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Both sides weigh in on rent-to-own bill

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Gov. David A. Paterson is reviewing a bill that supporters say would protect consumers by providing more structure and disclosure for “rent-to-own” contracts. Critics, however, say the law would legalize predatory pricing and practices.

State lawmakers, in just two days in late June, quietly passed a long-simmering bill that would dramatically alter a 24-year-old state law governing rent-to-own transactions.

Such contracts, at stores like Rent- A-Center and Aaron’s, allow consumers to buy major household items over time with small monthly or weekly payments. But the contracts are denounced by consumer advocates for gouging customers, who eventually keep the merchandise in only one of every five cases.

The goal of the bill, according to its text, is to give consumers more protection when they enter into the long-term rental contracts. The bill mandates more information be given to customers up front, in a clear and very visible format, and also defines for the first time how the base prices are set.

Both areas at least partly address consumer advocates’ criticism of the industry, which was aired in The Buffalo News’ June 2006 investigative series, “The High Cost of Being Poor.” Those articles, which examined a host of financial abuses against low-income and minority consumers, led to public hearings by state lawmakers.

Activists say the new law’s provisions on how pricing is determined would actually cause more harm than existing law—by allowing rent-to-own stores to charge up to five times what they paid for the merchandise.

Under the legislation, a \$400 refrigerator could end up costing a rent-to-own customer \$1,575. A \$300 television set could cost a customer \$1,350.

“This is the wrong bill for New York at this time,” said Josh Zinner, co-director of the Neighborhood Economic Development and Advocacy Project in New York City. “For New

York to pass an industry bill that really codifies abusive price-gouging of low-income people is pretty unconscionable. We hope the governor will veto this bill.”

The bill was delivered to the governor on July 19, and he has until Friday to sign or veto it.

“The governor is currently reviewing the legislation, and soliciting input from various stakeholders,” said Paterson spokeswoman Maggie McKeon.

The bill was sponsored by Assemblywoman Audrey Pfeffer, a Queens Democrat who is chairwoman of the Assembly Consumer Affairs and Protection Committee. Co-sponsors include Assembly members Sam Hoyt and Crystal Peoples-Stokes, both Democrats from Buffalo, and Dennis Gabry-szak, D-Cheektowaga. Hoyt declined to comment, while the others couldn’t be reached.

“Permitting a merchant to charge poor people three times the retail price for basic household necessities was last considered a ‘reform’ in Dickensian England,” said Peter Dellinger, an attorney at Empire Justice Center in Rochester.

Rent-to-own stores rent both new and used name-brand furniture, appliances, electronics and similar household goods to consumers over one or two years, usually with the intention that the consumer will own them at the end of that period.

The contracts require low monthly, weekly or biweekly rental payments, often for less than \$20 each. And consumers can terminate the rental at any time, with no obligation.

That makes them affordable and attractive to low-income consumers, as well as consumers who can’t qualify for credit cards or traditional payment plans. As a result, the industry today includes some 8,600 stores nationwide, serving about 6 million consumers with \$7 billion in annual revenues.

But critics say the total amount paid in the end is usually two to three times what a consumer would pay at a traditional merchant like Sears or Best Buy.

That’s permitted under current law, passed in 1986, which allows stores to charge a total “cost of ownership” equal to twice the “cash price.” That’s the price at which the merchant would sell the item for cash.

However, since the law never specified how to set the cash price, critics say, the stores often inflated it well beyond the traditional retail price, before doubling it for the total cost. So consumer advocates have called for tighter restrictions on the industry and a lower cap on how much they could charge.

Despite the criticism, however, lawmakers found that rent-to-own stores “provide a unique transaction that is popular with many consumers,” enabling them to “obtain high-quality goods.” What was needed, according to the text of the bill, was “appropriate regulatory guidance” about how to set cash prices at “fair and reasonable levels,” and “clear and useful disclosures” so consumers can “make informed decisions.”

The new legislation would mandate significantly more disclosure to consumers regarding the amount, number and timing of payments, including other fees.

It also specifies what must be contained in advertising materials, and requires that consumers be given statements laying out rights and responsibilities.

It gives consumers 48 hours to review contracts before signing, allows for cancellation without penalty, and strengthens consumers’ rights to reinstate the contract after missing a payment or even giving back the merchandise. And it bans mandatory arbitration.

Most of all, it establishes a framework for setting the prices, not only for the first rental of each item, but on subsequent rentals when the item is considered “used.” The bill bases pricing on the merchant’s documented cost for each item — what the merchant paid the manufacturer — and sets the cash price as a multiple of that.

But it’s those multiples that “are outrageous,” Dellinger said. Specifically, the cash price would be 1.75 times the merchant’s cost for appliances and electronic sets of less than \$150, twice the cost for more expensive electronic sets, automotive accessories, jewelry and musical instruments, and 2.15 times the cost for furniture.

Then the bill caps the total cost over the rental period at 2.25 times the maximum cash price. That means the total cost can range from 3.9 times the merchant’s cost to 4.8 times.

So a refrigerator with a \$400 merchant cost would have a \$700 cash price and would cost \$1,575, Dellinger said. A \$200 bed would have a cash price of \$430 and a total of \$967.50. A \$300 TV would have a \$600 cash price and \$1,350 total.

“It legalizes the predatory lending practices that we’ve opposed,” Dellinger said. “That’s clearly not reform.”

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