

# THE BUFFALO NEWS

## Rent-to-own law worries consumer advocates

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Imagine a special retail business where management can legally mark up their prices on consumer goods by almost 500 percent, and people still readily shop there for big-screen TV's.

Customers are told, several times, exactly how much it will cost them, and how long it will take to pay it off.

Their rights and responsibilities are clearly spelled out before they sign the long-term contract. And they can get out of the deal at any time. That is the business model approved for rent-to-own stores, like Rent-A-Center and Aarons, in a state law signed last weekend by Gov. David A. Paterson.

The law tightens oversight of the industry, mandates more disclosures for consumers, directs the Attorney General's Office to write regulations, and for the first time, creates a framework for setting prices in rent-to-own transactions.

Supporters, including the law's sponsors in the Assembly, hailed the legislation as significantly strengthening an outdated 1986 law that critics said did not protect consumers.

"This is a significant improvement over the existing law, which effectively allows merchants to arbitrarily set prices," said Assemblywoman Audrey Pheffer, a Queens Democrat and chairwoman of the Assembly Consumer Affairs and Protection Committee, who sponsored the law.

But consumer advocates worry it doesn't go far enough to rein in what they call predatory prices. They were disappointed because the law allows rent-to-own stores to charge as much as 4.8 times the merchant's own cost for a household good. That's even worse, they say, than the old system, and effectively legalizes what they call predatory practices.

"According to [Thomas] Jefferson, the purpose of government is to enable the people to live in safety and happiness," said Peter Dellinger, an attorney at Empire Justice Center. "This legislation accomplishes neither."

"The industry obviously holds a lot of sway," said Josh Zinner, co-executive director of the Neighborhood Economic Development Advocacy Project in New York City, which joined with Dellinger's group in urging Paterson to veto the bill.

Even one of the bill's co-sponsors, appearing surprised by some of the terms, admitted that it may not be perfect. "It's a start, and unfortunately, in this business, it's slow, particularly moving toward progressive legislation," said Assemblywoman Crystal Peoples-Stokes, D-Buffalo. "If there's more work to be done on it, then we should be introducing another bill."

Industry officials say they can live with the law. The disclosure provisions are the strictest in the country, and the price caps are second only to California in toughness.

"This was not an industry-written bill in any way, shape or form," said David Edwards, president and CEO of SEI/Aaron's, the upstate New York franchisee for Atlanta-based Aarons, the No. 2 rent-to-own chain in the country. Edwards is also president of the state trade group for the industry.

"This regulates our industry more than any other state," he said. "New York will have the strictest law in the country."

Xavier Dominicis, spokesman for Plano, Texas-based Rent-A-Center said, "We're satisfied with the balance that the legislation strikes."

The rent-to-own industry has grown from a small fringe business into a major consumer industry, with about 8,600 stores nationwide, serving about 6 million consumers with \$7 billion in annual revenues. The Buffalo Niagara region has at least 44 rent-to-own stores, most of them in Buffalo.

The industry is dominated by Rent-A-Center and Aaron's, both publicly traded, but many smaller mom-and-pop stores operate throughout the country.

How they work

Rent-to-own stores allow consumers to rent or buy major household items over time with small monthly, weekly or biweekly payments, often as little as \$10 to \$20. The businesses offer both new and used name-brand furniture, appliances, electronics and similar goods, from well-known companies such as Sony Corp. and Ashley Furniture. The rental contracts typically run from one to two years, usually with the intention that the consumer will own the product at the end of that period if they make all the payments. But unlike a traditional layaway or similar plan, the customer gets use of the item right away.

There's no credit check, and consumers can terminate the rental at any time, with no further obligation. The stores will deliver, install or pick up the merchandise, and also provide maintenance and repair.

That has made them affordable and attractive to low-income consumers and those who can't qualify for credit cards or traditional payment plans. Many of the customers have little choice for necessities like a refrigerator or bed, because they can't afford to buy them outright. But consumer advocates denounce the stores for deceiving and gouging such customers, who end up paying several times the retail price at traditional retailers like Sears or Best Buy.

The old law allowed the rent-to-own stores to set the "total cost of ownership" -- the price paid over time -- at twice the "cash price," or retail price. But it defined that cash price vaguely, so critics say the stores artificially inflated that base price well above other retailers before doubling

it. Often, consumers don't even complete the payment plans because of personal or financial circumstances, which means their rental payments are essentially lost. Meanwhile, the merchandise is promptly reclaimed by the stores, which then re-rent them to other customers, though for a lower price.

Such prices and practices were detailed in The Buffalo News series "The High Cost of Being Poor" in June 2006, which examined how low-income consumers -- those who could least afford to pay -- were often made to pay extra for a host of different financial services. Those articles led to a series of public hearings by state lawmakers, and eventually contributed to the passage of the new law.

The rent-to-own companies argue they're not making much of a profit, with industry margins of about 5 percent. They have to cover the cost of maintaining and repairing items, transporting them and reclaiming them, and their losses are higher than traditional stores.

"This is a transaction that has a lot of embedded value, and it's difficult to attribute a price to it," Dominicis said. "What is it worth not to have a security check, a credit check, a long-term obligation, a setup fee, a service fee, a delivery fee? What's it worth to be able to pay weekly? What's it worth to be able to return the merchandise at any time? You're paying for the flexibility."

Consumer advocates called for tighter restrictions and a lower price cap. And lawmakers, based on the hearings, agreed, while also acknowledging the "unique" nature and popularity of rent-to-own transactions.

"It is important to remember that they are a distinct product that should not be compared to traditional means of renting, leasing, or purchasing merchandise," Pheffer said.

The new law mandates that stores provide more information to consumers about how much they will pay in the long run. That information is already on tags in the stores, but it will now also be provided regularly during the rental period.

"When the rent-to-own industry has to say how much it's going to cost you over the total period, I think some people will choose not to do business with them," Peoples-Stokes said.

The law also specifies what must be in marketing and advertising materials, and requires that consumers be told their rights and responsibilities. It also creates additional protections for them to either get out of a contract or get it reinstated later. And it also gives oversight of the industry to the Attorney General's Office, including the power to issue regulations.

Finally, the law defines the "cash price" as a multiple of the store's own documented cost of buying the merchandise from the manufacturer. The maximum multiple ranges from 1.75 to 2.15 times that cost. And on top of that, the total cost over time, meaning the total payments a customer makes over the full length of the contract, can be up to 2.25 times the cash price, which results in a markup of nearly five times for some items.

Consumer advocates say that section would let merchants charge even more than they already do. But Dominicis said Rent-A-Center "did the math on a few items," and that's not true.

In fact, New York's new price caps are lower than any state except California, Edwards said. And it now imposes more disclosure requirements than anyone else, he added.

Still, while both companies said they were comfortable with the law, they cautioned that price controls can be harmful for smaller independent dealers.

"If the legislation gets too restrictive, it has the effect of driving them out of business," Dominicis said.

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