear and tear to the leased merchandise. You agree to pay us the fair market value of the merchandise if the merchandise is lost, stolen, or destroyed or repair costs if the merchandise is damaged. For purposes of this Agreement, the fair market value will not exceed the amount as determined by the Early Purchase Option formula on the date of loss or destruction.

[illegible] We own the merchandise described above. You do not acquire ownership rights unless you have complied with the ownership terms of the agreement.

[illegible] If you fail to make a timely payment but promptly return the merchandise to us, either voluntarily or at our request, you may reinstate the agreement, without losing any rights or options previously acquired, by paying all past due and current rental payments and other charges that are due within 7 days of the expiration date if it is a weekly lease or within 16 days if it is a semi-monthly or monthly lease. If the merchandise is returned to us during the applicable reinstatement period, other than through judicial process, the right to reinstate the agreement shall be extended for a period of not less than 30 days if you have paid less than 60% of the total amount to be paid to acquire ownership of the merchandise and shall be extended for a period of not less than 60 days if you have paid 60% or more of the total amount to be paid to acquire ownership of the merchandise. On reinstatement, we shall provide you with the same merchandise or substitute merchandise of comparable quality and condition.

[illegible] You may terminate this agreement without penalty by voluntarily surrendering or returning the merchandise to us in good condition at any time. You will be liable for any unpaid lease payments due as of the date of return and for any damage to the merchandise, fair wear and tear excepted.

[illegible] THIS IS A LEASE TRANSACTION.

[illegible] We retain title to the merchandise during this lease and will pay any taxes which may be levied on the merchandise.

[illegible] You cannot sell, mortgage, pawn, pledge, encumber, hock or dispose of the merchandise. Except for merchandise that is designed to be carried by the person, you cannot move the merchandise from your current residence without our consent. Each of these acts is a breach of this lease.

[illegible] If you do not renew this lease or if you breach this lease, we have the right to possession of the merchandise. If that happens, you must return the merchandise to us or allow us to take possession of it. If you fail or refuse to comply with this requirement, you agree to pay our costs incurred in taking possession of the merchandise.

[illegible] We are responsible to make all normal repairs as long as you are leasing the merchandise. We will not be responsible for the costs or the results of any unauthorized repairs or damage caused by improper use. If any part of a manufacturer's warranty exists on the leased merchandise at the time you acquire ownership of the merchandise, the warranty will be transferred to you.

[illegible] We may sell, transfer or assign this lease without notice to you.

[illegible] You have the right to exercise an early purchase option at any time after you enter into this Agreement by paying us 60% of the remaining total of payments necessary to acquire ownership, plus tax. In addition, you may purchase the property within the first 90 days after the date of this agreement by paying us an amount equal to the Cash Price minus the total of all rental payments (excluding tax) made by you, plus tax.

[illegible] An Arbitration Agreement comes with and is incorporated into this rental purchase agreement. You should read the Arbitration Agreement before signing this agreement.

[illegible] Do not sign this lease before you read it or if it, including the Arbitration Agreement, contains any blank spaces. You are entitled to an exact copy of the Rental-Purchase Agreement you sign. Keep it to protect your legal rights.

DATE: ______________________ CONSUMER: [redacted]

LESSOR: ______________________ CONSUMER: ______________________

Rental contract pledged as collateral security to Chase Manhattan Bank as an administrative agent for the Bank group. IL 07/14/08