

Consumer Reports Investigation: Would you pay the equivalent of 311 percent interest to own a big-screen TV?

Rent-A-Center and other rent-to-own companies tout hot products with appealing payment plans, but their deals are a costly way to buy appliances, electronics, and furniture

Would you buy a \$600 computer knowing that it would cost you nearly \$1,900 after less than a year's worth of payments? How about a \$1,000 clothes washer/dryer combination at an equivalent interest rate of 100 percent, leaving you \$2,700 out of pocket after two and a half years?

Those are the types of deals you could end up with if you get your electronics, furniture, appliances, or other items from a rent-to-own store.

We recently examined offers at several rent-to-own merchants and found that you easily end up paying two to three times the amount it would cost to buy an item outright from a traditional retailer, with equivalent interest rates of as much as 311 percent. Low-income people, who can least afford the higher costs, are the ones most likely to shop at rent-to-own stores. If you're among them, we advise finding alternatives, even if it means postponing purchases until you can better afford them.

The rent-to-own industry has more than 4 million customers, and its about 8,600 stores in the U.S. and Canada generate \$7 billion in annual sales, according to its data. The lure of stores such as [Aaron's](#) and [Rent-A-Center](#) is that you can acquire a new or used washing machine, television, or bedroom set right away, typically without a credit check and with relatively low weekly or monthly payments.

Your agreement is generally on a week-to-week or month-to-month basis, and you can return an item and walk away without penalty and without damaging your credit score, as you would if you were late on a traditional loan payment.



In this ad for Rent-A-Center, NFL Hall of Fame quarterback Troy Aikman and WWE Hall of Fame pro wrestler Hulk Hogan promote an LCD television for \$39.99 a week for 104 weeks. This "limited time offer" totals \$4,159, more than twice the \$1,890 price we found for the very same model online. That's like taking out a loan to buy the TV with an interest rate of 92 percent.

If you make all your rent-to-own payments, you'll own the item at the end of the term. You might also be able to buy the item during the rental period at a price that's reduced by a portion of the payments you've already made. Some rent-to-own stores have same-as-cash options of up to six months—during that time you face no rental charge if you pay the entire "cash price" within the specified period. These are enticing options if you can't qualify for credit.

Sounds great, right? But of course there's a downside.

Behind the numbers

Rent-to-own can be a pricey proposition.

Consider the deal for a \$612 Toshiba laptop computer we found at one rent-to-own store. It was being offered at \$38.99 a week for 48 weeks, for a total of \$1,872, excluding sales tax and other charges. That's the same as buying the laptop at the manufacturer's suggested retail price and financing it at an interest rate of 311 percent. You could buy three of the laptops outright for that \$1,872.

Even a [high-interest-rate credit card](#) is a better option than rent-to-own. Let's say you were to finance the laptop at 29.99 percent, among the highest credit-card rates we could find, and pay the same \$38.99 a week. You'd end up saving more than \$1,000 compared with the rent-to-own scenario and own the laptop in about 20 weeks, instead of 48. Even better, if you were to put that \$38.99 in the bank every week, you would have to wait only four months to buy the laptop. Savings: \$1,260.

"I think that the rent-to-own model generally is a remarkably expensive way to obtain what you

Sizing up rent-to-own deals

We looked at rent-to-own ads for various products and analyzed how taking the deal would compare with saving for the item and buying it outright. The saving scenario lets you own the product a lot sooner and for a lot less.

Item	Rent-to-own buying			Saving and buying	
	The deal	Total cost	Equivalent interest rate	Total cost	Savings over rent-to-own
17.3-inch Toshiba laptop	\$38.99 weekly	\$1,872 after 48 weeks	311%	\$612 after 16 weeks	\$1,260
32-inch Toshiba LCD television	\$14.99 weekly	\$1,169 after 78 weeks	101%	\$388 after 26 weeks	\$781
Whirlpool washing machine and dryer	\$19.99 weekly	\$2,699 after 135 weeks	99%	\$966 after 49 weeks	\$1,733
Signature Design dinette set	\$12.99 weekly	\$935 after 72 weeks	84%	\$550 after	

need," said Jim Sugarman, a Washington State assistant attorney general in the consumer-protection division. "There is usually a better way to obtain what you want if you do a little planning and have a little patience."

Need another reason to avoid rent-to-own shopping? Even if you were to exercise the early-purchase or same-as-cash option under the rent-to-own agreement, there's a good chance that you'd pay more because the "cash price" at rent-to-own stores often is higher than at other retailers.

The negatives don't stop there. You could face other charges, including if you are late with a payment and want to reinstate the agreement so you don't lose the benefit of what you paid so far.

The industry says it provides an essential service for those who are unable to obtain credit from banks or traditional retailers and would be otherwise unable to obtain items they want or need.

"These people need that refrigerator, they need that couch, they need that bed for the kids," said Richard May, a spokesman for the industry trade group [Association of Progressive Rental Organizations](#)(APRO). "They know exactly what they're paying for."

More than just high costs

Rent-to-own stores have also been accused of engaging in questionable business practices.

In 2010, the Texas-based Rent-A-Center, the nation's largest rent-to-own company, settled charges by Washington State, which accused the company of using aggressive collection tactics and of violating the state's law governing lease-purchase agreements. Although the company denies wrongdoing, it agreed to pay \$343,000, modify some of its business practices, and provide additional employee training.

Among the allegations, the state said the company:

- Concealed cash prices by aggregating several items into one price.
- Failed to disclose prior damage to rented property.
- Used contradictory contract language that could result in the wrongful denial of customers' attempts to use the early purchase option.
- Instructed employees to begin collection calls before the actual due date of the first payment.
- Allowed its staff to use such collection tactics as cursing at customers, pounding on doors, peering in windows, threatening arrest, making payment demands on babysitters and other third parties, and visiting or calling customers' homes and work places to demand payment even when asked to stop.
- Refused to provide customers with their account balances and payment histories when requested.

- Included contract provisions that illegally barred class-action suits against the company.

A Rent-A-Center spokesman, Xavier Dominicis, said the roughly 100 complaints the state received was a relatively low number given the roughly 45 stores the company operated there, with 15,000 customers and thousands of customer contacts annually. He said many other types of businesses received far more complaints.

"We discovered a lot of the complaints were from people who had very dubious backgrounds or dubious claims," Dominicis said, adding that most of the safeguards the state demanded in its settlement were already part of the company's policies.

May of APRO said that some of the problems rent-to-own customers experience are due to overzealous employees who violate company policies. "They step over their bounds," he said. "They get in trouble for it and rightfully so. You don't overstep the bounds of people's lives over a TV."

But Sugarman, who handled the case against Rent-A-Center, holds the companies responsible. "They have to have policies and procedures in place to make sure they don't have employees who harm consumers," he said. He noted that the company sued the state in an effort to stop its investigation, which he said was based on more those roughly 100 complaints, some of which are detailed in [affidavits the state posted online](#).

"If I was late with the payment, Rent-A-Center employees called me on my cell and home phone numbers several times per day," a former Rent-A-Center customer said. "The employees called minutes apart from four or five different phone numbers, including cell phone numbers. They often left phone messages with profanity."

States take action

Concerns about industry practices have led most states to regulate the industry, with even the rent-to-own industry endorsing some laws. Most of the statutes mandate disclosures, prohibit unreasonable fees and the imposition of mandatory property damage or loss insurance, and give customers who miss payments the right to reinstate an agreement within certain periods. You can find your state's law and compare the laws on the [Association of Progressive Rental Organizations website](#).

Some states, including Connecticut and Ohio, cap the amount by which the total payments can exceed the so-called cash price of the item, the price the rent-to-own retailer would charge someone who came in and bought the item outright. Usually the total payments are limited to two to nearly two and a half times that cash price. But rent-to-own stores sometimes can avoid the cap by setting an unreasonably high cash price to start with.

We saw a 32-inch TV being offered by one Ohio rent-to-own store at \$599, \$150 more than the manufacturer's suggested retail price. A customer who completed all the payments would shell out \$1,169, or 2.6 times MSRP. Some rent-to-own stores have policies to

match competitor's prices. But two of the price-guarantee programs we reviewed, including Rent-A-Center's, apply only to other rent-to-own retailers and not to traditional stores, where the prices are typically much lower.

To prevent inflated cash prices, some states, including Maine, New York, and West Virginia, cap not only the total cost of the rent-to-own transaction but also the cash price on which it's based. For example, depending on the type of merchandise, the limit in California ranges from 1.65 to 1.9 times the wholesale price the rent-to-own store paid to buy the product. In national ads we reviewed for some items, the fine print indeed specified installment payments and total costs in states with such limits. But the deals still weren't very attractive.

The rent-to-own industry says it has to charge more because of the high costs associated with allowing people to return items after as little as a week, leaving the stores with used products that often have lost a significant part of their original value. The industry also says that its losses are much higher than those of standard retailers, with many missed and late payments and damaged and lost or stolen products. And the industry says its stores have higher labor costs, having to deliver and often pick up rented items.

As for its customers, the industry reports that only about 7 percent of customers rent an item for the entire term, and only 25 percent end up owning the rented items, typically by exercising the early-purchase option.

In a 2000 report, the Federal Trade Commission warned about overregulating the industry. "Careful analysis also should be undertaken before adopting policies that would substantially reduce the availability of rent-to-own transactions," the report said. "Most rent-to-own customers are satisfied with their experience with rent-to-own transactions, suggesting that the rent-to-own industry provides a service that meets and satisfies the demands of most of its customers." The report found that abusive industry practices were not widespread.

What to do

Paying twice the market price or more for an item rarely makes sense. If you can afford the weekly or monthly payment of a rent-to-own agreement, consider saving that amount instead. You'll end up owning the item sooner, you'll pay far less, and you might even earn a little interest. Avoid the temptation for instant gratification for items you might not need right away, such as a big-screen TV that replaces your existing working model.

If it's a necessary item, such as a computer for school or work, look for alternatives until you can save the cash. Maybe a friend or family member has a computer you can use, or try a public library, where computers and Internet service often are available free. Sign up for a free Web-based e-mail account from a provider such as Google or Hotmail, which you can use from any computer. Save by considering used products or models without the bells and whistles that you may never use anyway.

Another option is finding out whether you qualify for retailer financing. Many stores offer no-payment-period, no-interest financing. But interest accrues during the no-payment period and you'll be on the hook for it if you can't pay for the item by the end of the no-payment period. So if you use this option, be sure to set a certain amount every week to cover the eventual payment.

Using a credit card should be a last resort, especially if you're cash-strapped to begin with. If you have one and absolutely must use it, avoid making only the minimum payment. If you know how much the payments would have been had you obtained the items at a rent-to-own store, add at least that amount to your regular credit-card payment every month, and you'll likely come out way ahead.

Bottom line

Avoid rent-to-own, even if it means postponing purchases until you can better afford them.