

**ACORN ♦ Center for Responsible Lending ♦ Consumer Federation of America
Consumers Union ♦ International Union, UAW ♦ National Association of Consumer
Advocates ♦ National Community Reinvestment Coalition ♦ National Consumer Law
Center ♦ National Council of La Raza ♦ U.S. Public Interest Research Group
Center for Civil Justice, Saginaw, Michigan ♦ Coalition of Religious Communities
Community Legal Services of Philadelphia ♦ Consumers League of New Jersey
Economic Justice Institute, Madison, WI ♦ Florida Legal Services ♦ Mid Minnesota Legal
Assistance ♦ Mountain State Justice Inc (WV) ♦ William J. Woodward, Professor of Law,
Temple University ♦ Dan Wulz, Senior Attorney, Clark County Legal Services, Nevada**

25 May 2004

OPPOSE S 884- Unfair To Rent-to-Own Consumers

Dear Senator:

The undersigned organizations and individuals urge you **not** to co-sponsor or support S 884, The Consumer Rental-Purchase Agreement Act of 2003 regarding rental purchase agreements of consumer goods. Although the bill pretends to advance consumer protections in rent-to-own ("RTO") transactions, in actuality it does no such thing. Instead, the bill preempts the state laws providing the strongest protections for the consumers of these transactions. Congress should not overturn state laws that prevent predatory financial practices.

Rent-to-own businesses are essentially appliance and furniture retailers, which arrange lease agreements rather than typical installment sales contracts for those customers who cannot purchase goods with cash or who are unsophisticated about money management. These lease agreements contain several special features. First, the leases are short term, so that "rental payments" are due weekly or monthly. Second, the lease agreements contain purchase options which typically enable the consumers to obtain title to the goods by making an additional payment at the end of a stated period, such as eighteen months. Third, the leases are "at will." In other words, the leases theoretically need not be renewed at the end of each weekly or monthly term.

The RTO industry aims its marketing efforts at low-income consumers by advertising in minority media, buses, and in public housing projects. Statistics from the FTC show that the RTO customer base is among the poorest, and that the vast majority of their customers enter into these transactions with the expectation of buying an appliance and are seldom interested in the rental aspect of the contract. This attitude is encouraged by RTO dealers who emphasize the purchase option in their marketing even while they are minimizing its importance in the written contract.

The chief problems with RTO contracts are that these supposed leases are used to mask installment sales, and that these sales are made at astronomic, and undisclosed, annual percentage rates. Under most RTO contracts, the customer will pay between \$1000 and \$2400 for a TV, stereo, or other major appliance worth as little as \$200 retail, if used, and seldom more than \$600 retail, if new. This means that a low-income RTO customer may pay 1½ to 12 times what a cash customer would pay in a traditional retail store for the same appliance.

There should be no misunderstanding about S 884 – it is *not* designed to protect consumers. The entire purpose of this bill is to preempt stronger state laws that provide more meaningful consumer protections (*see* Sec. 1018(b)). A cursory reading of the bill might lead one to believe that some of the provisions would actually help consumers. However, a close evaluation reveals that there are no meaningful protections whatsoever in this bill. The section that comes closest to requiring some helpful information to consumers (Sec. 1010), would require disclosures about the cost of the RTO transactions to be displayed on a tag attached to the item. However, the penalty to a dealer for failing to comply with this provision is meaningless – only equaling one quarter of one month's lease payment – thus providing no incentive for dealers to comply with even the minimal protection provided in S 884.

The RTO customer base, almost exclusively low-income, could certainly benefit from meaningful consumer protections from an industry which preys upon consumers' lack of perceived options. Mostly these consumers need protection from high costs and unfair practices. There are numerous ways in which RTO legislation can be improved, none of which are included in a meaningful way in S. 884. Instead, RTO consumers would truly benefit from protections such as the following:

- Limitations on the total of payments that a consumer should be required to pay for the purchase of the item. Some states have these limits already, but many do not.
- Limits on "fees" such as late fees, insurance fees, home pick-up fees, reinstatement fees, and etc. Some states have limits already, many do not..
- Reinstatement rights that clearly allow the consumer to have payments made on previous contracts applied to new contracts for the same types of items. While S 884 has a minimal provision on this point (Sec. 1005(a)(4)) it provides little protection to consumers, and there is no enforcement mechanism.
- Price tag disclosures, as well as contract disclosures. By the time the customer gets the contract the decision to proceed with the transaction has often been made. Yet, S 884, while requiring price tag disclosures – in section 1010 – does not provide an effective remedy for a dealer's failure to comply with this requirement.
- Meaningful penalties for dealers who violate the provisions of the RTO statute. As the maximum penalties to be assessed against a dealer who violates the minimal *disclosure* requirements of S. 884 is 25% of one month's rental payment, there is virtually no incentive for dealers to comply.
- A disclosure like the annual percentage rate (APR) which shows the consumer the true cost of renting to own, to allow comparison with other methods of purchasing personal items.
- Limits on maximum RTO interest rates, as New Jersey requires.

On behalf of America's poorest consumers – the customer base of the rental purchase industry – please oppose S. 884. It only serves to preempt the state laws of Wisconsin, Michigan, Minnesota, Vermont, North Carolina, and New Jersey – all of which provide more protections to consumers. It does not, in any way, advance consumer protection.

We would be happy to provide you with further information. If you have concerns or questions, you may contact Ed Mierzwinski at U.S. PIRG (202 546-9707) or Margot Saunders at the National Consumer Law Center (202 986-6060).

Sincerely,

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