

**Federal Trade Commission  
Bureau of Economics Staff Report**

# **Survey of Rent-to-Own Customers**



**James M. Lacko  
Signe-Mary McKernan  
Manoj Hastak**

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The views expressed in this report are those of the authors and do not necessarily represent the views of the Federal Trade Commission or any individual Commissioner.

## ACKNOWLEDGMENTS

Genevieve Fu provided substantial contributions to this study, performing all of the data management and computer programming needed to analyze the survey results. Her extensive contributions were indispensable and are greatly appreciated. Kirsten Mikkelsen provided substantial assistance verifying data, creating tables, and helping in numerous other tasks. Her contributions also are greatly appreciated. The authors also thank everyone else who assisted in the completion of the study, including Sean Payne, Chuck Pidano, Elaine Crockett, and Karen Waldeck, and those who provided helpful comments on earlier drafts, including Paul Pautler, Gerard Butters, Susan Braman, David Medine, Carole Reynolds, Dana Rosenfeld, and Christian White.

The authors also thank everyone who provided information about the rent-to-own industry, including the Association of Progressive Rental Organizations, David L. Ramp, and Rent-A-Center, Inc.

**Authors:** James M. Lacko is a staff economist in the Bureau of Economics at the Federal Trade Commission. Signe-Mary McKernan is an economist at the Urban Institute. She was a staff economist in the Bureau of Economics at the Federal Trade Commission when this study was conducted. Manoj Hastak is an Associate Professor of Marketing in the Kogod School of Business at American University in Washington D.C., and serves as a consultant to the Federal Trade Commission.

**Cover:** *Man Controlling Trade*, by Michael Lantz. One of two sculptures of man and horse outside the Federal Trade Commission headquarters building in Washington, D.C.

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## EXECUTIVE SUMMARY

While there has been considerable debate concerning the rent-to-own industry over the past decade or more, with allegations of serious consumer protection problems and proposals for various forms of national regulation, there has been little independent systematic examination of the typical experience of rent-to-own customers. FTC staff attempted to fill this gap by conducting a nationwide survey of rent-to-own customers. Between December 1998 and February 1999, over 12,000 randomly selected U.S. households were surveyed, identifying over 500 rent-to-own customers who were interviewed about their experience with rent-to-own stores.

The survey had three primary goals: (1) to examine who uses rent-to-own transactions and how they differ from consumers who do not; (2) to determine whether rent-to-own transactions typically result in the purchase of the rented merchandise; and (3) to determine whether abusive collection practices are widespread in the industry. The survey also examined customer ownership of vehicles, credit cards, and bank accounts, the types of merchandise rented, customer purchase intentions, the duration of rentals, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.

The major findings of the FTC staff survey include:

- 2.3 percent of U.S. households had used rent-to-own transactions in the last year, and 4.9 percent had done so in the last five years. Compared to households who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, have lower incomes, have children in the household, rent their residence, live in the South, and live in non-suburban areas.
- Thirty-one percent of rent-to-own customers were African American, 79 percent were 18 to 44 years old, 73 percent had a high school education or less, 59 percent had household incomes less than \$25,000, 67 percent had children living in the household, 62 percent rented their residence, 53 percent lived in the South, and 68 percent lived in non-suburban areas.
- Seventy percent of rent-to-own merchandise was purchased by the customer. The purchase rate was consistently high (at least 60 percent) across most demographic groups. Purchases also were widespread across most customers, with 70 percent of customers purchasing at least one item of merchandise.

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- Sixty-seven percent of customers intended to purchase the merchandise when they began the rent-to-own transaction, and 87 percent of the customers intending to purchase actually did purchase.
- Seventy-five percent of rent-to-own customers were satisfied with their experience with rent-to-own transactions. Satisfied customers gave a wide variety of reasons for their satisfaction, favorably noting many aspects of the transaction, the merchandise and services, and the treatment they received from store employees.
- Nineteen percent of rent-to-own customers were dissatisfied with their experience, and most cited rent-to-own prices as the reason. Complaints about high prices were made by 27 percent of all rent-to-own customers, including nearly 70 percent of dissatisfied customers, and a significant percentage of satisfied customers. Smaller percentages of customers (between one and eight percent) complained about problems with the merchandise or repair service, the treatment received from store employees, the imposition of hidden or added costs, and other miscellaneous issues.
- Nearly half of all rent-to-own customers had been late making a payment. Sixty-four percent of late customers reported that the treatment they received from the store when they were late was either "very good" or "good," and another 20 percent reported that the treatment was "fair." Fifteen percent of late customers reported being treated poorly when they were late, including 11 percent who indicated possibly abusive collection practices.

Other findings of the FTC staff survey include:

- Eighty-four percent of rent-to-own customer households owned a car or truck, 44 percent had a credit card, 49 percent had a savings account, and 64 percent had a checking account. Seventy-seven percent of customer households had at least one of the three types of credit card or bank accounts, while 23 percent had none.
- Rent-to-own customers rented an average of 2.5 items of merchandise per customer over the last five years. Forty percent of rent-to-own customers rented merchandise on more than one occasion over that period.
- Thirty-eight percent of rented items were home electronics products, 36 percent furniture, and 25 percent appliances. The most common items were televisions, sofas, washers, VCR's, and stereos, which together accounted for over half of all rented merchandise.

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- Merchandise purchased from the rent-to-own store was rented for an average of 14 months before being purchased, with 47 percent being purchased in less than a year. Merchandise returned to the rent-to-own store was rented for an average of five months before being returned, with 81 percent being returned within six months or less.
- Fifty-nine percent of the merchandise returned to the rent-to-own store was returned because the renter's need for the merchandise had changed, 24 percent was returned for financial reasons, and eight percent because of a problem with the merchandise or store.
- Ninety percent of the merchandise on which customers had made substantial payments towards ownership (of six months or more) was purchased by the customer, and ten percent was returned to the store.

### *The Rent-to-Own Industry*

The rent-to-own industry (also known as the rental-purchase industry) consists of dealers that rent furniture, appliances, home electronics, and jewelry to consumers. Rent-to-own transactions provide immediate access to household goods for a relatively low weekly or monthly payment, typically without any down payment or credit check. Consumers enter into a self-renewing weekly or monthly lease for the rented merchandise, and are under no obligation to continue payments beyond the current weekly or monthly period. The lease provides the option to purchase the goods, either by continuing to pay rent for a specified period of time, usually 12 to 24 months, or by early payment of some specified proportion of the remaining lease payments. These terms are attractive to many consumers who cannot afford a cash purchase, may be unable to qualify for credit, and are unwilling or unable to wait until they can save for a purchase. Some consumers also may value the flexibility offered by the transaction, which allows return of the merchandise at any time without obligation for further payments or negative impact on the customer's credit rating. Other consumers may rent merchandise to fill a temporary need or to try a product before buying it. The rent-to-own industry trade association estimated that in 1998 there were 7,500 rent-to-own stores in the United States, serving nearly three million customers, and producing \$4.4 billion in revenues.

### *Consumer Protection Issues*

A number of consumer protection concerns have been raised about the rent-to-own industry by consumer advocates. The areas of concern have included the prices charged by the industry (which can be two to three times retail prices, and sometimes more), the treatment of customers during the collection of overdue rental payments, the repossession of merchandise after customers have paid substantial amounts towards ownership, the adequacy of information

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provided to customers about the terms and conditions of the rental agreement and purchase option, and the disclosure of whether merchandise is new or used. Consumer advocates also have argued that rent-to-own transactions are really credit sales, not leases, and should be subject to federal and state consumer credit laws.

Currently, rent-to-own transactions are not specifically regulated by federal law, either by the Truth-in-Lending Act (TILA) or the Consumer Leasing Act (CLA). Federal legislation that would specifically regulate rent-to-own transactions has been proposed several times in recent years. Some of the proposed legislation would apply federal and state credit laws to the rent-to-own industry, while other proposed legislation would regulate rent-to-own transactions as leases.

Forty-six states currently have rent-to-own laws that regulate rent-to-own transactions in a manner similar to leases, mandating a variety of disclosures and other requirements. The state laws generally have been supported by the industry but opposed by consumer advocates who believe that rent-to-own transactions should be treated as credit sales. Currently, no state has a rent-to-own law that specifically regulates rent-to-own transactions as credit sales. But courts in several states, most notably Wisconsin, Minnesota, and New Jersey, have ruled that rent-to-own transactions are credit sales and subject to state laws governing credit sales. Vermont does not regulate rent-to-own transactions as credit sales, but does require disclosure of the "effective-APR."

A key factual issue in the debate over whether rent-to-own transactions are sales or leases has been the extent to which rent-to-own customers purchase the rented merchandise. The industry has consistently maintained that only 25 to 30 percent of rent-to-own merchandise is purchased, and that the rest is returned to the dealer after a relatively short rental duration. Some consumer advocates have presented a sharply different view, maintaining that most rent-to-own transactions result in the purchase of the rented merchandise.

### *Public Policy*

*Disclosure of total cost and other terms of purchase.* The FTC staff survey found that most rent-to-own merchandise is purchased by the customer. Because most merchandise is purchased, information about the total cost and other terms of purchase is important for consumers entering into rent-to-own transactions. Information on the total cost of purchase, including all mandatory fees and charges, would allow potential customers to compare the cost of a rent-to-own transaction to other alternatives, and would be most useful if it were available while the customer was shopping and making a decision. The best way to provide total cost information that can be seen and used while the customer is shopping would be to provide it not only in the written agreement, but also on product labels on all merchandise displayed in the rent-to-own store. The other basic terms of the transaction, including the weekly or monthly payment

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amount, the number of payments required to obtain ownership, and whether the merchandise is new or used, also should be provided on product labels.

These same disclosures also should be provided in any advertisement or catalog that makes a representation concerning the weekly or monthly rent-to-own payment amount for a specific item of merchandise. All of the terms and conditions of the transaction also should be disclosed in the agreement document.

While disclosures in advertisements and rental agreements are required by law in almost all states, most states do not require label disclosures of the total cost or other terms of purchase. Disclosure of the total cost and other basic terms of purchase on product labels, along with disclosures in advertisements and agreement documents, would substantially benefit rent-to-own customers, providing information on the cost of a rent-to-own purchase while customers are shopping and making a decision, and allowing for an easier comparison to the cost of other alternatives.

*APR disclosures.* APR disclosures for rent-to-own transactions raise more difficult questions. While an APR disclosure would allow consumers to compare the cost of a rent-to-own transaction to a credit card purchase or other source of credit, APR calculations could be subject to manipulation by rent-to-own dealers, possibly resulting in inaccurate disclosures that mislead consumers. Dealers could inflate cash prices in order to understate the disclosed APR, without suffering a significant loss of business, because rent-to-own stores make few cash sales. The difficulties of implementing and enforcing an APR disclosure requirement for rent-to-own transactions must be compared to the benefits it would yield over and above a simpler disclosure of total cost. Disclosure of the total cost and other terms of purchase on product labels, along with disclosures in advertisements and agreement documents, may provide consumers with the information they need to evaluate the cost of purchasing through a rent-to-own transaction, and may avoid the potential for manipulation, misleading disclosures, and enforcement difficulties. These issues should be considered carefully if APR disclosures are contemplated.

*Price restrictions.* Similar difficulties also could affect a price restriction policy. Dealers could manipulate cash prices to evade or lessen the impact of price restrictions. The possible impact of effective price restrictions on the availability of rent-to-own transactions also must be assessed. These issues should be considered carefully if price restrictions are contemplated.

*Regulation of collection practices.* The FTC staff survey found that while some rent-to-own dealers may use abusive practices in the collection of overdue rental payments, abusive collection practices are not widespread and do not represent the typical experience of most rent-to-own customers who are late making a payment. These results suggest that federal regulation of industry collection practices may be unnecessary. The most serious abuses, however, such as

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unauthorized entry into customers' homes, remain troubling, even if they are not widespread, and warrant continued attention.

*Regulation of reinstatement rights.* The survey also found that few customers lost merchandise through a return or repossession after making substantial payments towards ownership. These results suggest that federal regulation of reinstatement rights may be unnecessary. Industry-supported federal legislation, however, includes a reinstatement rights provision that is broader than the current requirements in many states, and would extend reinstatement rights to customers in the few states that currently do not mandate such requirements.

### *Conclusion*

Any regulation of the rent-to-own industry should recognize that most rent-to-own customers ultimately purchase the rented merchandise. Regulations should ensure that customers have the information and protections appropriate for a purchase transaction. Clear and accurate disclosure of the total cost and other terms of purchase would allow potential customers to compare rent-to-own transactions to other alternatives, and would help ensure that consumers choosing rent-to-own transactions do so on an informed basis. Disclosure of the total cost and other basic terms of purchase on product labels, along with disclosures in advertisements and agreement documents, would ensure that the information is available to consumers while they are considering the rent-to-own transaction.

Regulation of the rent-to-own industry should also reflect, where appropriate, the differences between rent-to-own transactions and other forms of purchase. Regulatory policies mandated for other types of purchases should be applied to rent-to-own transactions only after careful consideration of the potential costs and benefits. Careful analysis also should be undertaken before adopting policies that would substantially reduce the availability of rent-to-own transactions. 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.

Rent-to-own transactions are not the lowest cost method of purchasing merchandise. Consumers with available cash or credit, or the willingness to wait until money for a cash purchase can be saved, will likely be able to obtain the merchandise elsewhere at a lower cost. Clear and timely disclosure of the total cost would ensure that consumers are aware of the cost of purchasing through a rent-to-own transaction, allowing them to weigh the cost of a rent-to-own purchase with the benefits.

## INTRODUCTION

While there has been considerable debate concerning the rent-to-own industry over the past decade or more, with allegations of serious consumer protection problems and proposals for various forms of national regulation, there has been little independent systematic examination of the typical experience of rent-to-own customers. FTC staff attempted to fill this gap by conducting a nationwide survey of rent-to-own customers.

Between December 1998 and February 1999, over 12,000 randomly selected U.S. households were surveyed, identifying over 500 rent-to-own customers who were interviewed about their experience with rent-to-own stores. The survey examined, among other issues, who uses rent-to-own transactions and how they differ from consumers who do not, whether rent-to-own transactions typically result in the purchase of the rented merchandise, and whether abusive collection practices are widespread in the industry.

The major findings of the FTC staff survey include: (1) compared to households who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, have lower incomes, have children in the household, rent their residence, live in the South, and live in non-suburban areas; (2) 70 percent of rent-to-own merchandise was purchased by the customer; (3) 75 percent of rent-to-own customers were satisfied with their experience with rent-to-own transactions, and gave a wide variety of reasons for their satisfaction; 19 percent of customers were dissatisfied, and most frequently cited rent-to-own prices as the reason; and (4) 64 percent of the customers who had been late making a payment reported that the treatment they received from the store when they were late was either "very good" or "good," 20 percent said the treatment was "fair," and 15 percent said the treatment was "poor" or "very poor," including 11 percent who indicated possibly abusive collection practices. These and other findings of the FTC staff survey are presented in detail in this report.

### *1.1 The Rent-to-Own Industry*

The rent-to-own industry (also known as the rental-purchase industry) consists of dealers that rent furniture, appliances, home electronics, and jewelry to consumers. Consumers enter into a self-renewing weekly or monthly lease for the rented merchandise, and are under no obligation to continue payments beyond the current weekly or monthly period. At the end of each period, the consumer can continue to rent by paying for an additional period, or can return the merchandise. The lease provides the option to purchase the goods, either by continuing to

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pay rent for a specified period of time, usually 12 to 24 months, or by early payment of some specified proportion, usually 50 to 60 percent, of the remaining lease payments.<sup>1</sup>

Rent-to-own transactions offer immediate access to household goods for a relatively low weekly or monthly payment, typically without any down payment or credit check.<sup>2</sup> These terms are attractive to many consumers who cannot afford a cash purchase, may be unable to qualify for credit, and are unwilling or unable to wait until they can save for a purchase. Some consumers also may value the flexibility offered by the transaction, which allows return of the merchandise at any time without obligation for further payments or negative impact on the customer's credit rating. Other consumers may rent merchandise to fill a temporary need or to try a product before buying it.<sup>3</sup>

The rent-to-own industry has grown rapidly from its inception in the 1960s. The Association of Progressive Rental Organizations (APRO), the industry trade association, estimated that in 1998 there were 7,500 rent-to-own stores in the United States, serving nearly three million customers, and producing \$4.4 billion in revenues (APRO, 1998).

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<sup>1</sup> The purchase option distinguishes rent-to-own transactions from ordinary rental ("rent-to-rent") transactions. Some rent-to-rent dealers rent the same types of merchandise as rent-to-own dealers (such as furniture or televisions), while others rent distinctly different types of merchandise (such as tools). The absence of a multi-period obligation distinguishes rent-to-own transactions from more traditional leasing arrangements (such as used for automobiles). Rent-to-own transactions sometimes are used by some sellers outside of the rent-to-own industry, for merchandise as diverse as musical instruments, home-care medical equipment, and backpacking tents. These other uses of rent-to-own contracts were not included in the FTC staff survey.

<sup>2</sup> The rent-to-own industry also highlights other benefits, such as free delivery and repair service. These benefits, however, are not unique to rent-to-own transactions, but are available in traditional retail sales, perhaps for an added fee. Rent-to-own dealers include the costs of these additional services in the basic rent-to-own rental rate (Keese, 1993; Sherrier, 1997). (Complete references are presented in the *Reference* section that follows the last chapter of this report.)

<sup>3</sup> Studies by Swagler and Wheeler (1989) and Hill, Ramp, and Silver (1998) found that the most important reasons why customers chose rent-to-own transactions were the immediate access to merchandise that the renter might otherwise be unable to obtain and the lack of a credit check. Zikmund-Fisher and Parker (1999) found that the most important reasons were the flexibility offered by the return option and the self-management imposed by the weekly payment structure. Beemer (1994, 1999) found that the immediate access, no credit check, and return option were all equally important, and Rudman (1994) found similar results, though with the return option being not as important as the other two reasons.



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The rent-to-own industry has undergone substantial consolidation over the last several years (Huffman and Hinton, 1997; Martin and Huckins, 1997). While the industry was once characterized by relatively small regional chains and independent "mom-and-pop" stores, today two national chains, Rent-A-Center and Rent-Way, own nearly half of all the rent-to-own stores in the country.<sup>4</sup> In 1998, both of these firms more than doubled in size through the acquisition of competing chains. In the largest acquisition ever in the industry, Renters Choice, which had only 27 stores as recently as 1993, purchased Thorn Americas Inc. (which operated the Rent-A-Center chain) for \$900 million, subsequently adopting the Rent-A-Center name.<sup>5</sup>

### *1.2 Consumer Protection Issues*

A number of consumer protection concerns have been raised about the rent-to-own industry by consumer advocates. The areas of concern have included the prices charged by the industry, the treatment of customers during the collection of overdue rental payments, the repossession of merchandise after customers have paid substantial amounts towards ownership, the adequacy of information provided to customers concerning the terms and conditions of the rental agreement and purchase option, and the disclosure of whether merchandise is new or used. Consumer advocates also have argued that rent-to-own transactions are really credit sales, not leases, and should be subject to federal and state consumer credit laws. Currently, rent-to-own transactions are not specifically regulated by federal law, either by the Truth-in-Lending Act (TILA) or the Consumer Leasing Act (CLA). Most states have rent-to-own laws that regulate rent-to-own transactions in a manner similar to leases.

*Rent-to-own prices.* The primary criticism of the rent-to-own industry by consumer advocates has concerned rent-to-own prices.<sup>6</sup> While the rent-to-own industry may provide access

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<sup>4</sup> According to the Form 10-K submitted by Rent-A-Center to the Securities Exchange Commission (SEC) for fiscal year 1998, as of the end of 1998, Rent-A-Center operated 2,126 company-owned stores (under the Rent-A-Center name) and 324 franchised stores (mostly under the ColorTyme name) in 50 states, the District of Columbia, and Puerto Rico. See Rent-A-Center (1999a). According to the Form 10-K submitted by Rent-Way for fiscal year 1998, as of the end of 1998, Rent-Way operated 865 stores in 34 states. See Rent-Way (1998). In September 1999, Rent-Way completed the purchase of the 250 store RentaVision chain, bringing its total to 1,116 stores in 41 states. See Rent-Way (1999b). Based on these figures, Rent-A-Center and Rent-Way together own 3,566 stores, which represents 48 percent of the estimated 7,500 stores in the industry.

<sup>5</sup> See Rent-A-Center (1999a).

<sup>6</sup> See, for example, Ramp (1990, 1993), Mierzwinski (1993), Preate (1993), Fogarty  
(continued...)

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to household goods at relatively low weekly or monthly rental rates to consumers who have few other options, purchasing through a rent-to-own transaction is usually much more expensive than a traditional retail purchase. Studies have found that the total cost of purchasing through a rent-to-own transaction is usually two to three times the retail price of comparable goods, and sometimes more.<sup>7</sup> Many consumer advocates believe that the rent-to-own industry takes advantage of low income consumers who can least afford to pay high prices (Mierzwinski, 1993; Preate, 1993; Ramp, 1993).<sup>8</sup>

The industry responds that rent-to-own prices reflect the value of the additional benefits and options it provides its customers, and the higher costs and risks of doing business in the market it serves (APRO, 1993; Keese, 1993; Rudman, 1994; Sherrier, 1997; Winn, 1999a). The industry notes that it provides delivery, setup, pickup, repair, and loaner services, the costs of which are included in the basic rental rate and price of obtaining ownership. The industry also notes that the option of returning the merchandise at any time provides additional consumer benefits that are reflected in rent-to-own prices. The return option also creates additional costs that are not present in traditional retail sales, because returned merchandise must be retrieved, refurbished, and re-rented. The industry also argues that dealers face considerable competition

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<sup>6</sup> (...continued)

(1994), PIRG (1994, 1997), NCLC (1995a), and Consumer Reports (1998). Rent-to-own prices also are discussed by other observers, including Nehf (1991), Freedman (1993), Hudson (1993), Swagler, Burton, and Lewis (1995), Caskey (1997), Martin and Huckins (1997), ABC News 20/20 (1997), and Hill, Ramp, and Silver (1998).

<sup>7</sup> One of the more recent studies of rent-to-own prices is PIRG (1997). Rent-to-own prices also are examined by Breslau (1987), Swagler and Wheeler (1989), Preate (1993), and PIRG (1994).

<sup>8</sup> Some observers have grouped rent-to-own transactions with other services in what has been referred to as the "alternative financial sector," which includes pawn shops, automobile title lenders, check cashing outlets, post-dated check (payday loan) stores, and advance tax refund (refund anticipation loan) services (Swagler, Burton, and Lewis, 1995; Caskey, 1994, 1997). While there are distinct differences across these different services, and all differ from rent-to-own dealers in that they provide access to cash rather than merchandise, all have a similar (though not identical) clientele consisting of consumers who are short on cash and have difficulty obtaining credit (either because of poor credit histories or small desired loan size). All of these services charge high fees (when expressed as an annual percentage rate) far in excess of traditional lenders, attracting the criticism of consumer advocates. (Winn (1996a) discusses the comparison of rent-to-own transactions and "alternative financial services" from an industry perspective.)

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from other rent-to-own dealers, rent-to-rent dealers, retailers, and potential new entrants (Rudman, 1994).<sup>9</sup>

*Credit sale or lease.* Closely related to the pricing issue has been a debate over whether rent-to-own transactions are sales or leases. Consumer advocates argue that rent-to-own transactions are really sales, and more specifically, credit sales, and view the difference between the rent-to-own purchase price and a comparable retail price as an interest charge of 100 percent or more (Ramp, 1990; Preate, 1993; Fogarty, 1994; PIRG, 1994, 1997; NCLC, 1995a).

Consumer advocates and other observers also argue that rent-to-own transactions should be subject to federal and state consumer credit laws, including the federal Truth-in-Lending Act (TILA) (Mierzewski, 1993; Preate, 1993; Ramp, 1993; Fogarty, 1994; PIRG, 1994, 1997; Pimentel, 1995) and state usury laws (Mierzewski, 1993; Preate, 1993; Ramp, 1993; Fogarty, 1994; PIRG, 1994). Regulation under TILA would require that rent-to-own dealers disclose an annual percentage rate (APR) and other credit-related terms.<sup>10</sup> Regulation under state usury laws could sharply restrict rent-to-own prices, particularly if most of the current price is considered an interest charge. Federal legislation that would apply federal and state credit laws to the rent-to-own industry has been proposed several times in recent years.<sup>11</sup>

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<sup>9</sup> Some observers agree that rent-to-own prices (and the fees charged by other alternative financial services) likely reflect the higher costs and risks of serving customers with poor credit histories and unstable incomes (Nehf, 1991; Caskey, 1994, 1997); the higher costs arising from relatively low store volumes (due to the relatively small geographic market served by most rent-to-own stores and other alternative financial service providers) (Caskey, 1994, 1997); and in the case of other alternative financial services, the relatively small size of the typical transaction (Caskey, 1994, 1997). But others argue that rent-to-own prices are likely to substantially exceed dealer costs (Walden, 1990; Ramp, 1993; Martin and Huckins, 1997) and are not justified by the value of the return option and other services bundled with the merchandise (Ramp, 1993; Hill, Ramp, and Silver, 1998).

<sup>10</sup> See TILA 15 USC § 1601-1667f and Regulation Z, 12 CFR § 226. Rent-to-own transactions currently are not covered by TILA because Regulation Z (TILA's implementing regulation) specifically excludes leases that are terminable without penalty by the consumer. See Regulation Z, 12 CFR § 226.2(a)(16). The Federal Reserve Board (FRB) added this clause to Regulation Z in 1982 to clarify the issue of whether rent-to-own transactions were covered by TILA (Nehf, 1991).

<sup>11</sup> See H.R. 3136, 103rd Congress, 1st Session (1993), H.R. 3003, 104th Congress, 2nd Session (1996), and H.R. 3060, 105th Congress, 1st Session (1997). The proposed legislation would have made rent-to-own transactions subject to TILA, the Equal Credit Opportunity Act (continued...)

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The rent-to-own industry argues that rent-to-own transactions are merely leases, and should not be subject to credit laws or required to disclose an APR (Keese, 1993; Rudman, 1994; Winn, 1998b). The industry argues that the return option and the lack of any debt or on-going obligation make rent-to-own transactions unique and distinct from credit sales, and would make any APR disclosure meaningless and confusing for consumers (Winn 1997, 1998b). The industry also argues that rent-to-own prices are not comparable to retail prices because of additional costs incurred by rent-to-own dealers (Keese, 1993; Sherrier, 1997), and suggests that the industry would not continue to offer rent-to-own transactions if credit usury limits were applied (Winn, 1998b).<sup>12</sup> The industry instead advocates regulations that would treat rent-to-own transactions as leases, requiring the disclosure of various lease and purchase option terms (Keese, 1993; APRO, 1993; Waters, 1997, 1998; Winn, 1997, 1998a, 1999b, 1999d).

Consumer personal property leases currently are regulated at the federal level by the Consumer Leasing Act (CLA), which requires a variety of disclosures related to the lease obligation.<sup>13</sup> But because the CLA applies only to leases with terms longer than four months, and rent-to-own customers are not obligated to continue payments beyond a single weekly or monthly period, rent-to-own transactions are not covered.<sup>14</sup> Federal legislation that would specifically regulate rent-to-own transactions as leases has been proposed several times in recent years.<sup>15</sup>

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<sup>11</sup> (...continued)

(ECOA), and other federal credit laws; made rent-to-own transactions subject to state usury and other credit cost restrictions; required the disclosure of an APR and other information on labels on all merchandise; and prohibited abusive payment collection practices.

<sup>12</sup> Some observers also have suggested that stringent regulation of rent-to-own transactions (or alternative financial services in general), particularly limitations on prices, could make the transactions unprofitable and drive dealers from the business (Nehf, 1991; Swagler, Burton, and Lewis, 1995; Caskey, 1994, 1997), leaving some rent-to-own customers with the less favorable options of pawn shops, loan sharks, and perpetual rent-to-rent transactions. Others disagree and argue that rent-to-own dealers make substantial profits and that price limitations would not drive them from the business (Pimentel, 1995; Martin and Huckins, 1997).

<sup>13</sup> See CLA 15 USC § 1667-1667f and Regulation M, 12 CFR § 213.

<sup>14</sup> See CLA 15 USC § 1667(1).

<sup>15</sup> See H.R. 2019, 105th Congress, 1st Session (1997) and H.R. 1634, 106th Congress, 1st Session (1999). The proposed legislation would require a variety of disclosures on product labels, advertisements, and rental agreements; mandate certain agreement provisions (such as minimum reinstatement rights); prohibit other agreement provisions (such as wage assignments);

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This legislation has been supported by the industry (Keese, 1993; APRO, 1993; Waters, 1997, 1998; Winn, 1998a, 1999b) and opposed by consumer advocates (PIRG, 1994, 1997, Saunders, 1998, 1999).<sup>16</sup>

Forty-six states currently have rent-to-own laws that regulate rent-to-own transactions in a manner similar to leases (Winn, 1999d).<sup>17</sup> The laws vary from state to state, requiring a variety of disclosures related to the lease and the purchase option.<sup>18</sup> The laws typically require disclosures in rental agreements and advertisements, and in some states, on product labels. The laws also impose a variety of other requirements and prohibitions on rent-to-own contracts and dealers. Many states require minimum reinstatement rights and payment grace periods, and many limit the size of late payment fees and other charges. Some states prohibit certain types of additional charges, and a few states limit the total rent-to-own purchase price to twice (or in some cases 2.2 or 2.4 times) the cash price (Martin and Huckins, 1997; Winn, 1999d).<sup>19</sup>

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<sup>15</sup> (...continued)

and preempt any state law that regulated rent-to-own transactions as credit sales. The reinstatement rights provision allows customers who miss a payment to be reinstated in the rent-to-own agreement, with full credit for past payments, if certain deadlines are met for paying the overdue amounts.

<sup>16</sup> Consumer advocates oppose the legislation largely because it treats rent-to-own transactions as leases rather than credit sales, and also criticize specific provisions of the legislation, such as the preemption of state laws. See Saunders (1998, 1999).

<sup>17</sup> The four states that do not have a specific rent-to-own statute are Montana, North Carolina, New Jersey, and Wisconsin (Winn, 1999d).

<sup>18</sup> Winn (1999d) provides a detailed summary listing of many of the requirements in each state. Martin and Huckins (1997) and NCLC (1998a) provide detailed state code citations and a discussion of the most common state law requirements, but do not include several of the more recent state laws. Nehf (1991) also provides a discussion of common state law provisions.

<sup>19</sup> Consumer advocates and other observers have argued that these so-called "double-laws" have little effect because dealers can simply raise the disclosed cash price to comply with the law, while keeping the total purchase price the same (Ramp, 1990, 1993; Nehf, 1991; PIRG, 1994; Martin and Huckins, 1997). Dealers can raise cash prices without suffering a significant loss in business, because rent-to-own stores make few cash sales. Industry data indicate that cash sales account for only three percent of the average dealer's business (APRO, 1998).

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All of the state rent-to-own laws were passed over the last fifteen years.<sup>20</sup> Generally, the state laws were passed with the active support of the industry (Keese, 1993; Winn, 1997, 1999b, 1999d). The industry views these laws as providing a safe harbor legal environment that specifies the disclosures and conduct required of the industry and clearly defines rent-to-own transactions as leases rather than credit sales. The industry also argues that the laws provide disclosures that help consumers understand the transaction and protect both consumers and the industry from unscrupulous and unethical dealers (Keese, 1993; Winn, 1999b, 1999d).<sup>21</sup>

Consumer advocates have strongly criticized these state laws as providing inadequate protection for consumers, and argue that the law should treat rent-to-own transactions as credit sales rather than leases (Ramp, 1990; Mierzwinski, 1993; Fogarty, 1994; PIRG 1994, 1997; NCLC 1998a). But some observers (Swagler and Wheeler, 1989; Nehf, 1991), including some who advocate price restrictions and APR-type disclosures (Martin and Huckins, 1997; Hill, Ramp, and Silver, 1998), have noted that disclosure of the total cost and other terms of the transaction (which must be disclosed under the state laws) is important for consumers.<sup>22</sup> Most of these observers recommend, however, that the disclosures appear on the merchandise or in-store displays, rather than only in the rental agreement, as currently required by most states.

Vermont's approach is unique among the states with rent-to-own statutes. Vermont does not regulate rent-to-own transactions as credit sales, but does require disclosure of the "effective-APR."<sup>23</sup> The effective-APR is calculated in the same manner as an APR under TILA, but the

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<sup>20</sup> The first law was passed by Michigan in 1984 (APRO, 1993; Martin and Huckins, 1997). By 1990, twenty-three states had passed rent-to-own laws (Ramp, 1990; APRO, 1993). An additional twenty-three states have passed rent-to-own laws since 1990, with the most recent being signed into law by the governor of Alaska in May 1999 (View, 1999).

<sup>21</sup> The industry cites these same reasons for its support of similar federal legislation (Winn, 1999b).

<sup>22</sup> The U.S. Office of Consumer Affairs also has noted the importance of total cost information, recommending that consumers compare the total cost of the rent-to-own transaction (including all rental payments and other charges necessary to obtain ownership of the merchandise) to the cost of other alternatives, such as the "cash price plus finance charges" in a retail installment plan (U.S. Office of Consumer Affairs, 1996).

<sup>23</sup> The effective-APR must be disclosed both in the rent-to-own agreement and in "immediate proximity" to each specific item of merchandise displayed or offered on a rent-to-own basis. See Vermont Consumer Fraud Rule CF 115 § 115.04(b)(4) and 115.05(b). The rule also requires a number of other disclosures in rental agreements, advertisements, and in

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finance charge is defined as the difference between the total rent-to-own payments necessary to acquire ownership and the cash price.<sup>24</sup> Some observers have recommended this same approach for rent-to-own transactions nationally.<sup>25</sup>

Currently, no state has a rent-to-own law that specifically regulates rent-to-own transactions as credit sales.<sup>26</sup> A Pennsylvania law that previously regulated rent-to-own transactions as credit sales was reversed by the legislature in 1996, and a new law was enacted treating rent-to-own transactions as leases (Winn, 1996b). Courts in several states, however, most notably Wisconsin, Minnesota, and New Jersey, have ruled that rent-to-own transactions are credit sales and subject to state laws governing credit sales.<sup>27</sup> Minnesota is unique in that it

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<sup>23</sup> (...continued)  
immediate proximity to the merchandise.

<sup>24</sup> Vermont Consumer Fraud Rule CF 115 § 115.08(d).

<sup>25</sup> Burnham (1991) and Martin and Huckins (1997) both argue that rent-to-own transactions are not credit sales and should not be treated as credit sales under the law, but that an "equivalent-APR" should be disclosed. The industry is strongly opposed to the Vermont effective-APR disclosure and similar requirements, arguing that the disclosures would be meaningless and confusing given the return option and no-debt features of rent-to-own transactions (Winn, 1997, 1998b).

<sup>26</sup> North Carolina attempted to include rent-to-own transactions under its Retail Installment Sales Act by amending the definition of a sale to include terminable leases in which the consumer, after making the specified number of lease payments, obtains ownership of the merchandise for a nominal consideration of no more than ten percent of the cash price. See N.C. Gen. Stat. GS25A-2(b). But rent-to-own dealers can avoid classification as a sale under this statute by charging a final balloon payment greater than ten percent.

<sup>27</sup> See *Miller v. Colortyme, Inc.*, 518 N.W.2d 544 (Minn. 1994); *Fogie v. Rent-A-Center*, 867 F. Supp. 1389 (D. Minn. 1993), *certified questions answered in the affirmative*, 518 N.W.2d 544 (Minn. 1994), *later proceeding at* No. 3-94-359, 1995 WL 649575 (D. Minn. September 28, 1995), *aff'd sub nom.* *Fogie v. Thorn Americas, Inc.* 95 F.3d 645 (8th Cir. 1996); *Palacios v. ABC TV & Stereo Rental, Inc.*, 365 N.W.2d 882 (Wis. Ct. App 1985); *Rent-A-Center, Inc. v. Hall*, 510 N.W.2d 789 (Wis. Ct. App. 1993); *LeBakken Rent-To-Own v. Warnell*, 589 N.W.2d 425 (Wis. Ct. App. 1998); and *Green v. Continental Rentals*, 678 A.2d 759 (N.J. Super. 1994). For a discussion of some of these cases see Keest, Langer, and Day (1995), Winn (1996/1997), Martin and Huckins (1997), NCLC (1995a, 1998a), and Rent-A-Center (1999a, 1999b). A number of cases have recently resulted in tens of millions of dollars in damage awards or

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has a rent-to-own statute that treats rent-to-own transactions in a manner similar to leases, but courts have ruled that the transactions are also credit sales subject to Minnesota credit law, including credit usury limits.<sup>28</sup>

*The rent-to-own purchase rate.* A key factual issue in the debate over whether rent-to-own transactions are credit sales or leases has been the extent to which rent-to-own transactions result in the purchase of the rented merchandise.<sup>29</sup> The industry has consistently maintained that only 25 to 30 percent of rent-to-own transactions result in the purchase of the rented merchandise, and that 70 to 75 percent of rented merchandise is returned to the dealer after a relatively short rental period averaging three to four months (APRO, 1993; Keese, 1993; Rudman, 1994; Sherrier 1997; Winn, 1998b).<sup>30</sup> The industry argues that the purportedly low purchase rate supports its view that rent-to-own transactions are merely leases (of relatively short

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<sup>27</sup> (...continued)  
settlements paid to rent-to-own customers (Rent-A-Center, 1999a, 1999b).

<sup>28</sup> See *Miller v. Colortyme, Inc.*, 518 N.W.2d 544 (Minn. 1994).

<sup>29</sup> The industry commonly uses the term "keep rate" to refer to the percentage of rent-to-own merchandise purchased by customers. However, the term is also sometimes used by the industry to refer to specific methods of calculating the percentage, usually involving a comparison of the number of deliveries in a particular time period to either the number of "pick-ups" or the number of "pay-outs" (pay-outs are completed agreements, and perhaps early purchases) (Winn, 1988/1989). In order to avoid any confusion between the underlying behavior being measured and particular methods of measuring it, this report avoids the term "keep rate" and instead uses the term "purchase rate" to refer to the percentage of rent-to-own merchandise purchased by customers.

<sup>30</sup> The industry bases these figures on reported dealer experience (Winn, 1988/1989; Salazar-Sazarak, 1993), surveys of dealers (concerning average monthly deliveries, pick-ups, and pay-outs) (APRO, 1998), and the analysis of one company's records for over a million terminated (purchased and returned) rental agreements (Rudman, 1994). All of these sources report a purchase rate of 30 percent or less. Two industry surveys of rent-to-own customers, however, found a possibly higher purchase rate, with 51 percent of rented merchandise ultimately purchased by the customer (Beemer, 1994, 1999). There may be some uncertainty, however, about the interpretation of the Beemer results. The Beemer survey questionnaires began by asking about all of the items that the customer had rented in the past, but the subsequent purchase question referred to just one item without making clear which item or items respondents were to refer to in their answer. Consequently, it is unclear whether the Beemer results estimate the purchase rate or the percentage of customers who had purchased at least one item of merchandise.



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duration for most renters), and that regulating rent-to-own transactions as credit sales is inappropriate (APRO, 1993; Keese, 1993; Sherrier, 1997).

Some consumer advocates have presented a sharply different view, maintaining that most rent-to-own merchandise is purchased by the customer (Ramp, 1990, 1993).<sup>31</sup> Consumer advocates also note that most customers intend to purchase (Ramp, 1993; PIRG, 1994; NCLC, 1995a).<sup>32</sup> Consumer advocates argue that the purportedly high purchase rate supports their view that the typical rent-to-own transaction is really a credit sale and should be regulated as credit (Ramp, 1990).

*Payment collection practices.* Another consumer protection concern raised about the rent-to-own industry has been the treatment of customers during the collection of overdue rental payments and the repossession of rented merchandise. Consumer accounts of abusive collection practices have been highlighted in a number of media stories. The accounts have alleged a variety of abusive practices, including harassing telephone calls, physical threats, breaking into customers' homes, and extortion of sexual favors (Freedman, 1993; *Consumer Reports*, 1998). Some accounts also have alleged the imposition of substantial undisclosed additional payments (ABC News 20-20, 1997). Some dealers have been subject to legal action because of these types of abuses (Ramp, 1990; Nehf, 1991; Pimentel, 1995; NCLC, 1995b, 1998b).

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<sup>31</sup> In an analysis of the financial records of nine rent-to-own stores in Minnesota, Ramp (1990) found that 66 percent of all the merchandise that had been in dealer inventory at some point during the year had been purchased by customers by year end, that purchased merchandise was rented by an average of approximately 1.5 customers prior to sale (though including all merchandise in inventory during the year increased the average to 2.6 customers), and that over 70 percent of dealer income was from transactions ending in a purchase. Possible indication of a high purchase rate also is found in some studies by outside observers and the industry. Customer surveys have found that a large percentage of customers purchased at least some rent-to-own merchandise. Zikmund-Fisher and Parker (1999) found that 76 percent of customers who had completed or terminated a rent-to-own agreement had obtained ownership of at least one item of merchandise, and Cheskin and Masten (1991) found that 74 percent of customers who had rented in the past had purchased at least one item. But these survey results do not necessarily demonstrate a high purchase rate, because many customers may have rented more than one item. The customer surveys by Beemer (1994, 1999), discussed in the previous footnote, do appear to find a high purchase rate, but as noted there, the interpretation of the Beemer results is somewhat unclear.

<sup>32</sup> Customer surveys (commissioned by the industry and outside observers) have found that between 70 and 86 percent of customers intended to purchase the rent-to-own merchandise (Cheskin and Masten, 1991; Rudman, 1994; Caskey, 1997).

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The industry maintains that the accounts of abuse are largely unfounded and do not represent the typical experience of its customers (Rudman, 1994). The industry has commissioned customer surveys that find that the large majority of its customers (80 to 90 percent or more) are satisfied with various aspects of their rent-to-own experience (Cheskin and Masten, 1991; Rudman, 1994; Beemer, 1994, 1999).<sup>33</sup> The industry studies also find that only a small percentage of customers report various types of collections abuse.<sup>34</sup>

The Fair Debt Collection Practices Act (FDCPA) prohibits a wide range of abusive practices by debt collectors, but rent-to-own dealers are not covered because the law generally applies only to third-party debt collectors, not parties collecting payments on their own accounts.<sup>35</sup> Some proposed federal legislation has included provisions specifically regulating the collection practices of rent-to-own dealers.<sup>36</sup>

*Late-term repossessions.* Another consumer protection concern related to collection practices involves customers who have paid a substantial proportion of the payments required for

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<sup>33</sup> Some of results from the Beemer (1999) survey are also presented in Winn (1999c).

<sup>34</sup> The industry studies found instances of abusive practices, but also found that the incidence of abuse was not widespread. Rudman (1994) found that 90 percent of customers who had been late making payments said that store employees were courteous and worked with them when they were late, and only one to two percent of late customers reported experiencing each of the various types of abuses examined, such as unauthorized entry. While 12 percent of late customers reported receiving threats, most involved threats of repossession, not physical abuse. Rudman (1994) also found similar results in a survey of current and former employees. Generally, ten percent or less of employees reported ever seeing each type of abuse, and 70 to 80 percent of the employees that reported abuse said they had seen it "not very often." (The most frequently reported abuse was unauthorized entry, which 14 percent of employees reported seeing, with 18 percent of these seeing it "often" or "very often.") Beemer (1994, 1999) found that almost 50 percent of customers who had been late making a payment said that the store had been "too tough" on them when they were late. But this result is difficult to interpret because the wording "too tough" could indicate abusive and harassing behavior or only a lack of flexibility and insistence on payment.

<sup>35</sup> See FDCPA 15 USC § 1692. While the FDCPA does not apply to rent-to-own dealers collecting payments on their own accounts, collection and repossession practices are subject to restrictions in some states (NCLC, 1995b, 1998b; Winn, 1999e).

<sup>36</sup> See, for example, H.R. 3136, 103rd Congress, 1st Session, § 1007(a) (1993), H.R. 3003, 104th Congress, 2nd Session, § 1007(a) (1996), and H.R. 3060, 105th Congress, 1st Session, § 1007(a) (1997).

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ownership but lose the merchandise through a quick repossession because they are late making a payment in the final months of the agreement (Hudson, 1993; Preate, 1993; Woolley, 1993). Unlike a retail credit purchase, rent-to-own customers do not accrue any equity or ownership rights in the merchandise until all payments are successfully completed, and may not be afforded the protections that Article 9 of the Uniform Commercial Code (UCC) provides for secured transactions (Nehf, 1991; NCLC, 1995b, 1998b). The customer may risk forfeiting all of the accrued payments they have made on the merchandise if they miss a single payment over the course of the agreement. The industry argues that these experiences are not typical of its customers, and that dealers show substantial flexibility to customers who are late making payments (Rudman, 1994).

Rent-to-own laws in forty-four states address this potential problem by mandating minimum reinstatement rights for rent-to-own customers who miss payments (Winn, 1999d). These provisions require that the customer be reinstated in the rent-to-own agreement, with full credit for past payments, if the customer meets certain deadlines for paying the overdue payments.<sup>37</sup> Some rent-to-own dealers provide reinstatement rights that exceed the statutory minimum.<sup>38</sup> Some of the proposed federal legislation (in particular, the legislation treating rent-to-own transactions as leases) includes provisions providing for minimum reinstatement rights.<sup>39</sup>

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<sup>37</sup> The exact requirements differ across states. Many states require reinstatement if within two to five days of the payment due date (depending on whether the customer is making weekly or monthly payments) the customer either pays all overdue rental payments and any late fees or returns the merchandise to the dealer. If the merchandise is returned to the dealer within the prescribed deadline, the customer then has twenty-one to forty-five days (depending on how many payments the customer had already made) to pay all past due payments and late fees. Other states have variations on these requirements. See Winn (1999d).

<sup>38</sup> Rent-Way, the second largest rent-to-own chain, recently announced a policy of "lifetime reinstatement." A company press release states that customers can return merchandise at any time for any reason, and then begin renting again at some later date "without losing their investment" (Rent-Way, 1999a). See also *Progressive Rentals* (1999).

<sup>39</sup> A current bill requires reinstatement if within three to seven days of the payment due date (depending on whether the customer is making weekly or monthly payments) the customer either pays all overdue rental payments and any late fees or returns the merchandise to the dealer. If the merchandise is returned to the dealer within the prescribed deadline, the customer then has either thirty or ninety days (depending on how many payments the customer had already made) to pay all past due payments and late fees. See H.R. 1634, 106th Congress, 1st Session, § 1006(3) (1999).

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*Other consumer protection concerns.* Consumer advocates and other observers also have raised concerns about the amount of additional fees and charges added on top of the basic weekly or monthly rental rate (Ramp, 1990, 1993; Nehf, 1991; Woolley, 1993; Martin and Huckins, 1997; NCLC 1998a), whether these additional fees and other terms and conditions of the agreement are adequately disclosed to customers (Nehf, 1991; Woolley, 1993; ABC News 20-20, 1997), and whether used merchandise is substituted for what was claimed or implied to be new. (Consumer Reports, 1998).

### *1.3 The FTC Staff Survey*

While there has been considerable debate concerning the rent-to-own industry over the past decade or more, with allegations of serious consumer protection problems and proposals for various forms of national regulation, there has been little independent, systematic examination of the typical experience of rent-to-own customers. Much of the reported consumer experience has been anecdotal, focusing on individual customers who have experienced severe problems, leaving uncertain whether this experience is representative of typical rent-to-own customers (Freedman, 1993; ABC News 20-20, 1997). Most of the studies based on more than anecdotal accounts have relied on small samples of rent-to-own customers, and have focused exclusively on low-income customers rather than all rent-to-own customers (Swagler and Wheeler, 1989; Caskey, 1997; Hill, Ramp, and Silver, 1998; Zikmund-Fisher and Parker, 1999). Most studies also have been limited to customers in only select geographic locations (Breslau, 1987; Swagler and Wheeler, 1989; Caskey, 1997; Hill, Ramp, and Silver, 1998; Zikmund-Fisher and Parker, 1999). Some studies have used samples drawn from possibly nonrepresentative populations (Swagler and Wheeler, 1989), and other studies have been limited to the customers of only one rent-to-own company (Breslau, 1987; Cheskin and Masten, 1991; Rudman, 1994). The studies with larger random samples of rent-to-own customers have been commissioned by the industry (Rudman, 1994; Beemer, 1994, 1999), leaving consumer advocates uncertain of the validity of the results. All of these studies provide insight into rent-to-own transactions, but because of one or more of the above limitations, none are able to provide an independent, representative picture of typical rent-to-own customers and their experience.

FTC staff conducted a nationwide survey of rent-to-own customers to obtain an independent representative picture of typical rent-to-own customers and their experience with rent-to-own stores. Between December 1998 and February 1999, over 12,000 randomly selected U.S. households were surveyed, identifying over 500 rent-to-own customers who were interviewed about their rent-to-own experience.

The survey had three primary goals: (1) to examine who uses rent-to-own transactions and how they differ from consumers who do not; (2) to determine whether rent-to-own transactions typically result in the purchase of the rented merchandise; and (3) to determine whether abusive collection practices are widespread in the industry. In addition to these primary

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goals, the survey also examined customer ownership of vehicles, credit cards, and bank accounts, the types of merchandise rented, customer purchase intentions, the duration of rentals, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.<sup>40</sup>

The major findings of the FTC staff survey include: (1) compared to households who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, have lower incomes, have children in the household, rent their residence, live in the South, and live in non-suburban areas; (2) most rent-to-own customers entered the rent-to-own transaction intending to purchase the merchandise, and most rent-to-own merchandise was purchased by the customer; (3) most rent-to-own customers were satisfied with their experience with rent-to-own transactions, and most customers who had been late making a payment reported being treated well by the rent-to-own store when they were late, though a minority reported being treated poorly, including 11 percent who indicated possibly abusive collection practices. These and other findings of the FTC staff survey are presented in detail in this report.

### *1.4 Outline of the Report*

The following chapters of this report describe the survey methodology, the survey results, and the implications for public policy.

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<sup>40</sup> The survey did not attempt to examine the extent to which the terms and conditions of the rent-to-own transaction were disclosed to customers, nor the extent of any problems related to the substitution of used merchandise for new. One reason simply was to keep the questionnaire at a reasonable length, and focused on the issues of the purchase rate, customer satisfaction, and the extent of abusive collection practices. A second reason was a concern about the ability of a customer survey to accurately assess disclosures made at the time of the agreement. Accurately assessing disclosures would have been difficult, because for many customers in the FTC survey sample, substantial time (up to five years) had elapsed since the customer began the transaction. While these customers would likely have little problem remembering whether they purchased or returned the merchandise, and whether they had received abusive treatment from store personnel (issues that were the main focus of the FTC staff survey), details of the information disclosed at the time the transaction began may be more difficult to remember. A more accurate method of assessing point-of-transaction disclosures might be in-store inspections, perhaps by "mystery shoppers," or a survey of customers who had just recently initiated a rent-to-own transaction. Accurately assessing the extent to which used merchandise is substituted for new also may be difficult with a customer survey. Many customers may not know whether the merchandise they received was actually new or used. If a previously-rented television were cleaned and re-boxed, for example, the customer may never suspect that it was used.

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Chapter 2, *Methodology*, describes the survey sample, weighting procedures, questionnaire, survey administration, and data analysis.

Chapter 3, *Rent-to-Own Customers*, presents the survey results on the use of rent-to-own transactions by U.S. households in the last year and last five years; the variations in the use of rent-to-own transactions across different demographic groups; the demographic profile of rent-to-own customers compared to households that had not used rent-to-own transactions; and the ownership of vehicles, credit cards, and bank accounts by rent-to-own customers.

Chapter 4, *Rent-to-Own Merchandise and Rental Dates*, presents the survey results on the amount and types of merchandise rented by rent-to-own customers, the dates of the rent-to-own transactions, and the number of occasions on which customers rented merchandise over the last five years.

Chapter 5, *Rent-to-Own Purchases and Returns*, presents the survey results on customer purchase intentions, the actual purchase rate, the duration of rentals for both purchases and returns, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.

Chapter 6, *Customer Satisfaction and Late Payment Experience*, presents the survey results on customer satisfaction, late payments, how customers were treated by dealers if they were late making a payment, and the extent of abusive payment collection practices.

Chapter 7, *Public Policy*, discusses the implications of the survey results for some of the public policy options that have been proposed for rent-to-own transactions, focusing on disclosure of the total cost and other terms of purchase, disclosure of an APR figure, application of price restrictions, regulation of payment collection practices, and regulation of reinstatement rights.

Chapter 8, *Conclusion*, presents concluding remarks.

## METHODOLOGY

The primary goals of the FTC staff survey were to examine who uses rent-to-own transactions and how they differ from consumers who do not, to determine whether rent-to-own transactions typically result in the purchase of the rented merchandise, and to determine whether abusive collection practices are widespread in the industry. The survey used a nationwide, random sample of rent-to-own customers to examine these issues.

### *2.1 Sample*

The FTC staff survey was based on a nationwide, random sample of 532 rent-to-own customers. The sample of rent-to-own customers was obtained through a telephone survey that asked a nationwide, random sample of 12,136 adults whether they had rented anything from a rent-to-own store in the last five years.

The sampling and survey administration were conducted within an omnibus survey regularly administered by International Communications Research (ICR), a survey research firm in Media, Pennsylvania.<sup>41</sup> The ICR omnibus survey, called "EXCEL," is a twice-weekly, telephone omnibus survey covering all telephone households in the 48 contiguous states. Each of the twice-weekly samples consist of approximately 1,000 adults, 18 years of age or older, stratified one-half male and one-half female. Households are selected for the sample through a random-digit-dialing procedure. Within each sample household, a single respondent is randomly selected using the "last birthday method."

A nationwide, random sample of rent-to-own customers obtained through a random-digit dialing procedure provided many advantages. The universe from which the sample was drawn included rent-to-own customers from all types of rent-to-own stores (both large chains and mom-

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<sup>41</sup> Omnibus surveys administer questions on a variety of topics from a number of different clients in the same questionnaire. ICR's omnibus questionnaire is typically twenty minutes long. An omnibus survey was particularly useful because of the relatively low incidence of rent-to-own customers in the general U.S. population. This survey technique provided a fast and economical method of screening a very large sample of U.S. households to identify a sample of rent-to-own customers.

### *Methodology*

and-pops), in all geographic areas of the 48 contiguous states, and from all income, ethnic, and other demographic sub-populations.<sup>42</sup>

The random-digit-dialing procedure also offered the advantage of reaching rent-to-own customers even if they had moved or changed their telephone number since renting at a rent-to-own store, and even if they had an unlisted number.<sup>43</sup> These customers may have characteristics and experiences different from customers who have not moved or changed their telephone numbers.

The primary disadvantage of the sample is that, like all telephone surveys, the sample does not include households that do not have a telephone.<sup>44</sup> This may introduce some potential bias in the sample, which will be more significant if non-telephone households represent a significant proportion of the total population being studied and if they differ significantly from telephone households in the behavior being studied.<sup>45</sup>

Even with this potential disadvantage, the FTC staff survey sample provides a comprehensive and wide-ranging sample of rent-to-own customers that is more representative of the overall population of rent-to-own customers than the samples used in most previous surveys.

The response rate for the ICR omnibus survey was 30 percent during the period in which the FTC staff rent-to-own survey questionnaire was administered. This response rate is typical for omnibus surveys. Sample weighting procedures, described in the next section, below, were used to correct for any under-representation of demographic groups arising from differential response rates by different groups. Of the respondents participating in the ICR omnibus survey, over 99 percent answered the FTC staff survey questions related to their rent-to-own experience.

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<sup>42</sup> Most earlier studies of the rent-to-own industry used narrower samples based on customers in specific locations, from specific companies, or in specific income groups. This limited the extent to which the results could be generalized to all rent-to-own customers.

<sup>43</sup> A sample based on company customer lists may have difficulty locating these customers.

<sup>44</sup> Approximately six percent of U.S. households do not have a telephone, and these households are more likely to be low income, minority, and in the South (FCC, 1999).

<sup>45</sup> The only way to avoid telephone bias in a survey would be to conduct in-person or mail interviews, but that can be prohibitively expensive, particularly when trying to reach a low-incidence population such as rent-to-own customers. These alternative methods also have their own disadvantages, such as a significantly higher non-response rate for mail surveys.



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### *2.2 Sample Weighting*

The survey sample was weighted using ICR's standard sample weighting procedures. The weighting corrects for variations in the household probability of selection caused by the presence of multiple telephone lines in some households, and for variations in the respondent probability of selection caused by differences in household size and gender composition. The weighting process also uses an iterative post-stratification and balancing procedure to match the sample distribution of various demographic and geographic characteristics (including age, sex, race, education, census region, and metropolitan status) to the distribution of all U.S. telephone households. This corrects for any under-representation of population subgroups in the sample, and allows the results to be projected to all U.S. telephone households.

The tables and text in this report present the weighted survey results.<sup>46</sup> The sample sizes reported in the tables are unweighted sample sizes.

### *2.3 Questionnaire*

The survey questionnaire was developed by FTC staff and a marketing research professor on the faculty of American University who serves as a consultant to the FTC. ICR reviewed the questionnaire and suggested changes. The questionnaire is presented in Appendix A of this report.<sup>47</sup>

The questionnaire was pretested twice, once by FTC staff and once by ICR. Both pretests indicated that respondents could easily understand and answer the questions.

The questionnaire began with a screening question that described rent-to-own stores and asked whether the respondent had rented anything from a rent-to-own store in the last five years:

Now I want to ask you whether you have rented anything from a rent-to-own store in the last five years. Rent-to-own stores rent household and personal items such as televisions, furniture, appliances, and jewelry. If you keep renting the item

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<sup>46</sup> The sample weighting did not significantly affect the major survey results, including those related to the purchase rate, customer satisfaction, and the treatment of customers who were late making a payment. Some of the results related to the demographic profile of rent-to-own customers were affected by the weighting, reflecting the fact that some demographic groups would be under-represented in an unweighted telephone survey sample.

<sup>47</sup> As noted above in the description of the sample, the questionnaire was included within a larger omnibus survey that included questions on other topics from other clients of the survey research firm.

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long enough, the item becomes yours to keep. Rent-to-own stores are sometimes called rental-purchase stores.

Have you rented anything from a rent-to-own store in the last five years, that is, since approximately (December 1993/January 1994/February 1994)? (Question RO-1.)

If the respondent answered "yes," the full rent-to-own survey questionnaire was administered. If the respondent answered "no," the rent-to-own survey was terminated, but demographic information was collected as part of the standard ICR omnibus questionnaire.

The full rent-to-own survey questionnaire can be divided into four major sections. The first section asked rent-to-own customers to list all of the items they had rented from rent-to-own stores in the last five years, whether they began renting all of the items on the same day, when they began renting each item, and whether each item was purchased, returned, or still being rented. The second section focused in more detail on one randomly selected item from each customer, asking whether the customer had originally intended to purchase the item, how long the item was rented prior to being purchased or returned, and, if the item was returned, why it was returned. The third section focused on the customer's overall experience with rent-to-own transactions, asking if they were satisfied or dissatisfied with their experience, if they were ever late making a payment, how they were treated when late making a payment, and whether they had anything else they wanted to tell us about their experience (either compliments or complaints). The final section was a series of classification questions asking whether the rent-to-own customer or anyone in the customer's household had a car or truck, a credit card, a savings account, or a checking account. Detailed demographic and geographic information was obtained for each respondent through the standard questions included by ICR in the omnibus questionnaire.

The questionnaire allowed respondents to list up to twenty items rented from rent-to-own stores in the last five years, though none of the respondents reached this limit. Interviewers were instructed to probe for additional items until unproductive.

Respondents were asked to indicate if they had rented the same item more than once (for example, two televisions), and interviewers were instructed to list each of these rentals separately. Interviewers were also instructed to split sets, such as "living room set," into individual items, such as "sofa, table, and chair." Interviewers were also instructed not to record items that appeared on an exclusion list. The list consisted of categories of merchandise commonly rented from rent-to-rent stores, rather than rent-to-own stores, or commonly leased through long-term leases. The list specified that cars, trucks, tools, construction equipment, musical instruments, medical equipment, and real estate be excluded.

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The survey included all items that the respondent began renting within the last five years. The long time horizon was necessary to obtain a valid estimate of the proportion of items purchased by renters. Most rent-to-own agreements require 18 to 24 months of rental payments to obtain ownership of the merchandise. This means that the best estimate of the purchase rate would focus on items first rented at least two years ago. This would allow sufficient time for the final resolution of the rental agreement to be determined, both for items returned and for items purchased.<sup>48</sup> More recent agreements would include a large proportion of items still being rented, with the final disposition not yet known.<sup>49</sup>

After obtaining the list of items rented in the last five years, the questionnaire repeated the list, one item at a time, asking when the respondent began renting each item. Four closed-ended response categories were provided: "less than six months ago," "between six months and one year ago," "between one and two years ago," and "more than two years ago."

The questionnaire then repeated the list of items once more, asking whether each item was still being rented, was purchased from the rent-to-own store, or was returned to the rent-to-own store. The question provided an explanation of "purchased" and "returned" for respondents:

Now I want to ask you what happened to each of the items you rented. I'll read through the list of items again, and for each item, please tell me whether you are still renting the item, whether you purchased it from the rent-to-own store, or whether it was returned to the rent-to-own store. Count the item as purchased if you either rented it long enough that it became yours, or if you purchased it from the rent-to-own store by paying it off early. Count the item as returned to the rent-to-own store if it was taken back to the store either by you or by the store.

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<sup>48</sup> Focusing on items rented at least two years ago allows for the inclusion of both items rented under 24 month agreements and items rented under 18 month agreements which took longer than 18 months to pay off (perhaps because of missed payments at some time during the agreement).

<sup>49</sup> One cannot solve the problem of more recent agreements by simply ignoring the items still being rented and basing the purchase rate calculation only on items that already had been purchased or returned. This would yield a biased estimate that understated the purchase rate. The estimate would be biased because purchased items are typically rented for a longer time than returned items, implying that purchases would have a greater probability of being excluded from the analysis because they were still being rented, while most returned items would be included.

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What happened to the (READ EACH Q.2 ITEM ONE AT A TIME)? Are you still renting it, did you purchase it from the rent-to-own store, or was it returned to the rent-to-own store? (Question RO-5.)

If a response was volunteered outside of the three closed-ended categories, the response was recorded by the interviewer.

The second section of the questionnaire focused on one randomly-selected item from each respondent. Respondents were asked whether they had originally intended to purchase the item, how long the item was rented prior to being purchased or returned, and, if the item was returned, why it was returned.<sup>50</sup> Using a single randomly-selected item for these questions allowed additional issues to be addressed while keeping the questionnaire at a reasonable length.

The third section of the questionnaire focused on the customer's overall experience with rent-to-own transactions. Respondents were asked if they were satisfied or dissatisfied with their experience, if they were ever late making a payment, how they were treated when late making a payment, and whether they had anything else they wanted to tell us about their experience, either compliments or complaints. The satisfaction and late payment treatment questions asked respondents to rate their experience on five-point closed-ended scales.<sup>51</sup> The closed-ended questions were followed by open-ended questions asking respondents to explain the reason for their answers. Probes were used to elicit more explanation and clarification until unproductive.

Respondents were given a final opportunity to convey any additional information or opinions about their experience in a question that asked:

Is there anything else you would like to tell me about your experience with rent-to-own, either compliments or complaints? (Question RO-16.)

Interviewers again probed for additional comments and explanation.

The final section of the questionnaire asked respondents whether they or anyone in their household had a car or truck, a credit card, a savings account, or a checking account. These

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<sup>50</sup> Separate questions were also included for respondents who volunteered that something else happened to the item other than "purchased," "returned," or "still being rented." These questions asked how long the item was rented prior to its disposition, and asked for further explanation of the volunteered response.

<sup>51</sup> The five-point scale ranged from "very satisfied" to "very dissatisfied" for the satisfaction question, and from "very good" to "very poor" for the late payment treatment question.

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questions were supplemented with detailed information obtained from the standard demographic questions included in the ICR omnibus questionnaire, including respondent age, sex, education, race, marital status, and employment status, and household income, size, composition, number of telephones, and home ownership. ICR also compiled detailed geographic data for each respondent. The ICR demographic questionnaire is presented in Appendix B of this report.

### *2.4 Survey Administration and Data Coding*

The survey interviews were conducted by ICR from December 1998 through the first week of February 1999, with a two-week suspension from late December to early January to avoid interviewing during the holiday season. Interviews were conducted with a computer assisted telephone interviewing (CATI) system, allowing for computer control of the questionnaire administration, skip patterns, response checks, and random selection of items. Open-ended question responses were coded by ICR with guidance from FTC staff. The data set was compiled by ICR and analyzed by FTC staff.

### *2.5 Data Analysis*

The survey data were analyzed by FTC staff using the Stata statistical software program (StataCorp, 1999). The Stata survey (svy) commands were used to incorporate the sample weights in the estimation of all sample percentages, and also to take into account both the sample weights and stratified sample design in the calculation of the standard errors of the estimates. In conducting tests of independence of classification, the standard Pearson chi-square statistic was corrected for the stratified sample design using a Rao and Scott second-order correction and converted to an F-statistic (Rao and Scott, 1981, 1984; Sribney, 1998; StataCorp, 1999).



## RENT-TO-OWN CUSTOMERS

This chapter presents the survey results on the use of rent-to-own transactions by U.S. households in the last year and last five years; the variations in the use of rent-to-own transactions across different demographic groups; the demographic profile of rent-to-own customers compared to households that had not used rent-to-own transactions; and the ownership of vehicles, credit cards, and bank accounts by rent-to-own customers.

### 3.1 Use of Rent-to-Own Transactions

The FTC staff survey interviewed a nationwide sample of 12,136 households, asking whether they had rented merchandise from a rent-to-own store in the last five years. As shown in Table 3.1,<sup>52</sup> the survey found that 2.3 percent of the households had rented merchandise from a rent-to-own store in the last year, and that 4.9 percent had done so in the last five years.<sup>53</sup>

These results imply that approximately 2.3 million U.S. households used rent-to-own transactions in the last year, and approximately 4.9 million had done so in the last five years.<sup>54</sup>

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<sup>52</sup> Tables are presented at the end of each chapter.

<sup>53</sup> The 95 percent binomial confidence intervals for these estimates are 2.0 to 2.6 percent for the percentage of households renting merchandise from a rent-to-own store in the last year, and 4.4 to 5.4 percent for the percentage of households renting merchandise in the last five years. The confidence interval incorporates the possible sampling error into the estimated percentage, adding and subtracting the "margin of error" to obtain a range around the estimate. The 95 percent confidence interval of 2.0 to 2.6 percent for use of rent-to-own transactions in the last year, for example, indicates that there is a 95 percent probability that the actual percentage of households renting merchandise from a rent-to-own store in the last year was somewhere between 2.0 to 2.6 percent. But note that while confidence intervals account for possible sampling error, they do not account for other possible sources of error in the survey estimates.

<sup>54</sup> The U.S. Census Bureau's *March 1998 Current Population Survey* estimated a total of 102.5 million U.S. households in 1998 (U.S. Census Bureau, 1998). The estimate of 2.3 million households using rent-to-own transactions in the last year is similar to (though slightly lower than) an industry estimate of 2.87 million customers in 1998 (APRO, 1998).

### 3.2 Use of Rent-to-Own Transactions by Different Demographic Groups

The FTC staff survey found substantial differences in the use of rent-to-own transactions across different demographic groups. These results are presented in Table 3.2, for use of rent-to-own transactions in both the last year and last five years.<sup>55</sup>

The incidence of rent-to own use was significantly higher for respondents who were African American, young, less educated, lower income, had children in the household, rented their residence, and lived in the South. Older, higher educated, and higher income respondents had the lowest use of rent-to-own transactions.

*Sex.* The only demographic characteristic without statistically significant differences in the incidence of rent-to-own use was sex. The percentage of male and female respondents using rent-to-own transactions in the last year was virtually identical, and the small difference between the two groups in the five-year data was statistically significant at only the 12 percent level.

*Race / Ethnicity.* The incidence of rent-to-own use was significantly higher for African Americans than for all other racial and ethnic groups, both in the last year and last five years.<sup>56</sup>

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<sup>55</sup> The last-year results are not only more recent but also may provide a more accurate measure of the use of rent-to-own transactions in demographic groups where a customer's characteristics may have changed over time. Customers who had used rent-to-own transactions several years ago subsequently may have had changes in income, education, employment, marital status, number of children, home ownership, or geographic location. The demographic characteristics of these customers at the time of the survey may not reflect their demographic characteristics at the time they used rent-to-own transactions. For this reason, the text in this chapter focuses on the last-year results, but the five-year results are generally similar.

<sup>56</sup> Results noted in this report as "significantly different," "significantly higher," or "significantly lower," all refer to differences that are statistically significant at the five percent level in a t-test of the difference in the proportions of the two groups (though many of the differences are also significant at the one percent level or less). Differences noted as "not significant" are not statistically significant at the five percent level, but differences that are relatively close to significant (at approximately the ten percent level) may be noted in the text. In addition to the t-tests of the differences in the proportions of different groups, a test of independence of classification was done for each demographic variable using a Pearson chi-square statistic corrected for the survey design using a Rao and Scott second-order correction and converted to an F-statistic (Rao and Scott, 1981, 1984). The results of these tests showed that the differences across categories were significant at the one percent level for all demographic variables except sex (which was not significant in the last-year data and was significant in the

(continued...)



### *Rent-to-Own Customers*

The percentage of African Americans using rent-to-own transactions was three to four times the percentage of other racial and ethnic groups over the last year, and was two to three times other groups over the last five years. Over the last year, 6.4 percent of African Americans used rent-to-own transactions, compared to only 1.8 percent of whites, 2.1 percent of Hispanic Americans, 1.7 percent of Native Americans, and 0.6 percent of Asian Americans. A similar pattern was found in the five-year data, with 10.8 percent of African Americans using rent-to-own transactions, compared to only 4.0 percent of whites, 5.2 percent of Hispanic Americans, 5.5 percent of Native Americans, and 3.8 percent of Asian Americans.<sup>57</sup> Asian Americans appeared to have a lower incidence of rent-to-own use than other groups in the last year (only 0.6 percent), but the percentage was significantly different from the percentages for whites and Hispanic Americans at only the eight percent level, and was not significantly different from either group in the five-year data.

*Age.* Respondents in younger age groups generally had a significantly higher incidence of rent-to-own use than respondents in older age groups, and the use of rent-to-own transactions was particularly rare for respondents age 55 or older. The percentage of respondents 18 to 24 years old who had used rent-to-own transactions in the last year was twenty times the percentage of respondents 65 or older. The incidence of rent-to-own use in the last year decreased steadily between the youngest and oldest age groups, from 4.1 percent for respondents 18 to 24 years old, to only 0.7 percent for respondents 55 to 64 years old, and only 0.2 percent for respondents 65 or older. A similar pattern was found in the five-year data (with the exception that the incidence of rent-to-own use by respondents 18 to 24 years old was significantly lower than for respondents 25 to 34 years old).

*Education.* Respondents with lower levels of education had a significantly higher incidence of rent-to-own use than respondents with higher levels of education, and the use of rent-to-own transactions was particularly rare for respondents who were college graduates or higher. The percentage of respondents with less than a high school education who had used rent-to-own transactions in the last year was five times the percentage of college graduates. The incidence of rent-to-own use in the last year was 4.6 percent for respondents who did not graduate high school, but only 2.6 percent for high school graduates, 1.7 percent for respondents with some college, 0.9 percent for college graduates, and 0.3 percent for respondents with a graduate school or higher level of education. A similar pattern was found in the five-year data.

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<sup>56</sup> (...continued)  
five-year data at only the 12 percent level).

<sup>57</sup> Lower-income African Americans had an even higher incidence of rent-to-own use. Of the 184 African Americans in the sample with incomes between \$15,000 and \$24,999, 21 percent had used rent-to-own transactions in the last five years, and 14 percent had done so in the last year.

### *Rent-to-Own Customers*

*Income.* Lower income groups generally had a significantly higher incidence of rent-to-own use than higher income groups, and the use of rent-to-own transactions was particularly rare for respondents with incomes of \$50,000 or more.<sup>58</sup> The percentage of respondents in lower income groups who had used rent-to-own transactions in the last year was eight to ten times the percentage in the highest income group. The incidence of rent-to-own use in the last year was 4.9 percent for households with incomes between \$15,000 and \$24,999, 1.9 percent for households with incomes between \$40,000 and \$49,999, and 0.5 percent for households with incomes of \$50,000 or more.

*Employment.* There were fewer differences in the use of rent-to-own transactions across respondents in different employment categories. The incidence of rent-to-own use in the last year did not differ significantly across respondents who were employed full-time, employed part-time, homemakers, or students, ranging between 2.4 and 2.9 percent for each of these categories. The same pattern held in the five-year data (with the exception that respondents who were employed part-time had a significantly lower incidence of rent-to-own use than homemakers).

Retired respondents had a much lower incidence of rent-to-own use than other employment categories, reflecting a similar result found for older age groups. Only 0.3 percent of retired persons had used rent-to-own transactions in the last year, and only 1.1 percent had done so in the last five years. The differences between retired respondents and other employment groups were statistically significant (with the exception that the difference with students in the last-year data was significant at only the 11 percent level).

Two employment categories – respondents who were temporarily unemployed and those who were disabled or handicapped – had a higher incidence of rent-to-own use, 5.6 and 4.8 percent in the last year, respectively, though each group represented only a relatively small proportion of all respondents. The differences between the temporarily unemployed and most other groups were statistically significant in both the last-year and five-year data.<sup>59</sup> The differences between the disabled or handicapped and all other groups were statistically

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<sup>58</sup> The one exception to this pattern was that, in both the last-year and five-year data, the lowest income group (households with incomes less than \$15,000) had a lower incidence of rent-to-own use than did the next higher income group (households with incomes between \$15,000 and \$24,999), but the differences were not statistically significant.

<sup>59</sup> The only exceptions were that the incidence of rent-to-own use for the temporarily unemployed was not significantly different from the incidence for students in the last-year data, was significantly different from the incidence for students at only the 11 percent level in the five-year data, and was significantly different from the incidence for homemakers at only the six percent level in the five-year data.

*Rent-to-Own Customers*

significant in the five-year data, but most of the differences were not significant in the last-year data.<sup>60</sup>

*Marital status.* There were also fewer differences in the use of rent-to-own transactions across respondents in different marital status categories. Single, married, and divorced respondents had a relatively similar incidence of rent-to-own use, ranging between 2.0 and 2.7 percent in the last year, and between 4.3 and 6.1 percent in the last five years.<sup>61</sup>

Two marital status categories – single persons living with a partner and those who were separated from their spouses – appeared to have a higher incidence of rent-to-own use, 4.8 and 6.4 percent in the last year (and 8.6 and 12.4 percent in the last five years), respectively, though each group represented only a relatively small proportion of all respondents.<sup>62</sup>

Widowed respondents had a significantly lower incidence of rent-to-own use (0.9 percent in the last year and 1.5 percent in the last five years) than other marital status categories (except the difference with divorced respondents in the last-year data was statistically significant at the ten percent level only), reflecting similar results found for older and retired groups.

*Children.* The use of rent-to-own transactions was significantly higher for households with children as compared to households without children, and significantly higher for households with three or four children as compared to those with one or two.<sup>63</sup> In the last year,

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<sup>60</sup> The exceptions in the last-year data were that the incidence of rent-to-own use for the disabled or handicapped was significantly higher than the incidence for retired persons, and was significantly higher (at the ten percent level) than the incidence for respondents who were employed full or part-time.

<sup>61</sup> The only statistically significant difference among these three categories was that married respondents had a significantly lower incidence of rent-to-own use than the other two categories in the five-year data.

<sup>62</sup> Both groups had a significantly higher incidence of rent-to-own use compared to most other marital status categories. The exceptions were that single persons living with a partner were significantly different than single respondents at only the seven percent level in both the last-year and five-year data, and were significantly different from divorced respondents at only the 13 percent level in the five-year data.

<sup>63</sup> The incidence of rent-to-own use for households with five or more children generally was not significantly different from the incidence of use in other categories. The exceptions were that households with five or more children had a significantly higher incidence of rent-to-own

(continued...)

*Rent-to-Own Customers*

rent-to-own transactions were used by only 1.2 percent of the households without children, but 3.3 percent of the households with one child, 6.4 percent of the households with three children, and 11.0 percent of the households with five or more children (though the results for households with three, four, or five or more children were not significantly different from each other). This same pattern was present in the five-year data.

*Home ownership.* The use of rent-to-own transactions was significantly higher for households renting rather than owning their residence. Four and a half percent of the households who were renting their residence rented merchandise from a rent-to-own store in the last year, compared to only 1.2 percent of households who owned their residence. A similar result was found in the five-year data.

*Region.* The use of rent-to-own transactions was significantly higher in the South than in the other three regions of the country, and was significantly higher in the Midwest than in the Northeast and West.<sup>64</sup> Almost three and a half percent of households in the South had used rent-to-own transactions in the last year, compared to 2.3 percent in the Midwest, 1.4 percent in the Northeast, and 1.1 percent in the West. The same pattern was found in the five-year data.

*Metropolitan status.* Households in the central cities of metropolitan areas and in non-metropolitan areas had a significantly higher incidence of rent-to-own use (2.8 percent in the last year for both) than did households in suburban areas (1.6 percent). The same pattern was found in the five-year data.<sup>65</sup>

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<sup>63</sup> (...continued)

use than did households without children in both the last-year and five-year data, and had a significantly higher incidence of use (at the ten percent level) than did households with one or two children in the last-year data. The general lack of significance may be due to the relatively small sample size for this group, which consisted of only 79 respondents.

<sup>64</sup> The four regions correspond to the four census regions defined by the U.S. Census Bureau.

<sup>65</sup> The metropolitan status categories correspond to the metropolitan areas defined by the Office of Management and Budget (OMB) using data from the U.S. Census Bureau. OMB designates metropolitan areas and designates the largest city in each metropolitan area as a "central city." Additional cities in the metropolitan area also may be designated as central cities if they meet certain requirements concerning population size and commuting patterns. (The Cleveland-Akron metropolitan area, for example, contains the central cities Cleveland, Akron, Lorain, Elyria, and Kent.) The "central city" category used in this report corresponds to these OMB definitions. The "suburban" category includes all areas inside a designated metropolitan  
(continued...)