6

CUSTOMER SATISFACTION AND LATE PAYMENT EXPERIENCE

This chapter presents the survey results on customer satisfaction, late payments, how customers were treated by rent-to-own dealers if they were late making a payment, the extent of abusive collection practices, and the responses to a final question that asked customers whether they had anything else to tell us about their rent-to-own experience, either compliments or complaints.

6.1 Customer Satisfaction

The FTC staff survey found that most rent-to-own customers were satisfied with their experience with rent-to-own stores. The survey asked customers to rate how satisfied or dissatisfied they were on a five-point scale ranging from "very satisfied" to "very dissatisfied." The results are presented in Table 6.1. Seventy-five percent of customers were satisfied with their experience, with 44 percent "very satisfied" and 31 percent "somewhat satisfied." Nineteen percent of customers were dissatisfied, with 11 percent "very dissatisfied" and eight percent "somewhat dissatisfied."[106] Six percent of customers were "neither satisfied nor dissatisfied."

Customers were asked to explain the reason for their satisfaction or dissatisfaction. The results are presented in Table 6.2, both for all customers combined and separately for customers giving each satisfaction rating. Overall, 59 percent of customers provided a positive reason for their rating, and 42 percent provided a negative reason.[107]

Customers giving positive reasons for their satisfaction gave a wide variety of reasons, including the ability to obtain merchandise they otherwise could not, the low payments, the lack of a credit check, the convenience and flexibility of the transaction, the quality of the merchandise, the quality of the maintenance, delivery, and other services, the friendliness and flexibility of the store employees, and the lack of any problems or hassles.

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106 The 95 percent binomial confidence intervals for these estimates are 70 to 79 percent for the percentage of customers who were satisfied, and 15 to 23 percent for the percentage of customers who were dissatisfied. (See footnote 53 for an explanation of confidence intervals.)

107 Sixty-five percent of the "somewhat satisfied" customers gave a negative response, apparently explaining why they were less than completely satisfied with their experience. Similarly, 52 percent of the customers who were "neither satisfied nor dissatisfied" gave a negative response. As a result, the percentage of customers giving a negative response (42 percent) is larger than the percentage of customers who said they were dissatisfied (19 percent).

Customers giving negative reasons were much more uniform in their responses. High prices were by far the most common reason for dissatisfaction. Nearly 70 percent of dissatisfied customers complained about high prices, as did nearly 40 percent of the "somewhat satisfied" and "neither satisfied nor dissatisfied" customers. Complaints about high prices were made by 27 percent of all the rent-to-own customers in the sample.[108]

Other reasons given for dissatisfaction involved poor treatment by store employees, often in connection with late rental payments (eight percent of all customers), problems with the merchandise or repair service (seven percent), hidden or added costs (one percent), and other miscellaneous complaints (six percent).[109]

6.2 Late Payment Experience

The FTC staff survey asked customers if they had ever been late making a payment to a rent-to-own store. As shown in Table 6.3, 46 percent of customers reported being late.

Customers who had been late making a payment were asked to rate the treatment they received on a five-point scale ranging from "very good" to "very poor." The results are presented in Table 6.4. Sixty-four percent of the customers who had been late rated the treatment they received as either "very good" (38 percent) or "good" (26 percent). Another 20 percent rated the treatment as "fair." Fifteen percent of late customers rated the treatment they received as either "very poor" (8 percent) or "poor" (7 percent).[110]

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[108] The survey did not attempt to determine whether these customers were aware of the total rent-to-own price when they began renting the merchandise. See footnote 40, above.

[109] One additional response of note is that six percent of "very satisfied" customers (representing three percent of all customers) said that rent-to-own transactions were "cheap" or "inexpensive" or that rent-to-own prices were "reasonable" or "fair." The interpretation of these responses is somewhat unclear. These customers may have been referring to the typically small size of the weekly or monthly payment amount; or they may have been weighing the overall total cost in comparison to their perception of the value of the merchandise, services, and convenience; or they may have been indicating a confusion about the total cost of purchasing through rent-to-own transactions compared to other alternatives.

[110] The 95 percent binomial confidence intervals for these estimates are 56 to 71 percent for the percentage of customers who rated the treatment as "good" or "very good," 14 to 27 percent for the percentage of customers who rated the treatment as "fair," and 11 to 21 percent for the percentage of customers who rated the treatment as "poor" or "very poor." (See footnote 53 for an explanation of confidence intervals.)

There was a strong correlation between how customers were treated when they were late making a payment and their overall satisfaction with their rent-to-own experience. Table 6.5 presents the customer satisfaction ratings for customers giving each late payment treatment rating. Approximately 70 percent of the customers who said they were treated "poor" or "very poor" were dissatisfied with their rent-to-own experience. Similarly, approximately 90 percent of the customers who said they were treated "good" or "very good" were satisfied.

Customers also were asked to explain the reason for their late payment treatment rating. The results are presented in Table 6.6, both for all late customers combined and separately for customers giving each treatment rating. Overall, 72 percent of customers provided a positive reason for their rating, and 22 percent provided a negative reason.

Almost two-thirds of the late customers who rated their treatment as "good" or "very good" said that the store had been "understanding," "polite," "nice," or "respectful," or that there had been "no problems" or "no hassles." These responses represented 44 percent of all customers who had been late making a payment. A significant percentage of the positive responses (representing 20 percent of all late customers) said that the store had been "flexible" and "worked with them" to rearrange the payment schedule. A number of customers favorably noted that the store had "just called and reminded them" of the payment. Other customers gave reasons why the store had treated them well, noting that "the store knew them," "they had good credit," "the payment was only a day or two late," or "they let the store know they would be late."

Sixty-one percent of the customers who rated their treatment as "poor," and 71 percent of those who rated their treatment as "very poor," described the treatment as "rude," "hostile," "not nice," or "harassing," or gave other responses that fit these descriptions. These responses represented 15 percent of all customers who had been late making a payment. Approximately two and a half percent of all late customers said that the store had not been flexible and would not work with them to rearrange the payments, another two and a half percent said that there had been some type of disagreement with the store, and one and a half percent said that the store had repossessed or threatened to repossess the merchandise.

A more detailed analysis of the negative responses was done to determine the number that explicitly mentioned treatment that might be considered an abusive collection practice.[111] As

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[111] Customer responses in each of the three open-ended questions (satisfaction question, RO-12; late payment treatment question, RO-15; and final comments question, RO-16) were examined for explicit references to treatment that might be considered an abusive collection practice. Some customers explicitly reported abusive practices in response to the earlier satisfaction question, and did not repeat the detail again in response to the late payment treatment

(continued...)

shown in Table 6.7, approximately one and a half percent of late customers reported that store employees broke into or attempted to break into their home,[112] 0.9 percent reported that the store contacted neighbors or relatives about their late payment, 0.6 percent reported that the store harassed them at work, 1.7 percent reported repeated telephone calls, 2.2 percent reported threats (though did not explain the nature of the threats), and 6.0 percent used words like "harassed," "hassled," "hounded," or "nasty" to describe the treatment they received when late.[113] Together, at least one of these responses was given by 10.7 percent of all customers who were late making a payment.[114] If the somewhat more ambiguous "harassed, hassled, hounded, nasty" category is excluded, the combined responses represented 7.0 percent of late customers.[115]

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[111] (...continued)
question.

[112] Actual or attempted break-ins were reported by two respondents. One respondent said, "They busted in my home took our furniture," and the other said, "They try to break in your house." The respondent reporting an actual break-in represented 1.3 percent of the weighted sample of customers who had been late making a payment, and the customer reporting an attempted break-in represented 0.2 percent of the weighted sample. As discussed in Chapter 2, above, the sample weighting corrects for any under-representation of population subgroups in the sample, allowing the results to be projected to all U.S. telephone households. In the unweighted data, the two respondents reporting an actual or attempted break-in each represented 0.45 percent of customers who had been late making a payment, and the two combined represented 0.9 percent of late customers.

[113] Responses not counted as explicitly indicating possible collections abuse generally used less inflammatory words such as "rude" or "inconsiderate" to describe the treatment, or complained about what appeared to be a single telephone call, a lack of flexibility, a repossession, or a threat of repossession.

[114] The 95 percent binomial confidence interval for this result is 6.7 to 16.5 percent. (See footnote 53 for an explanation of confidence intervals.)

[115] The estimate of the extent of abusive practices may be subject to two largely offsetting factors. On one hand, the results may understate the extent of abusive practices because of the open-ended nature of the survey question. More directed questions (for example, "did store employees ever enter your home without your permission") may have elicited a higher incidence of abuse. On the other hand, some of the response categories presented in Table 6.7 may overstate the extent of abuse because some of the responses also are consistent with non-abusive practices. The threats, for example, may have been threats of repossession, not bodily harm, and some of the "hassled" responses may have indicated annoying but non-abusive practices.

6.3 Final Customer Comments

After asking customers about their satisfaction and late payment experience, the survey asked if they had anything else they wanted to say about their experience with rent-to-own transactions, either "compliments or complaints." The results are presented in Table 6.8. Seventy-one percent of customers did not have any additional comments. Customers making a comment divided fairly evenly between positive and negative responses. The positive and negative responses were similar to those made earlier in response to the satisfaction question.

6.4 Conclusions

The FTC staff survey found that 75 percent of rent-to-own customers were satisfied with their experience with rent-to-own stores. 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 with rent-to-own stores. Nearly 70 percent of dissatisfied customers, as well as a number of satisfied customers, complained about high prices. Complaints about high prices were made by 27 percent of all rent-to-own customers. Other reasons given for dissatisfaction involved poor treatment by store employees (eight percent of all customers), problems with the merchandise or repair service (seven percent), hidden or added costs (one percent), and other miscellaneous complaints (six percent).

The survey also found that nearly half of all rent-to-own customers had been late making a payment. Sixty-four percent of these customers reported that the treatment they received from the store when they were late was either "very good" or "good," and another 20 percent said that the treatment was "fair." Late customers typically described the treatment they received from the store as understanding, polite, or respectful, said that the store had been flexible in rearranging payments, or that there had been no problems or hassles.

Fifteen percent of late customers reported being treated poorly when they were late, and 11 percent of late customers explicitly described treatment that indicated possibly abusive collection practices. These results indicate that some rent-to-own dealers may use abusive practices in the collection of overdue rental payments, and that a significant minority of customers who are late making payments may be abused, but that abusive collection practices are not widespread in the industry and do not represent the typical experience of rent-to-own customers.

Table 6.1 Customer Satisfaction

Customer Satisfaction Rating (N)	Percent of Customers (532)	Cumulative Percent of Customers (532)
Very satisfied	43.5%	43.5%
Somewhat satisfied	31.2	74.7
Neither satisfied nor dissatisfied	5.7	80.4
Somewhat dissatisfied	8.2	88.6
Very dissatisfied	10.5	99.1
Don't know	0.8	99.9
Refused	0.0	99.9

DATA. Survey question RO-11. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 6.2 Reason for Customer Satisfaction or Dissatisfaction

Reason for Customer Satisfaction Rating (N)	Percent of all customers (527)	Percent of Customers, by Customer Satisfaction Rating: Very Satisfied (225)	Somewhat Satisfied (166)	Neither (32)	Somewhat Dissatisfied (46)	Very Dissatisfied (58)
ANY POSITIVE RESPONSE (NET TOTAL)	58.7%	99.3%	38.7%	41.0%	0.0%	5.4%
Access / Good Price / Flexibility (net total)	23.1	36.4	18.2	21.6	0.0	1.3
Couldn't afford to buy outright / unable to get merchandise otherwise	7.9	10.3	8.8	10.2	0.0	0.0
Reasonable prices / fair prices / cheap / inexpensive / good deal	2.7	5.8	0.5	0.0	0.0	0.0
Don't need to have credit / no credit check/can establish credit	3.3	5.2	2.3	4.7	0.0	0.0
Easy payments / low payments	3.0	5.8	1.5	0.0	0.0	0.0
Convenient / quick / easy	5.5	7.4	6.1	3.8	0.0	1.3
Got a discount / got a deal	0.9	2.0	0.0	0.0	0.0	0.0
Like the flexibility / fills short-term needs / can return items easily	3.0	5.3	1.7	2.9	0.0	0.0
Good Merchandise / Services (net total)	20.6	40.9	8.1	0.0	0.0	1.2
Like the merchandise / nice / good quality merchandise	9.0	18.1	3.5	0.0	0.0	0.0
Good repair / fast repair / good maintenance	7.3	16.1	0.8	0.0	0.0	0.0
Good warranty	1.4	3.2	0.0	0.0	0.0	0.0
Good / quick delivery service	2.7	5.3	1.1	0.0	0.0	0.0
Good service (general)	3.5	5.3	3.5	0.0	0.0	1.2

Table continued on next page.

Table 6.2 (Continued)

Reason for Customer Satisfaction Rating (N)	Percent of all customers (527)	Percent of Customers, by Customer Satisfaction Rating: Very Satisfied (225)	Somewhat Satisfied (166)	Neither (32)	Somewhat Dissatisfied (46)	Very Dissatisfied (58)
Good Employees / Treatment (net total)	14.0%	28.3%	4.0%	0.0%	0.0%	3.0%
Nice / friendly / courteous / helpful people	11.4	23.6	2.4	0.0	0.0	3.0
When late payments: flexible / worked with me / no hassle	3.3	6.4	1.5	0.0	0.0	0.0
General / Other Good (net total)	15.2	23.6	11.9	19.4	0.0	0.0
No complaints / no problems / no hassle	10.8	16.8	7.2	19.4	0.0	0.0
Other positive	4.4	6.7	4.7	0.0	0.0	0.0
ANY NEGATIVE RESPONSE (NET TOTAL)	42.4	2.0	64.6	52.2	100.0	94.0
High Prices / Hidden / Added Costs (net total)	27.1	0.6	37.0	38.4	69.6	68.2
Prices too high / too expensive / cost out of proportion to the value / too much interest	26.7	0.6	37.0	38.4	68.0	65.8
Hidden costs / added costs	1.0	0.0	0.0	0.0	3.7	6.6
Problems with Merchandise / Services (net total)	6.7	0.0	9.6	5.6	13.9	20.8
Problems with the merchandise	5.9	0.0	8.4	5.6	12.5	17.7
Poor repair/maintenance service	1.8	0.0	2.3	0.0	4.4	7.0
Problems with Employees / Treatment (net total)	7.7	0.0	13.2	6.7	15.7	17.9
Unfriendly / rude / nasty / poor attitude	3.0	0.0	3.9	0.0	8.9	9.7

Table continued on next page.

Table 6.2 (Continued)

Reason for Customer Satisfaction Rating (N)	Percent of all customers (527)	Percent of Customers, by Customer Satisfaction Rating: Very Satisfied (225)	Somewhat Satisfied (166)	Neither (32)	Somewhat Dissatisfied (46)	Very Dissatisfied (58)
Harassment over payments	5.0%	0.0%	9.3%	6.7%	6.8%	10.6%
Other negative	5.5	1.4	8.5	7.0	8.7	10.3
<u>ANY MIXED OR NEUTRAL RESPONSE (NET TOTAL)</u>	1.8	0.0	3.7	10.2	0.0	0.0
Not enough experience to say	0.4	0.0	0.0	7.1	0.0	0.0
Other neutral	1.3	0.0	3.7	3.1	0.0	0.0
Don't know	2.1	0.8	2.7	11.4	0.0	1.7
Refused	0.0	0.0	0.0	0.0	0.0	0.0

DATA. Survey questions RO-12 and RO-11. All percentages weighted.

NOTES. Multiple responses possible. Column percentages may sum to more than 100 percent. "Net totals" count only one response per customer in the given category. N's are unweighted sample sizes.

Table 6.3 Late Payments

Ever Late Making a Payment (N)	Percent of Customers (532)
Yes	45.6%
No	52.7
Don't know	1.7
Refused	0.0

DATA. Survey question RO-13. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 6.4 How Customers were Treated When Late Making a Payment

Customer Rating of Late Payment Treatment (N)	Percent of Late Customers (224)	Cumulative Percent of Late Customers (224)
Very good	37.7%	37.7%
Good	26.4	64.1
Fair	19.9	84.0
Poor	7.1	91.1
Very poor	8.0	99.1
Don't know	0.3	99.4
Refused	0.6	100.0

DATA. Survey question RO-14. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 6.5 Comparison of Late Payment Experience and Customer Satisfaction

Satisfaction Rating (N)	Percent of customers who were never late (301)	Percent of Late Customers, by Late Payment Treatment Rating: Very Good (86)	Good (56)	Fair (44)	Poor (16)	Very Poor (19)
Very satisfied	48.5%	54.0%	50.3%	17.9%	0.0%	10.3%
Somewhat satisfied	27.3	36.0	36.1	49.6	21.3	22.5
Neither satisfied nor dissatisfied	6.5	2.7	2.1	9.4	7.1	0.0
Somewhat dissatisfied	8.1	4.6	8.0	7.5	45.2	0.0
Very dissatisfied	9.0	2.7	3.4	12.6	26.3	67.2
Don't know	0.7	0.0	0.0	3.0	0.0	0.0
Refused	0.0	0.0	0.0	0.0	0.0	0.0

DATA. Survey questions RO-11, RO-13 and RO-14. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 6.6 Reason for Late Payment Treatment Rating

Reason for Late Payment Treatment Rating (N)	Percent of all late customers (221)	Percent of Late Customers, by Late Payment Treatment Rating: Very Good (86)	Good (56)	Fair (44)	Poor (16)	Very Poor (19)
<u>Any Positive Response (net total)</u>	71.5%	100.0%	97.5%	37.4%	0.0%	0.0%
They were understanding / polite / nice / respectful / no hassle / no problem	44.2	65.0	64.7	11.0	0.0	0.0
They just called and reminded me (positive)	11.0	9.5	18.1	12.8	0.0	0.0
They were flexible / worked with me	20.2	32.3	21.2	11.4	0.0	0.0
They knew me / I had good credit / I was only a day or two late / I let them know I would be late	8.8	10.6	14.8	3.9	0.0	0.0
Other positive	1.5	2.1	1.0	2.1	0.0	0.0
<u>Any Negative Response (net total)</u>	21.6	0.0	0.0	33.9	94.5	100.0
They were rude / hostile / not nice / harassing	14.7	0.0	0.0	23.0	60.6	71.3
They were not flexible / would not work with me	2.6	0.0	0.0	1.4	10.7	19.7
They repossessed the item / threatened to repossess	1.6	0.0	0.0	0.6	13.2	6.4
Disagreement with the store	2.5	0.0	0.0	8.9	10.0	0.0
Other negative	0.2	0.0	0.0	0.0	0.0	2.6

Table continued on next page.

Table 6.6 (Continued)

Reason for Late Payment Treatment Rating (N)	Percent of all late customers (221)	Percent of Late Customers, by Late Payment Treatment Rating: Very Good (86)	Good (56)	Fair (44)	Poor (16)	Very Poor (19)
Any Mixed or Neutral Response (net total)	4.6%	0.0%	1.7%	20.7%	0.0%	0.0%
Had some good experience and some bad	2.6	0.0	0.0	12.9	0.0	0.0
Other neutral / mixed	2.0	0.0	1.7	7.8	0.0	0.0
Don't know	2.2	0.0	0.8	8.1	5.6	0.0
Refused	0.0	0.0	0.0	0.0	0.0	0.0

DATA. Survey questions RO-15 and RO-14. All percentages weighted.

NOTES. Multiple responses possible. Column percentages may sum to more than 100 percent. "Net totals" count only one response per customer in the given category. N's are unweighted sample sizes.

Table 6.7 Customer Responses Indicating Possibly Abusive Collection Practices

Description of Late Payment Treatment (N)	Percent of Late Customers (221)
Actual or attempted break-in to customer's home	1.6%
Contact with customer's neighbors or relatives	0.9
Harassed customer at work	0.6
Repeated telephone calls	1.7
Unspecific threats	2.2
General "harassed," "hassled," "hounded," "nasty"	6.0
Any of the above responses (net total)	10.7
Any of the above responses, except the "harassed / hassled / hounded / nasty" category (net total)	7.0

DATA. Survey questions RO-12, RO-15, and RO-16. All percentages weighted.

NOTES. Multiple responses possible. "Net totals" count only one response per customer in the given category. N's are unweighted sample sizes. Responses were counted if given in any of the three open-ended questions (RO-12, RO-15, or RO-16).

Table 6.8 Final Compliments or Criticisms about Rent-to-Own Experience

Final Compliment or Criticism (N)	Percent of Customers (532)	Final Compliment or Criticism (N)	Percent of Customers (532)
Any Positive Response (net total)	14.1%	Any Negative Response (net total)	15.5%
Can get the things you need or couldn't get otherwise / no credit check	3.2	Too expensive / high prices / too much interest	6.3
Reasonable prices / good deals / not expensive	1.1	Problems with merchandise	1.6
Nice merchandise / good quality merchandise	1.6	Treat people badly / harassment / not nice	1.6
Good service	2.1	Repossession threats / general threats	0.7
Nice people / helpful people	3.3	Would never do it again / haven't done it again	3.4
Flexible / understanding when late with payment	0.7	Other negative	3.3
No complaints / no problems	1.5	Any Mixed or Neutral Response (net total)	1.1
General good / great / positive	2.0	Other neutral / mixed	1.1
Other positive	1.0		
		No, nothing else	70.6
		Don't know	0.5
		Refused	0.0

DATA. Survey question RO-16. All percentages weighted.

NOTES. Multiple responses possible. Column percentages may sum to more than 100 percent. "Net totals" count only one response per customer in the given category. N's are unweighted sample sizes.

7

PUBLIC POLICY

A wide variety of regulatory policies have been adopted by various states or proposed at the federal level for the rent-to-own industry. This chapter discusses a few of the policy options that are most directly related to the survey results or most prominently discussed in policy debates. These include disclosure of the total cost and terms of purchase, disclosure of an annual percentage rate figure, regulation of rent-to-own prices, regulation of payment collection practices, and regulation of minimum reinstatement rights.[116]

7.1 Disclosure of Total Cost and Other Purchase Terms

The FTC staff survey found that most rent-to-own merchandise was purchased by the customer. The high purchase rate implies that information pertaining to the terms and conditions of purchase is important for most rent-to-own customers.

The total cost of purchase is one of the most important pieces of information for anyone who is considering purchasing merchandise through a rent-to-own transaction. The total cost will include the sum of all weekly or monthly rental payments, plus all other mandatory fees and charges.[117]

Information on the total cost allows potential customers to compare the cost of the rent-to-own transaction to the cost of other available alternatives. Other alternatives may include purchasing the merchandise with cash at a traditional retail store,[118] purchasing the merchandise

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[116] Other policy options have also been adopted by various states, including, for example, requirements for minimum payment grace periods and limitations on late fees and other charges.

[117] The sum of the rental payments alone would understate the total cost if dealers impose additional mandatory fees and charges, such as a required down payment, a purchase-option balloon payment, or a mandatory loss damage waiver fee.

[118] The total cost figure will slightly overstate the real cost to the consumer in comparison to a retail cash purchase, because it does not discount the payments, which are made over the course of a year or two, to their present value. But the overstatement is small (using a discount rate of ten percent, for example) because the payments are made over a relatively short period of time. In addition, the timing of the payments is known to consumers and can be taken into (continued...)

on credit,[119] waiting until money for a cash purchase can be saved,[120] or renting the merchandise from a competing rent-to-own store. Providing information that allows comparison to other purchase alternatives increases the likelihood that consumers choosing rent-to-own transactions do so on an informed basis.

Disclosure of only the amount of the rental payment and the number of payments required for ownership may be insufficient for many consumers. Even consumers who are proficient in math may have difficulty multiplying, for example, a $12.99 weekly payment by 78 weeks, without the aid of a calculator. And even if most consumers could make the calculation, it still would be more efficient for the dealer to make it once rather than have every prospective customer repeat the calculation in the store. Customer calculations also could result in an inaccurate measure of the total cost if other mandatory fees or charges were required in addition to the regular rental payments.

Information on the total cost of purchase would be most useful for consumers if it were available while the consumer was shopping and making a decision. Total cost information provided in the agreement document, while important, may not be sufficient, particularly if rent-to-own dealers highlight favorable aspects of the transaction, such as low weekly payments, on product labels or in-store displays that the consumer sees while shopping.

The best way to provide total cost information that can be seen and used while the consumer is shopping would be to provide it on product labels on all merchandise displayed in the rent-to-own store.[121] Providing the information on product labels would allow prospective

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[118] (...continued)
account in the interpretation of the total cost figure.

[119] The total cost of the rent-to-own transaction could be compared to the total cost of a retail installment purchase, but comparison to a credit card purchase may be difficult. The total cost of a credit card purchase may be difficult to assess at the time of the purchase, because the cost will depend on how quickly the consumer pays off the credit card charge. The longer the consumer takes to pay the charge, the greater the interest accrued, and the higher the total cost.

[120] All customers, even those without cash or credit, will have the option of delaying acquisition of the merchandise until money for a retail cash purchase can be saved. The only exception to this would be if the customer needed merchandise that might be considered a necessity, such as a refrigerator or stove.

[121] For items too small to accommodate labels (jewelry, for example), total cost information could be provided in price lists openly displayed near the items.

customers to easily learn the total cost of purchase, just as they would in a traditional retail store, and would allow for an easier comparison to the cost of other purchase alternatives.

Requiring that rent-to-own dealers provide total cost information on product labels would not appear to impose undue costs on either large chains or small independent stores. Compliance simply would require that dealers post labels or tags on showroom merchandise, as is typically done in traditional retail stores. Listing the information on labels and posting it on the merchandise would not appear to require significant time or resources. And to the extent that some significant costs are incurred by the dealer in calculating the total cost, it still would be more efficient for these costs to be borne once by the dealer rather than repeatedly by every prospective customer considering the merchandise.[122]

In addition to the total cost, the other basic terms of purchase also should be disclosed on the product label, including the weekly or monthly payment amount, the number of payments required to obtain ownership, and whether the merchandise is new or used.[123] These disclosures would allow consumers to easily learn the basic terms of the transaction while shopping.

Triggered disclosure of the total cost and other basic terms of purchase is also appropriate in advertisements and catalogs.[124] These disclosures should be required if the advertisement or catalog makes any statement about the weekly or monthly rent-to-own payment amount for a specific item of merchandise. Triggered disclosure of the total cost is important to prevent possible consumer misunderstandings that could arise if only low weekly or monthly payment

[122] Disclosure of the total cost of purchase would not put rent-to-own dealers at any unfair disadvantage in comparison to retail stores, even though the rent-to-own total cost may include the cost of additional services, benefits, and options not included in a retail purchase price. Rent-to-own dealers would be free to truthfully describe to consumers the additional services, benefits, and options provided with the rent-to-own total cost. Dealers also could lower the mandatory total cost by making previously bundled services truly optional.

[123] Disclosure of the cash price on product labels may have less value to consumers. Rent-to-own dealers make few cash sales, so the cash price is generally not used to evaluate an immediate cash purchase. And because dealers make few cash sales, there is no reason for dealers to list a cash price that corresponds to a legitimate retail market price. Some dealers may inflate the disclosed cash price to make the total cost appear more reasonable. Consumers may be misled if they use the inflated cash price as an indication of the retail value of the merchandise.

[124] A disclosure stating that the renter does not obtain ownership or accrue equity until all payments are completed might also be appropriate.

amounts were featured in the advertisement, and also allows consumers to compare the total cost to other alternatives.

All of the terms and conditions of the transaction should be disclosed in the agreement document. In addition to the basic purchase terms, noted above, a number of other terms and conditions are important to consumers. These include a full description of the requirements for purchase, a description of any early-purchase option, the payment grace period, the amount of any late payment fee, the additional fees and requirements for reinstatement, the amount of any optional fees, an explanation of the customer's equity and ownership rights, and an explanation of who is responsible for damaged or stolen merchandise. Disclosure in the agreement document of all of the terms and conditions is important, both to ensure that consumers see the information prior to signing the agreement, and to provide customers with a copy of the terms and conditions that they can retain for their records.

Forty-six states currently have laws that require disclosure of the total cost (or total payments) and other lease and purchase terms in the agreement document.[125] Almost all of these states also require triggered disclosure of the total cost in advertisements.[126] Only 18 states, however, require any type of disclosures on rent-to-own product labels, with only 15 requiring disclosure of the total cost (or total payments), and only three requiring disclosure of whether the merchandise is new or used (Winn, 1999d).[127]

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[125] These states also require that the amount, number, and timing of payments, and whether the merchandise is new or used, be disclosed in the agreement document. A variety of other disclosures, which vary from state to state, also are required in agreement documents (Martin and Huckins, 1997; Winn, 1999d). (See the comments in footnote 18, above, on sources of information about state rent-to-own laws.)

[126] Most also require that the advertisement identify the transaction as a rent-to-own (rental-purchase) agreement, and disclose that the consumer obtains no ownership rights if the total amount necessary to acquire ownership is not paid. Only two states, however, require disclosure of whether the advertised item is new or used. The advertising disclosures generally are triggered by a statement of the payment amount and/or the right to obtain ownership of the merchandise. (Some states specify that both statements must be present to trigger the disclosures, while others specify that either statement triggers the disclosures.) See Winn, 1999d.

[127] The current extent and format of actual industry disclosures was outside the scope of the FTC staff survey. (See footnote 40, above.) FTC staff did not assess the extent of dealer compliance with the disclosures required by the various state rent-to-own laws, the extent of state enforcement of these laws, nor the extent to which some dealers may disclose information that exceeds state requirements. The FTC staff survey did find that 27 percent of rent-to-own

(continued...)

Disclosures in advertisements and agreement documents are important, but may not be sufficient. 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.[128]

7.2 APR Disclosure

The FTC staff survey finding that most rent-to-own merchandise is purchased by the customer suggests that rent-to-own transactions are similar to credit sales, and raises the question of whether an annual percentage rate (APR) should be disclosed for rent-to-own transactions. As in a credit sale, rent-to-own customers purchase merchandise by making payments over time, and the sum of the payments exceeds the cash price of the merchandise. If the difference between the cash price and the total payments (including all mandatory fees and charges) were considered a finance charge and disclosed as an APR, consumers could compare the APR of the rent-to-own transaction to the APRs charged by credit cards and other available sources of credit. Even consumers without access to credit might benefit, because a high APR figure (of 50 to 100 percent or more) might be more easily recognized as high than would the corresponding total cost figure, which requires comparison to the prices charged by traditional retail stores.

While the similarities between rent-to-own transactions and credit sales suggest that an APR disclosure may be appropriate, there also are a number of differences between the two types of transactions. Unlike a credit sale, rent-to-own customers do not incur any debt, can return the merchandise at any time without obligation for the remaining payments, and do not obtain ownership rights or equity in the merchandise until all payments are completed. And even

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[127] (...continued)
customers complained about high prices when asked why they were satisfied or dissatisfied with their experience with rent-to-own transactions. But the survey did not examine whether these customers were aware of the total rent-to-own price when they began renting the merchandise.

[128] The label requirements in currently proposed federal legislation include the disclosure of the "total dollar amount of rental payments necessary to acquire ownership." See H.R. 1634, 106th Congress, 1st Session, § 1004(3) (1999). This language could be read to require the disclosure of only the sum of rental payments, not the total cost including all mandatory fees and charges. Limiting the disclosure to rental payments could allow dealers to deceptively understate the cost of renting-to-own by shifting some of the total cost from the rental payments to other mandatory fees and charges. Any possible differences between the total cost and the sum of rental payments, as well as other disclosure options, should be carefully considered if disclosure requirements are contemplated.

though the FTC staff survey found that approximately 70 percent of rent-to-own merchandise was purchased by the customer, this still implies that 30 percent was returned, typically after a relatively short rental duration.

There also are some practical considerations that suggest that an APR disclosure requirement for rent-to-own transactions may be difficult to implement, and could result in inaccurate disclosures that mislead consumers. In order to calculate an APR for a rent-to-own transaction, the total amount paid by the customer must be apportioned into a principal component (the amount financed) and a finance charge component. An immediate difficulty is the determination of the appropriate cash price of the merchandise. The legitimate cash price is not easily discernable because most rent-to-own dealers make few cash sales. The absence of significant cash sales means that dealers can overstate the cash price without suffering any significant loss in business. Some dealers might overstate the cash price in order to reduce the disclosed APR. An understated APR could mislead consumers about the relative cost of purchasing through a rent-to-own transaction, particularly if consumers relied on the disclosed APR rather than the total cost figure.[129]

The potential for manipulation of cash prices has led some advocates of an APR disclosure to also advocate the regulation of cash prices (Mierzwinski, 1993; Pimentel, 1995; PIRG, 1997; NCLC, 1998a). A variety of methods have been suggested, but all appear to raise difficulties. One method simply would require that the cash price be the price at which the dealer offers the merchandise for sale. But if the dealer makes few cash sales, the price will have little legitimacy. A similar method would require that the cash price reflect actual cash sales made by the dealer. But this could be an unrepresentative price based on a single sales transaction, and could be manipulated through a sham sale.

Another method would require that dealers use a price no higher than the manufacturers' suggested retail price (MSRP). But MSRP's do not necessarily reflect market prices, may not be available for all products, and may not eliminate the possibility for manipulation. Manufacturers can set MSRP's at any level they wish, and many MSRP's are substantially higher than the

[129] Vermont recently obtained a settlement with a rent-to-own company to resolve claims that the company substantially increased the cash prices on its merchandise in order to reduce the "effective-APRs" that must be disclosed under Vermont state law. In one example alleged by the Vermont Attorney General, the increased cash price for a television resulted in the disclosed effective-APR being reduced from over 100 percent to under 16 percent. See Vermont Office of the Attorney General (2000).

market prices actually charged by retailers. Some manufacturer's might even set MSRP's high specifically to please rent-to-own dealers.[130]

Another method would limit the cash price to a multiple of the dealer's acquisition cost for the merchandise. Hawaii, for example, limits the total rent-to-own cost to twice the cash price, and limits the cash price to twice the dealer's cost for the merchandise.[131] Dealers must maintain records to demonstrate that cash prices meet the requirement. But a variety of pricing arrangements between the rent-to-own dealer and supplier could make determination and verification of the acquisition price difficult, and could allow manipulation. Suppliers could invoice merchandise at a high price, for example, but provide year-end "volume rebates" to the dealer.

A different approach would require that cash prices be based on the prevailing market prices for comparable goods in the dealer's community.[132] This would seem to require that dealers conduct surveys of retail store prices. Any survey would have to be extensive, locating comparable prices for each model of merchandise offered by the rent-to-own store. Such a requirement could impose a substantial cost burden on rent-to-own dealers, particularly small independent stores. In addition, there would be questions of how to specify the appropriate comparison. A simple comparison to the prices charged by discount stores would not be appropriate, nor would a simple average of local prices. A fairer comparison would be to the cash prices charged by similarly-sized (relatively low-volume) retailers located in similar neighborhoods and serving similar clientele. Such retailers are likely to have higher prices than average retailers, and may more closely reflect the cost conditions faced by rent-to-own stores. This type of survey, however, could be prohibitively expensive.

In addition to the cash price of the merchandise itself, the calculation of the APR also would have to take into account the additional consumer services and options bundled with the merchandise. Rent-to-own dealers typically include delivery, pickup, repair, loaner, and other services in the basic rent-to-own rental rate. Many traditional retailers charge extra fees for these

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130 Some manufacturers might attempt to increase their sales to rent-to-own dealers by producing separate models specifically for the rent-to-own market (varying the product's features slightly to distinguish it from other models), and labeling these models with inflated MSRP's.

131 See Hawaii Revised Statutes, Title 26, Chapter 481M, § 1-18 (1997).

132 Recently proposed federal legislation, for example, specified that if the rent-to-own dealer did not "regularly engage" in the sale of the merchandise, the cash price would be defined as the "average cash retail price of the item or a similar item in the community, or the estimated bona fide retail value of the service." See H.R. 3060, 105th Congress, 1st Session § 1003(2)(B) (1997).

services, reflecting the value to the consumer and the cost to the seller. The return option provided with rent-to-own transactions also provides value to consumers and imposes costs on dealers, including the costs of retrieving, refurbishing, restocking, and re-renting the returned merchandise. In a traditional retail credit sale, additional fees for these services and options, over and above the cash price of the merchandise itself, would be considered part of the amount financed, not part of the finance charge. Similarly, additional fees for these services and options should be considered part of the amount financed for rent-to-own transactions.

While the additional services and options should not be ignored in an APR calculation, including them raises additional possibilities for manipulation of the APR. To prevent manipulation, any regulation of the cash price calculation also may have to specify allowable charges for additional services and options, specify a method by which rent-to-own dealers could calculate allowable amounts, or require record-keeping and substantiation that would allow regulators to evaluate the legitimacy of claimed amounts.

While these considerations suggest that an APR disclosure for rent-to-own transactions may be difficult to formulate, implement, and enforce, the difficulties are not necessarily insurmountable. Vermont state law, for example, requires the disclosure of an "effective-APR," and at least some dealers in the state are continuing to offer rent-to-own transactions while complying with the disclosure requirement.[133] The cost of complying with an APR disclosure requirement is not likely to be burdensome for dealers (with the exception of a requirement that dealers conduct surveys of local prices). Traditional retailers, including small independent stores, comply with the APR disclosure requirements for credit sales that are mandated by the Truth in Lending Act (TILA). There does not seem to be any reason why compliance with a similar requirement would be more burdensome for rent-to-own dealers.

But the potential cost burden is not the primary issue raised by an APR disclosure for rent-to-own transactions. The larger issues are the potential usefulness and accuracy of such a disclosure, and the potential difficulties of enforcing it. The potential difficulties must be compared to the potential consumer benefits an APR disclosure would yield over and above a

[133] Rent-to-own dealers complying with the Vermont regulation disclose effective-APRs of 100 percent or more. One rent-to-own chain, however, stopped offering rent-to-own transactions in response to the regulation. (Telephone conversation with Elliot Burg, Assistant Attorney General, Office of the Attorney General, State of Vermont, November 19, 1999.) And as noted above, Vermont is enforcing the disclosure requirements, recently obtaining a settlement to resolve claims that a rent-to-own company increased the cash prices on its merchandise in order to reduce the disclosed effective-APRs. The settlement included a payment of nearly half a million dollars, most of which was to be used for reimbursements to the company's customers. See Vermont Office of the Attorney General (2000).

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 an APR disclosure is contemplated.

7.3 Price Restrictions

The potential difficulties discussed in the previous section concerning possible dealer manipulation of the APR calculation also apply to price restriction policies. The potential difficulties would arise both for price restrictions that treat rent-to-own transactions as credit sales and limit the interest rate, and for price restrictions that treat rent-to-own transactions as leases and limit the total cost.[134] In order to apply interest rate restrictions, the total amount paid by the customer must be apportioned into a principal component (the amount financed) and a finance charge component. As discussed earlier, dealers could inflate the cash price to understate the finance charge and the resulting APR, without suffering any significant loss in business, because rent-to-own stores make few cash sales. Dealers would have incentive to inflate cash prices in order to evade price restrictions (or to lessen the impact of the restrictions).[135] Similarly, if the total cost of obtaining ownership were restricted to some multiple of the cash price, dealers again would have incentive to inflate cash prices. As discussed in regard to APR disclosures, the determination and enforcement of legitimate cash prices could be difficult.

An additional consideration raised by possible price restrictions is the potential impact of effective price restrictions on the availability of rent-to-own transactions. The implicit assumption underlying both the criticism of rent-to-own prices and the advocacy of price restrictions is that rent-to-own dealers are making exorbitant profits by charging prices far in excess of the cost of doing business. If this assumption is accurate, effective price restrictions could reduce industry profits to a more normal competitive level, and make rent-to-own merchandise available to consumers at more reasonable prices. But if rent-to-own dealers are not making exorbitant profits, but simply are charging prices that reflect the cost and risk of doing business, then effective price restrictions could prevent dealers from covering their costs, make rent-to-own transactions unprofitable, and reduce the availability of rent-to-own transactions for

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[134] Any restrictions on rent-to-own prices would be a state, rather than federal, policy.

[135] The incentives for dealer manipulation of cash prices may be even greater under a price restriction policy than under an APR disclosure policy, because inflated cash prices would result directly in higher prices and profits.

consumers who wish to use them.[136] These issues should be considered carefully if price restrictions are contemplated.

7.4 Regulation of Payment Collection Practices

The FTC staff survey found that some rent-to-own dealers may use abusive practices in the collection of overdue rental payments, but that 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.

The absence of widespread collections abuse may reflect an industry desire to maintain good customer relations that encourage repeat business and word-of-mouth recommendations to friends and relatives. It also may reflect an industry desire to avoid the negative publicity and the scrutiny of regulators and legislators that was generated by highly publicized accounts of collections abuse in the past. Further, as noted in a recent article in the industry trade press, industry collection practices are subject to legal restrictions in some states (Winn, 1999e).[137] The lack of widespread abuse suggests that federal regulation of rent-to-own industry collection practices may be unnecessary. The most serious abuses, however, such as unauthorized entry into customers' homes, remain troubling, even if they are not widespread, and warrant continued attention.[138]

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[136] While an examination of rent-to-own industry prices and profits was outside the scope of the FTC staff survey, a few observations can be made. In most industries, the existence of excessive profits would attract new entrants eager to gain a share of the market. New firms would enter the industry, eventually increasing the competitive pressure until prices are driven down to their competitive, cost-based level, and profits are reduced to a normal (risk-adjusted) rate of return. Excessive profits could be maintained only if there were significant barriers to entry, collusion, or some type of anti-competitive behavior. There do not appear to be any significant barriers to entry that would prevent new firms from entering the rent-to-own industry, nor to prevent traditional retailers from offering credit transactions to rent-to-own customers at lower prices. A new entrant would need little more than a storefront, a delivery truck, and an inventory of household merchandise. While these observations are by no means conclusive, they do raise some question about the assumption that current industry profits are excessive, and that current industry prices substantially exceed costs. These issues should be explored more fully if price restrictions are contemplated.

[137] See also NCLC (1995b, 1998b).

[138] While actual or attempted break-ins were reported by only 1.6 percent of the customers who had been late making a payment, this percentage projects to over 7,000 actual or

(continued...)

7.5 Regulation of Reinstatement Rights

The FTC staff survey finding that most rent-to-own merchandise is purchased by the customer suggests that reinstatement rights provide important protection for consumers. This protection allows customers who have missed 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, preventing the loss of merchandise on which substantial payments may have been made towards ownership. But the FTC staff survey also found that few customers lost merchandise through a return or repossession after making substantial payments, suggesting that late-term repossessions are not a significant problem.

The low incidence of late-term repossessions may be due to the reinstatement rights currently mandated by rent-to-own laws in forty-four states. The result also may reflect an industry response to consumer demand for more flexible agreements, as suggested by the fact that some rent-to-own companies provide reinstatement rights beyond the statutory requirements, and also may reflect an industry desire to avoid actions that foster a negative public image. Also, the favorable condition of the U.S. economy over the last several years may have made the incomes of some customers more stable, allowing them to continue payments and avoid repossessions. The lack of significant problems suggests 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 also would extend reinstatement rights to customers in the few states that currently do not mandate such requirements.[139]

7.6 Conclusions

The FTC staff survey found that most rent-to-own merchandise is purchased by the customer, implying that information about the total cost and other terms of purchase is important

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[138] (...continued)
attempted break-ins per year. The projection is derived from the FTC staff survey findings that 4.9 percent of households surveyed had used rent-to-own transactions in the last five years, that 45.6 percent of rent-to-own customers had been late making a payment, and that 1.6 percent of late customers reported an actual or attempted break-in. Projecting these estimates to the approximately 100 million households in the country yields an estimated 7,150 actual or attempted break-ins per year (100 million x 0.049 x 0.456 x 0.016 / 5 years = 7,150). Though as noted earlier in Chapter 6, this projection is based on the responses of only two survey respondents, one reporting an actual break-in and one reporting an attempted break-in, making the projection subject to a significant degree of uncertainty.

[139] See H.R. 1634, 106th Congress, 1st Session, § 1006(3) (1999) and Winn (1998a).

for most 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 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 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 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 basic terms of purchase on product labels, along with disclosures in advertisements and rental agreements, 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.

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.

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

The FTC staff 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 also would extend reinstatement rights to customers in the few states that currently do not mandate such requirements.

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CONCLUSION

The FTC staff survey interviewed a nationwide sample of over 12,000 households, identifying over 500 rent-to-own customers who were interviewed about their rent-to-own experience. The sample included customers from all areas of the country, all demographic groups, and all types of rent-to-own stores.

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. 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, and gave a wide variety of reasons for their satisfaction. Nineteen percent of rent-to-own customers were dissatisfied with their experience, and most cited rent-to-own prices as the reason.

- Sixty-four 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," 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.

Conclusion

The purchase rate found in the FTC staff survey is significantly higher than the purchase rates found in most industry studies.[140] The difference between the FTC staff survey results and the results of industry studies could indicate a recent change in the purchase rate, or could be due to differences in the methodologies of the studies.

A recent increase in the purchase rate is possible due to the favorable condition of the U.S. economy over the last several years, which may have made the incomes of some rent-to-own customers more stable, allowing them to be more successful in continuing payments and obtaining ownership of merchandise. Changes in some of the practices of the rent-to-own industry, such as the increased use by some companies of agreements that allow customers to obtain ownership in one year, rather than the more traditional one and a half to two years, also may have made it easier for customers to obtain ownership.

The difference between the purchase rates found in the FTC staff survey and most industry studies also may be due to differences in the methodologies of the studies. The purchase rate estimate in the FTC staff survey focused on merchandise that had been rented long enough for the ultimate disposition, either purchase by the customer or return to the store, to be determined. Other studies have focused on recent rentals, recent terminations, or recent deliveries and pickups. Also, the FTC staff survey estimate was based on customer survey data, which may avoid some of the complications that could arise in the analysis of transactions records and dealer surveys, such as accounting for rewritten agreements on the same merchandise by the same customer.

A customer survey, however, particularly one examining transactions as far back as five years, could be subject to potential memory bias. But analysis of the projected purchase rate estimates for more recently rented merchandise in the FTC staff survey shows that the results are consistent with the purchase rate found for older rentals. The consistency of the purchase rate estimates suggests that memory bias is not significantly affecting the FTC staff survey results.[141]

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[140] The exceptions are the Beemer (1994, 1999) customer surveys, which appear to find a possible purchase rate of at least 51 percent. As noted earlier, however, there may be some uncertainty 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.

[141] See footnote 92 and accompanying text, above.

Conclusion

The results of a customer telephone survey also could be affected if customers without a telephone, and thus not included in the survey, have a significantly different purchase rate than customers with a telephone. But analysis of the purchase rates found in the FTC staff survey for the demographic groups most likely to not have a telephone finds that they are equal to or higher than the purchase rate for the overall sample. And further analysis suggests that even if the customers without a telephone had a substantially lower purchase rate, and the overall purchase rate were adjusted accordingly, it would not change the conclusion that most merchandise is purchased.[142]

The FTC staff survey also found a relatively high level of customer satisfaction and a low incidence of abusive collection practices. These results differ substantially from the highly publicized accounts of individual customers who had experienced severe problems. The difference may indicate that the problems reported in the publicized accounts were not representative of the typical experience of rent-to-own customers. It is also possible that the extent of abusive collections practices and other problems in the industry have been reduced over the last several years.

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 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 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 credit transactions and other types of purchases should be applied to rent-to-own transactions only after careful consideration of the potential costs and benefits. Some policies may be more difficult to apply to rent-to-own transactions, and could result in misleading disclosures and enforcement difficulties.

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.

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[142] See footnote 88 and accompanying text, above.

Conclusion

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.

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