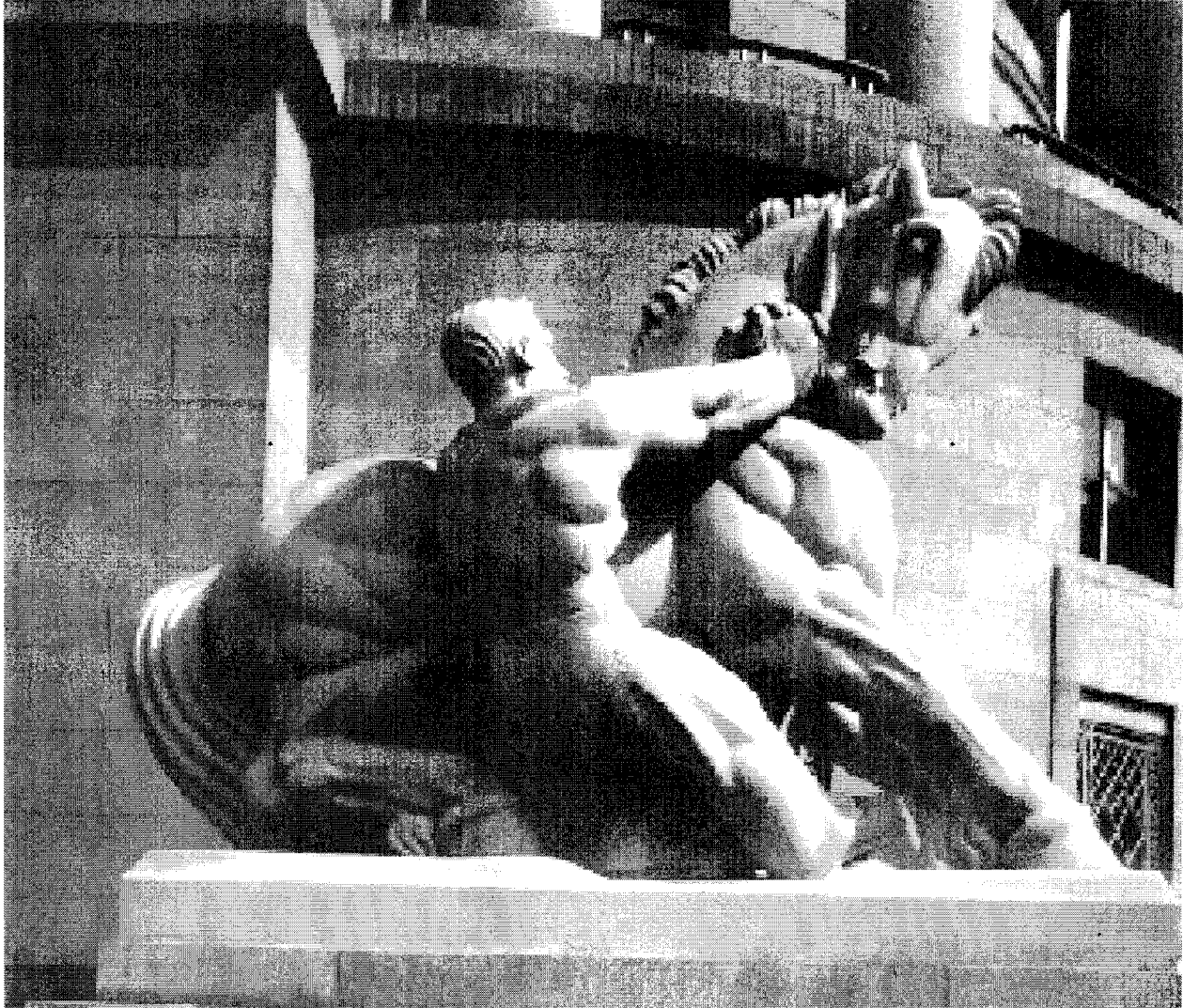


**Federal Trade Commission
Bureau of Economics Staff Report**

Survey of Rent-to-Own Customers



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

April 2000

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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.

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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

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

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

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.¹

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.² 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.³

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).

¹ 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.

² 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.)

³ 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.

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.⁴ 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.⁵

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.⁶ While the rent-to-own industry may provide access

⁴ 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.

⁵ See Rent-A-Center (1999a).

⁶ See, for example, Ramp (1990, 1993), Mierzwinski (1993), Preate (1993), Fogarty (continued...)

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.⁷ 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).⁸

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

⁶ (...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).

⁷ 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).

⁸ 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.)

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

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) (Mierzwinski, 1993; Preate, 1993; Ramp, 1993; Fogarty, 1994; PIRG, 1994, 1997; Pimentel, 1995) and state usury laws (Mierzwinski, 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.¹⁰ 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.¹¹

⁹ 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).

¹⁰ 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).

¹¹ 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...)

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).¹² 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.¹³ 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.¹⁴ Federal legislation that would specifically regulate rent-to-own transactions as leases has been proposed several times in recent years.¹⁵

¹¹ (...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.

¹² 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).

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

¹⁴ See CLA 15 USC § 1667(1).

¹⁵ 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);

(continued...)

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).¹⁶

Forty-six states currently have rent-to-own laws that regulate rent-to-own transactions in a manner similar to leases (Winn, 1999d).¹⁷ The laws vary from state to state, requiring a variety of disclosures related to the lease and the purchase option.¹⁸ 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).¹⁹

¹⁵ (...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.

¹⁶ 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).

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

¹⁸ 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.

¹⁹ 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).

All of the state rent-to-own laws were passed over the last fifteen years.²⁰ 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).²¹

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.²² 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."²³ The effective-APR is calculated in the same manner as an APR under TILA, but the

²⁰ 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).

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

²² 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).

²³ 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

(continued...)

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

Currently, no state has a rent-to-own law that specifically regulates rent-to-own transactions as credit sales.²⁶ 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.²⁷ Minnesota is unique in that it

²³ (...continued)
immediate proximity to the merchandise.

²⁴ Vermont Consumer Fraud Rule CF 115 § 115.08(d).

²⁵ 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).

²⁶ 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.

²⁷ 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

(continued...)

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.²⁸

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.²⁹ 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).³⁰ The industry argues that the purportedly low purchase rate supports its view that rent-to-own transactions are merely leases (of relatively short

²⁷ (...continued)

settlements paid to rent-to-own customers (Rent-A-Center, 1999a, 1999b).

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

²⁹ 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.

³⁰ 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.

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).³¹ Consumer advocates also note that most customers intend to purchase (Ramp, 1993; PIRG, 1994; NCLC, 1995a).³² 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).

³¹ 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.

³² 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).

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).³³ The industry studies also find that only a small percentage of customers report various types of collections abuse.³⁴

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.³⁵ Some proposed federal legislation has included provisions specifically regulating the collection practices of rent-to-own dealers.³⁶

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

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

³⁴ 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.

³⁵ 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).

³⁶ 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).

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.³⁷ Some rent-to-own dealers provide reinstatement rights that exceed the statutory minimum.³⁸ Some of the proposed federal legislation (in particular, the legislation treating rent-to-own transactions as leases) includes provisions providing for minimum reinstatement rights.³⁹

³⁷ 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).

³⁸ 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).

³⁹ 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).

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

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.⁴⁰

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.

⁴⁰ 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.

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.⁴¹ 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-

⁴¹ 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.

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

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.⁴³ 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.⁴⁴ 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.⁴⁵

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.

⁴² 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.

⁴³ A sample based on company customer lists may have difficulty locating these customers.

⁴⁴ 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).

⁴⁵ 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.

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.⁴⁶ 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.⁴⁷

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

⁴⁶ 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.

⁴⁷ 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.

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.

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.⁴⁸ More recent agreements would include a large proportion of items still being rented, with the final disposition not yet known.⁴⁹

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.

⁴⁸ 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).

⁴⁹ 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.

Methodology

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.⁵⁰ 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.⁵¹ 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

⁵⁰ 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.

⁵¹ 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.

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 3.1,⁵² 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.⁵³

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.⁵⁴

⁵² Tables are presented at the end of each chapter.

⁵³ 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.

⁵⁴ 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.⁵⁵

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.⁵⁶

⁵⁵ 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.

⁵⁶ 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...)

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.⁵⁷ 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.

⁵⁶ (...continued)
five-year data at only the 12 percent level).

⁵⁷ 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.

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.⁵⁸ 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.⁵⁹ The differences between the disabled or handicapped and all other groups were statistically

⁵⁸ 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.

⁵⁹ 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.

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

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.⁶¹

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.⁶²

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.⁶³ In the last year,

⁶⁰ 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.

⁶¹ 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.

⁶² 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.

⁶³ 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 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.⁶⁴ 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.⁶⁵

⁶³ (...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.

⁶⁴ The four regions correspond to the four census regions defined by the U.S. Census Bureau.

⁶⁵ 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...)

3.3 Demographic Profile of Rent-to-Own Customers

The significant differences in the use of rent-to-own transactions by different demographic groups are reflected in the demographic profile of rent-to-own customers. Table 3.3 presents the demographic profile of rent-to-own customers, both for customers using rent-to-own transactions in the last year and those using rent-to-own transactions in the last five years.⁶⁶ The table also presents the demographic profile of respondents not using rent-to-own transactions in each of these time periods.⁶⁷

Rent-to-own customers differed significantly from non-customers in a wide variety of demographic categories. Many of the differences between rent-to-own customers and non-customers were quite large and statistically significant.⁶⁸

⁶⁵ (...continued)
area but outside of the central cities. The “non-metropolitan” category consists of counties outside of metropolitan areas.

⁶⁶ As was noted in the previous section, the last-year results are likely to provide a more accurate picture of the demographic profile of rent-to-own customers than are the five-year results, because the demographic characteristics of some earlier customers may have changed since the time they used rent-to-own transactions. The results presented in the text of this section focus on customers using rent-to-own transactions in the last year, but the five-year results generally show similar patterns.

⁶⁷ “Non-customers” includes all respondents who had not used rent-to-own transactions in the given time period. Thus, non-customers in the last-year data includes all respondents who had not used rent-to-own transactions in the last year, though some may have done so in the last five years.

⁶⁸ T-tests were used to test the significance of the difference between rent-to-own customers and non-customers in each demographic category. The results of these tests are presented in Table 3.3. Tests of independence of classification also were done for each demographic variable, comparing the demographic distribution of rent-to-own customers to the demographic distribution of non-customers, 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). These tests showed highly significant differences (at the one percent level of significance) between the demographic distributions of rent-to-own customers and non-customers for all demographic variables (with the exception that the distributions were not significantly different for sex in the last-year data, and were significantly different at only the 5.5 percent level for both sex in the five-year data and metropolitan status in the last-year data).

Compared to survey respondents who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, lower income, have children in the household, rent their residence, live in the South, and live in non-suburban areas.

Sex. Forty-four percent of rent-to-own customers were male and 56 percent were female.⁶⁹ These percentages were not significantly different from the percentages for non-customers. Sex was the only demographic variable not showing significant differences between rent-to-own customers and non-customers.

Race / Ethnicity. Thirty-one percent of rent-to-own customers who had used rent-to-own transactions in the last year were African American (compared to 11 percent of non-customers).⁷⁰ Forty-one percent of customers were minority (compared to 22 percent of non-customers, though the percentages for Hispanic and Native Americans were not significantly different from the percentages for non-customers). Fifty-seven percent of rent-to-own customers were white (compared to 75 percent of non-customers).

Age. Most rent-to-own customers were relatively young. Fifty-one percent were between the ages of 18 and 34 (compared to 30 percent of non-customers), and 79 percent were between the ages of 18 and 44 (compared to 52 percent of non-customers). Only four and a half percent of rent-to-own customers were 55 or older (compared to 30 percent of non-customers).

Education. Most rent-to-own customers had a relatively low education level. Thirty-seven percent had less than a high school education (compared to 18 percent of non-customers), and 73 percent had no more than a high school education (compared to 49 percent of non-customers). Only 23 percent of rent-to-own customers had at least some college or higher level of education (compared to 48 percent of non-customers), and only 8 percent had graduated college or higher (compared to 27 percent of non-customers).

Income. Most rent-to-own customers had relatively low household incomes. Twenty-five percent had annual household incomes less than \$15,000 (compared to 15 percent of non-customers), 59 percent had household incomes less than \$25,000 (compared to 31 percent of non-customers), and 81 percent had household incomes less than \$40,000 (compared to 50 percent of non-customers). Only 14 percent of rent-to-own customers had household incomes of

⁶⁹ Most of the percentages presented in the text of this and later sections of the report are rounded to the nearest whole percentage, while the tables present the more detailed percentages.

⁷⁰ Except where noted, all of the percentages for demographic characteristics of rent-to-own customers presented in the text of this section were significantly different from the corresponding percentage for non-customers.

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\$40,000 or more (compared to 35 percent of non-customers), and only six percent had household incomes of \$50,000 or more (compared to 25 percent of non-customers).

Employment. Most rent-to-own customers were employed. Sixty-eight percent were employed either full or part-time (and this was not significantly different from the percentage for non-customers). Only about three percent of customers were students, and only nine percent homemakers (these percentages also were not significantly different from the percentages for non-customers). Nine percent of rent-to-own customers were temporarily unemployed (compared to four percent of non-customers), and six percent were disabled or handicapped (compared to three percent of non-customers). Only about two and a half percent of rent-to-own customers were retired (compared to 21 percent of non-customers).

Marital status. Forty-seven percent of rent-to-own customers were married, 22 percent were single, and nine percent divorced (and none of these percentages were significantly different from the percentages for non-customers). Eleven percent of customers were single and living with a partner (compared to five percent of non-customers), seven percent were separated (compared to two percent of non-customers), and four percent were widowed (compared to ten percent of non-customers).

Children. Most rent-to-own customers had children living in the household. Sixty-seven percent had at least one child living in the household (compared to 37 percent of non-customers), 44 percent had two or more children (compared to 22 percent of non-customers), and 26 percent had three or more (compared to eight percent of non-customers).

Home ownership. Most rent-to-own customers rented rather than owned their residence. Sixty-two percent rented their residence (compared to 30 percent of non-customers), and only 35 percent owned their residence (compared to 69 percent of non-customers).

Region. Fifty-three percent of rent-to-own customers lived in the South (compared to 35 percent of non-customers), and 78 percent lived in either the South or Midwest (compared to 59 percent of non-customers, though the percentage of customers in the Midwest was not significantly different from the percentage for non-customers). Only 13 percent of customers lived in the Northeast (compared to 20 percent of non-customers), and only ten percent lived in the West (compared to 21 percent of non-customers).

Metropolitan status. Most rent-to-own customers lived in non-suburban areas. Forty-three percent lived in the central cities of metropolitan areas (compared to 35 percent of non-customers) and 24 percent lived in non-metropolitan areas (compared to 20 percent of non-

customers). Only thirty-two percent of customers lived in suburban areas (compared to 45 percent of non-customers).⁷¹

A summary of some of the demographic characteristics of rent-to-own customers is presented in Table 3.4.

3.4 Customer Ownership of Vehicles, Credit Cards, and Bank Accounts

The FTC staff survey found that most rent-to-own customers had a car or truck and most had some type of credit card or bank account. The survey asked customers whether they or anyone in their household had a car or truck, credit card, savings account, or checking account. The results are presented in Table 3.5. The table also presents comparable figures for all U.S. households.⁷²

The FTC staff survey found that 84 percent of the households that had used rent-to-own transactions in the last year had a car or truck. This percentage was identical to the percentage for all U.S. households.⁷³

The FTC staff survey also found that 44 percent of the households that had used rent-to-own transactions in the last year had a credit card, 49 percent had a savings account, and 64 percent had a checking account. The figures were slightly higher for households that had used rent-to-own transactions in the last five years.⁷⁴

Seventy-seven percent of the households that had used rent-to-own transactions in the last year had at least one of the three types of credit or bank accounts (credit card, savings, or

⁷¹ The definitions of “central city,” “suburban,” and “non-metropolitan” areas are discussed in the previous section of this chapter.

⁷² The U.S. household figures are from the Federal Reserve Board’s 1995 Survey of Consumer Finances (SCF), as presented in Kennickell, Starr-McCluer, and Sunden (1997) and Hogarth and O’Donnell (1997, 1999).

⁷³ The U.S. household figure includes vehicles of all types, including motorcycles, RV’s, boats, and airplanes, but excludes leased vehicles (Kennickell, Starr-McCluer, and Sunden, 1997). The FTC staff survey specified only cars or trucks, and did not exclude leased vehicles.

⁷⁴ As with the demographic characteristics discussed in the previous sections, the last-year data may provide a more accurate picture of rent-to-own customers, because the ownership of credit cards and bank accounts by earlier customers could have changed since the time they used rent-to-own transactions.

checking), and 54 percent had at least two of the three. Twenty-three percent of customer households had neither a credit card, savings account, or checking account. These results are presented in Table 3.6.

The percentage of rent-to-own customers having a credit card was approximately 20 percentage points lower than for all U.S. households (44 percent compared to 67 percent), as was the percentage of customers having a checking account (64 percent compared to 85 percent).⁷⁵ The percentage of rent-to-own customers having a savings account, however, was 13 percentage points higher than for all U.S. households (49 percent compared to 36 percent). The percentage of customers having either a checking or savings account was 16 percentage points lower than for all U.S. households (71 percent compared to 87 percent) (not shown in table).

These results indicate that the percentage of rent-to-own households having a credit card and the percentage having a checking account are both significantly lower than the percentages for all U.S. households, but each type of account is owned by a substantial percentage of rent-to-own customers. And the percentage of customers owning a savings account is actually higher than for all U.S. households. Three-quarters of rent-to-own customers have at least one type of credit card or bank account, and half have at least two of the three types of accounts.

3.5 Conclusions

The FTC staff survey found that 2.3 percent of households had rented merchandise from a rent-to-own store in the last year, and 4.9 percent had done so in the last five years. The incidence of rent-to-own use varied significantly across demographic groups. The use of rent-to-own transactions 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.

The differences in the use of rent-to-own transactions were reflected in the demographic profile of rent-to-own customers. Rent-to-own customers differed significantly from survey respondents who had not used rent-to-own transactions.

⁷⁵ The U.S. household figure for credit cards includes only major credit cards (Discover, MasterCard, Optima, and Visa). The FTC staff survey did not specify the types of credit cards. Also, the U.S. household figure is based on a survey conducted three to four years before the FTC staff survey. The overall U.S. household ownership of credit cards may have changed since then.

Thirty-one percent of customers who had rented merchandise from a rent-to-own store in the last year 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, 78 percent lived in the South or Midwest, and 68 percent lived in non-suburban areas.

The FTC staff survey also found that 84 percent of rent-to-own customers had a car or truck. This suggests that most rent-to-own customers are not constrained to a neighborhood rent-to-own store by a lack of transportation, and are able to comparison shop at traditional retail stores if they choose to do so.

The survey also found that while the ownership of credit cards and checking accounts was significantly lower for rent-to-own customers than for all U.S. households, 77 percent of rent-to-own customers had at least one type of credit card or bank account (credit card, savings, or checking), and 54 percent had at least two of the three types of accounts. This indicates that the typical rent-to-own customer does not belong to the group of consumers that some observers have referred to as the “unbanked.”⁷⁶ This does not necessarily indicate that these customers have available cash or credit. A customer’s bank accounts may not have any significant cash balances, credit cards already may be charged to their limit, and lenders may refuse new credit because of a poor customer credit history. But any constraints on the availability of cash or credit are more likely related to the customer’s financial condition and credit risk, rather than a lack of access to traditional banking accounts.

⁷⁶ See, for example, Hogarth and O’Donnell (1997). For further discussion of the use of traditional credit and bank accounts by rent-to-own customers (and more generally, by “alternative financial sector” customers) see Swagler, Burton, Lewis (1995) and Caskey (1994, 1997).

Table 3.1 Use of Rent-to-Own (RTO) Transactions

Use of Rent-to-Own Transactions (N)	Percent of Respondents Using Rent-to-Own Transactions	
	In the last year (12136)	In the last 5 years (12136)
Yes	2.3%	4.9%
No	97.4	94.9
Don't know (RTO use)	0.2	0.2
Refused (RTO use)	0.1	0.1
Don't know (rental date)	0.1	NA
Refused (rental date)	0.0	NA

DATA. Five-year data from survey question RO-1. Last-year data from survey questions RO-1 and RO-4. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 3.2 Use of Rent-to-Own Transactions by Demographic Group

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
All Respondents	2.3%	4.9%	12136
<u>Sex</u>			
Male	2.2	4.5	6061
Female	2.3	5.2	6075
<u>Race / Ethnicity</u>			
White	1.8	4.0	9746
African American	6.4	10.8	1004
Hispanic	2.1	5.2	639
Asian	0.6	3.8	116
Native American	1.7	5.5	137
Other / refused	1.1	4.5	494
<u>Age</u>			
18 - 24	4.1	6.1	1248
25 - 34	3.7	8.8	2435
35 - 44	2.9	6.3	2688
45 - 54	2.3	4.3	2167
55 - 64	0.7	1.9	1422
65 or older	0.2	0.9	1855
Refused	0.2	2.3	321
<u>Education</u>			
Less than H.S. graduate	4.6	9.0	1146
H.S. graduate	2.6	5.7	3956
Technical school / other	3.6	7.3	283
Some college	1.7	3.8	2812
College graduate	0.9	2.0	2651
Graduate school or more	0.3	1.6	1188
Refused	0.6	4.4	100

Table continued on next page.

Table 3.2 Continued

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
<u>Income</u>			
Less than \$15,000	3.8%	7.4%	1413
\$15,000 - \$24,999	4.9	9.2	1595
\$25,000 - \$39,999	2.6	4.8	2360
\$40,000 - \$49,999	1.9	5.3	1284
\$50,000 or more	0.5	2.1	3529
<\$25,000 (unspecified)	2.0	6.1	177
\$25,000+ (unspecified)	1.3	3.2	434
Don't know	2.5	3.4	211
Refused	0.3	1.7	1133
<u>Employment</u>			
Employed full-time	2.5	5.2	6773
Employed part-time	2.4	4.2	1372
Retired	0.3	1.1	2099
Homemaker	2.7	6.6	843
Student	2.9	6.2	272
Temporarily unemployed	5.6	10.8	391
Disabled / handicapped	4.8	13.0	269
Other not employed	8.7	18.7	55
Not employed, DK reason	0.0	0.0	4
Not employed, refuse reason	0.0	0.0	8
Refused	0.0	5.6	50
<u>Marital Status</u>			
Single	2.7	5.8	2216
Single, living with partner	4.8	8.6	596
Married	2.0	4.3	6808
Separated	6.4	12.4	249
Divorced	2.0	6.1	1284
Widowed	0.9	1.5	886
Refused	0.0	2.8	97

Table continued on next page.

Table 3.2 Continued

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
<u>Number of Children</u>			
None	1.2%	2.9%	7327
One	3.3	6.7	1947
Two	2.9	7.0	1767
Three	6.4	11.7	684
Four	8.1	15.7	200
Five or more	11.0	12.2	79
Refused	1.0	2.4	132
<u>Home Ownership</u>			
Own	1.2	3.1	8602
Rent	4.5	8.8	3389
Don't know	11.9	12.9	53
Refused	0.9	2.1	92
<u>Region</u>			
Northeast	1.4	3.6	2435
Midwest	2.3	5.2	2903
South	3.4	6.6	4272
West	1.1	2.7	2526
<u>Metropolitan Status</u>			
Central city	2.8	5.8	3865
Suburban	1.6	3.7	5291
Non-metropolitan	2.8	5.9	2980

DATA. Survey question RO-1 and various demographic questions. All percentages weighted.

NOTES. N's are unweighted sample sizes. 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 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 five-year data at only the 12 percent level).

Table 3.3 Demographic Characteristics of Rent-to-Own (RTO) Customers Compared to Non-Customers

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<u>Sex</u>							
Male	44.1%	46.1%		42.3%	46.3%		46.1%
Female	55.9	53.9		57.7	53.7		53.9
<u>Race / Ethnicity</u>							
White	57.3	74.5	**	60.3	74.8	**	74.0
African American	31.4	10.6	**	24.5	10.4	**	11.1
Hispanic	8.4	9.1		9.7	9.0		9.0
Asian	0.2	0.9	**	0.7	0.9		0.9
Native American	0.8	1.1		1.2	1.0		1.1
Other / refused	1.9	3.9	**	3.6	3.9		3.9
<u>Age</u>							
18 - 24	17.7	9.7	**	12.3	9.8	*	9.9
25 - 34	33.1	19.9	**	36.7	19.4	**	20.2
35 - 44	28.6	21.9	*	28.4	21.7	**	22.0
45 - 54	15.9	15.6		13.7	15.6		15.5
55 - 64	3.2	11.0	**	4.3	11.1	**	10.8
65 or older	1.3	19.3	**	3.3	19.7	**	18.9
Refused	0.2	2.7	**	1.3	2.7	**	2.7
<u>Education</u>							
Less than H.S. graduate	36.6	17.5	**	33.0	17.1	**	17.9
H.S. graduate	36.3	31.4		36.6	31.2	**	31.5
Technical school / other	3.5	2.2		3.3	2.1		2.2
Some college	15.2	20.9	**	16.0	21.0	**	20.7
College graduate	7.1	19.0	**	7.7	19.2	**	18.7
Graduate school or more	1.1	8.3	**	2.6	8.4	**	8.1
Refused	0.2	0.9	**	0.8	0.9		0.9

Table continued on next page.

Table 3.3 Continued

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<u>Income</u>							
Less than \$15,000	25.4%	14.8%	**	23.0%	14.7%	**	15.1%
\$15,000 - \$24,999	31.5	14.2	**	27.6	14.0	**	14.6
\$25,000 - \$39,999	22.2	19.3		19.1	19.4		19.4
\$40,000 - \$49,999	8.3	9.9		10.7	9.8		9.9
\$50,000 or more	5.8	24.9	**	10.4	25.2	**	24.4
<\$25,000 (unspecified)	1.6	1.8		2.3	1.8		1.8
\$25,000+ (unspecified)	1.8	3.3		2.2	3.4	*	3.3
Don't know	2.3	2.0		1.5	2.1		2.1
Refused	1.1	9.6	**	3.2	9.8	**	9.5
<u>Employment</u>							
Employed full-time	56.7	51.4		55.1	51.3		51.5
Employed part-time	11.7	11.1		9.5	11.2		11.1
Retired	2.6	20.5	**	4.4	20.9	**	20.1
Homemaker	9.0	7.5		10.2	7.4	*	7.5
Student	3.0	2.3		3.0	2.3		2.3
Temporary unemployed	9.4	3.7	**	8.4	3.6	**	3.8
Disabled / handicapped	5.8	2.6	*	7.2	2.5	**	2.7
Other not employed	1.8	0.4		1.8	0.4	*	0.5
Not employed, DK reason	0.0	0.0		0.0	0.0	*	0.0
Not employ, refuse reason	0.0	0.1		0.0	0.1	**	0.1
Refused	0.0	0.4	**	0.5	0.4		0.4
<u>Marital Status</u>							
Single	22.1	18.2		21.7	18.2		18.4
Single, living with partner	10.6	4.9	**	8.8	4.8	**	5.0
Married	47.4	53.3		46.7	53.4	**	53.1
Separated	6.5	2.2	**	5.8	2.1	**	2.3
Divorced	9.3	10.8		13.5	10.6		10.8
Widowed	4.0	9.8	**	3.0	10.0	**	9.7
Refused	0.0	0.9	**	0.5	0.8		0.9

Table continued on next page.

Table 3.3 Continued

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<u>Number of Children</u>							
None	32.5%	61.5%	**	36.2%	62.0%	**	60.8%
One	23.2	15.6	**	21.7	15.5	**	15.8
Two	18.3	14.1		20.6	13.9	**	14.2
Three	15.8	5.4	**	13.5	5.2	**	5.6
Four	6.3	1.6	**	5.7	1.5	**	1.8
Five or more	3.4	0.6	*	1.8	0.7		0.7
Refused	0.5	1.1		0.6	1.1	*	1.1
<u>Home Ownership</u>							
Own	35.4	68.7	**	42.8	69.2	**	67.9
Rent	61.8	30.1	**	55.6	29.6	**	30.9
Don't know	2.5	0.4		1.3	0.4		0.5
Refused	0.3	0.8		0.3	0.8	*	0.8
<u>Region</u>							
Northeast	12.5	19.8	**	14.5	19.9	**	19.7
Midwest	24.2	23.9		25.6	23.8		23.9
South	53.3	35.2	**	48.2	34.9	**	35.5
West	10.0	21.2	**	11.6	21.4	**	20.9
<u>Metropolitan Status</u>							
Central city	43.2	35.1	**	41.9	35.0	**	35.3
Suburban	32.4	45.4	**	34.3	45.7	**	45.1
Non-metropolitan	24.4	19.5	*	23.8	19.3	**	19.6

DATA. Survey question RO-1 and various demographic questions. All percentages weighted.

NOTES. N's are unweighted sample sizes. The t-tests are tests of the difference in the proportions of rent-to-own customers and non-customers in each demographic category. * indicates significance at the 90 percent level and ** indicates significance at the 95 percent level. Tests of independence of classification also were done for each demographic variable, comparing the demographic distribution of rent-to-own customers to the demographic distribution of non-customers, 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). These tests showed highly significant differences (at the one percent level) for all demographic variables, with the exceptions that the distributions were not significantly different for sex in the last-year data, and were significantly different at only the 5.5 percent level for both sex in the five-year data and metropolitan status in the last-year data.

Table 3.4 Summary of Selected Demographic Characteristics of Rent-to-Own Customers

Percent of customers using rent-to-own transactions in the last year:

- 31% African American; • 41% Minority
 - 51% 18 to 34 years old; • 79% 18 to 44 years old
 - 37% Less than high school education; • 73% High school graduate or less
 - 59% Household income less than \$25,000; • 81% Less than \$40,000
 - 67% Children in the household
 - 62% Rent their residence
 - 53% Live in the South; • 78% Live in the South or Midwest
 - 68% Live in central city or non-metropolitan areas
-

DATA. Survey questions RO-1, RO-4, and various demographic questions. All percentages weighted.

NOTES. The unweighted sample size is 244 customers. Minority includes African Americans, Hispanic Americans, Asian Americans, and Native Americans.

Table 3.5 Ownership of Vehicles, Credit Cards, and Bank Accounts by Rent-to-Own (RTO) Customers

Vehicle, Credit Card, and Bank Account Ownership (N)	Percent of Customer Households		Percent of all U.S. households*
	Customers using RTO in the last year (244)	Customers using RTO in the last 5 years (532)	
<u>Car or Truck</u>			
Yes	83.7%	83.3%	84.0%
No	16.3	16.7	16.0
Don't know	0.0	0.0	---
Refused	0.0	0.0	---
<u>Credit Card</u>			
Yes	43.6	48.4	66.5
No	56.3	51.4	33.5
Don't know	0.2	0.1	---
Refused	0.0	0.1	---
<u>Savings Account</u>			
Yes	48.7	54.4	36.0
No	51.1	45.1	64.0
Don't know	0.2	0.4	---
Refused	0.0	0.0	---
<u>Checking Account</u>			
Yes	63.7	67.5	85.0
No	36.1	31.8	15.0
Don't know	0.2	0.7	---
Refused	0.0	0.0	---

DATA. Survey questions RO-17a, 17b, 17c, and 17d. All percentages weighted.
 *U.S. household data from the Federal Reserve Board 1995 Survey of Consumer Finances (SCF), as presented in Kennickell, Starr-McCluer, and Sunden (1997) and Hogarth and O'Donnell (1997, 1999).

NOTES. N's are unweighted sample sizes. In the U.S. household figures, credit cards include major cards only (Discover, MasterCard, Optima, Visa), and "car or truck" includes all types of vehicles, including motorcycles, RV's, boats, and airplanes (but excludes leased vehicles).

Table 3.6 Number of Different Types of Bank Accounts Owned by Rent-to-Own Customers (Credit Card, Savings, or Checking)

Number of Different Types of Bank Accounts Owned (Credit Card, Savings, or Checking) (N)	Percent of RTO Customer Households	
	Customers using RTO in the last year (241)	Customers using RTO in the last 5 years (524)
None	23.0%	21.0%
One	23.3	19.7
Two	28.5	26.8
Three	25.2	32.5

DATA. Survey questions RO-17b, 17c, and 17d. All percentages weighted.

NOTES. N's are unweighted sample sizes.

RENT-TO-OWN MERCHANDISE AND RENTAL DATES

This chapter 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.

4.1 Number of Items Rented

The 532 rent-to-own customers in the FTC staff survey sample rented a total of 1,271 items of merchandise over the last five years. This amounted to an average of 2.5 items per customer. Forty-two percent of customers had rented a single item, 39 percent had rented two or three items, and 13 percent had rented four or five items. Seven percent of customers had rented more than five items, and less than one percent had rented more than ten. These results are presented in Table 4.1.

4.2 Types of Merchandise Rented

The survey found that 38 percent of the items rented by rent-to-own customers were home electronics products, 36 percent furniture, and 25 percent appliances. Jewelry accounted for less than one percent of rented items. These results are presented in Table 4.2.

The most commonly rented items were televisions (19 percent of rented items), sofas (13 percent), washers (nine percent), VCR's (eight percent), and stereos (seven percent). Together, these five types of merchandise accounted for 55 percent of all rented items. The ten most common types of merchandise, which adds beds, dryers, refrigerators, chairs, and dining tables, accounted for 80 percent of all items. The ten most common types of merchandise and their corresponding percentages are presented in Table 4.3.

4.3 Date of Rental

The FTC staff survey asked customers when they began renting each item, asking them to choose between one of four categories that ranged from "less than six months ago" to "more than two years ago." The results are presented in Table 4.4.

The distribution of rental dates indicates a mix of both recent and older transactions, but with a larger percentage being more recent. Customers began renting 35 percent of the items less than a year before the survey, 23 percent one to two years before the survey, and 41 percent more than two years before the survey. If one assumes that the 41 percent of items rented more than

two years before the survey were evenly distributed over the three years of that period, then each of the three years accounts for approximately 13.5 percent of the items in the sample.⁷⁷

Table 4.4 also shows, for each time period, the percentage of customers who had rented at least one item in that period. Forty-seven percent of customers had rented at least one item in the last year, 35 percent had rented at least one item between one and two years ago, and 52 percent had rented at least one item more than two years ago. This indicates that the sample includes large proportions of both recent and older customers.

4.4 Repeat Customers

The FTC staff survey found that most rent-to-own customers had rented merchandise from a rent-to-own store on only one occasion over the last five years. After asking rent-to-own customers to list all of the items they had rented in the last five years, the survey asked those who had rented more than one item whether all of the items had been rented on the same day.

As shown in Table 4.5, 40 percent of rent-to-own customers rented merchandise from a rent-to-own store on more than one occasion over the last five years.⁷⁸ The other 60 percent of customers rented merchandise only once in that period.

4.5 Conclusions

The FTC staff survey found that rent-to-own customers had rented an average of 2.5 items of merchandise per customer over the last five years. Thirty-eight percent of rented items were home electronics products, 36 percent furniture, and 25 percent appliances. Jewelry accounted for less than one percent of rented items. The most common items were televisions, sofas, washers, VCR's, and stereos, which together accounted for more than half of all rented merchandise. Televisions alone accounted for almost 20 percent of rented items.

⁷⁷ Industry estimates suggest that both the annual number of customers and merchandise deliveries changed little over the five years included in the sample (APRO, 1998). If the industry estimates are accurate, one would expect the sample to have a relatively equal percentage of items (approximately 20 percent) in each of the five years. The under-representation of items in the earlier years suggests that survey respondents may have been less complete in reporting earlier rentals than they were in reporting more recent rentals, perhaps due to memory limitations. It is also possible that some respondents inadvertently categorized rental dates as beginning more recently than the actual date.

⁷⁸ This may understate the extent of repeat use because some customers may have used rent-to-own transactions prior to the five-year period examined in the survey.

Rent-to-Own Merchandise and Rental Dates

Forty percent of rent-to-own customers had rented merchandise from a rent-to-own store on more than one occasion over the last five years. The other 60 percent of customers rented merchandise only once in that period.

The survey sample included a mix of both recent and older transactions, though the percentage of items rented in the most recent year was significantly higher than the percentages in each of the earlier years. Customers began renting 35 percent of the items less than a year before the survey, 23 percent one to two years before the survey, and 41 percent two to five years before the survey.

Table 4.1 Number of Items Rented Per Customer

Number of Items Rented (N)	Percent of Customers (532)	Cumulative Percent of Customers (532)	Number of Items Rented (N)	Percent of Customers (532)	Cumulative Percent of Customers (532)
1	41.9%	41.9%	9	0.9	99.0
2	22.2	64.1	10	0.3	99.3
3	16.4	80.5	11	0.0	99.3
4	7.6	88.1	12	0.2	99.5
5	5.1	93.2	13	0.0	99.5
6	2.1	95.3	14	0.0	99.5
7	1.9	97.2	15	0.4	99.9
8	0.9	98.1	16	0.1	100.0

Mean number of items = 2.5

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 4.2 Types of Merchandise Rented

Type of Merchandise (N)	Percent of Items (1271)	Type of Merchandise (N)	Percent of Items (1271)
<u>Home Electronics (total)</u>	37.6%	<u>Furniture (total)</u>	35.5%
Television	18.6	Sofa / couch / loveseat	12.5
VCR	8.1	Bed	6.3
Stereo	6.8	Chair	4.6
Computer	1.8	Dining table	3.4
Video camera	1.5	Dresser / chest	2.1
Play station	0.6	Entertainment center	1.7
CD player	0.1	End table	1.4
Scanner	0.1	Night stand	1.3
<u>Appliances (total)</u>	25.0	Coffee table	1.0
Washer	8.8	Cabinet / bookcase	0.5
Dryer	5.8	Headboard	0.3
Refrigerator	4.9	Ottoman / footstool	0.2
Stove / oven	2.5	China closet / hutch	0.2
Freezer	1.1	Microwave stand	0.1
Air conditioner	1.1	<u>Miscellaneous (total)</u>	1.1
Dishwasher	0.9	Lamp	0.9
<u>Jewelry (total)</u>	0.8	Glassware / china	0.2
Rings	0.5		
Necklace / chain	0.3		

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 4.3 Top Ten Types of Merchandise Rented

Type of Merchandise (N)	Percent of Items (1271)	Cumulative Percent of Items (1271)
Television	18.6%	18.6%
Sofa	12.5	31.1
Washer	8.8	39.9
VCR	8.1	48.0
Stereo	6.8	54.8
Bed	6.3	61.1
Dryer	5.8	66.9
Refrigerator	4.9	71.8
Chair	4.6	76.4
Dining table	3.4	79.8

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 4.4 Date of Rental

Date the customer began renting the merchandise (N)	Percent of items rented in the time period (1271)	Percent of customers renting at least one item in the time period (532)
<u>Less than one year before the survey (total; net total)</u>	35.1 %	46.5%
Less than six months before the survey	17.0	25.6
Between six months and one year before the survey	18.1	27.7
<u>More than one year before the survey (total; net total)</u>	63.8	74.0
Between one year and two years before the survey	23.2	35.2
More than two years before the survey	40.6	52.0
Don't Know	1.0	2.0
Refused	0.0	0.1

DATA. Survey question RO-4. All percentages weighted.

NOTES. Multiple responses possible in the last column; column percentage may sum to greater than 100 percent. "Net total" applies to the last column, and counts only one response per customer in the given category. N's are unweighted sample sizes.

Table 4.5 Repeat Customers Over the Last Five Years

Number of items rented in the last five years; number of rental occasions (N)	Percent of Customers (532)
<u>Repeat Customers</u>	
Multiple items; rented on different days	39.9%
<u>Not Repeat Customers (total)</u>	
Only one item rented	41.9
Multiple items; all rented on the same day	18.1
Multiple items; don't know days	0.1
Multiple items; refused days	0.0

DATA. Survey questions RO-2 and RO-3. All percentages weighted.

NOTES. N's are unweighted sample sizes.

RENT-TO-OWN PURCHASES AND RETURNS

This chapter presents 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.

5.1 Customer Purchase Intentions

The FTC staff survey found that most rent-to-own customers began the rent-to-own transaction intending to purchase the merchandise. The survey asked customers whether they had intended to “rent the [merchandise] long enough to purchase it from the rent-to-own store,” had intended to “rent it only for awhile and then return it to the store,” or “weren’t sure at the time.”⁷⁹ The survey found that 67 percent of customers began the transaction intending to purchase the merchandise, 25 percent intended to rent the merchandise for awhile and return it, and eight percent were unsure at the time. These results are presented in Table 5.1.

5.2 Purchases of Rent-to-Own Merchandise

The FTC staff survey found that most rent-to-own merchandise was purchased by the customer, that most customers had purchased at least one item of merchandise, that actual purchases were highly consistent with customer purchase intentions, and that the purchase rate was consistently high across almost all demographic groups and for both recent and older rentals.

The percentage of rent-to-own merchandise purchased. The survey asked, for each item rented in the last five years, whether the customer was “still renting the item,” had “purchased it

⁷⁹ The survey questionnaire asked this question, as well as questions presented later in the chapter on the duration of the rental and the reasons why merchandise was returned, in regard to only one randomly-selected item for each customer (see Chapter 2, above). In contrast, the question on the actual disposition of the rented merchandise (whether the merchandise was purchased, returned, or still being rented), which is presented in the following section of this chapter, was asked in regard to every item rented by each customer.

from the rent-to-own store,” or had “returned it to the rent-to-own store.”⁸⁰ The results are presented in Table 5.2, both for all items combined and separately by item rental date.

The most accurate estimate of the percentage of rent-to-own merchandise purchased by rent-to-own customers (referred to here as the “purchase rate”) is found in the results for merchandise customers began renting more than two years before the survey. For these transactions, sufficient time had elapsed to allow the customer to make all of the payments required to obtain ownership of the merchandise (which is typically 18 to 24 months in most rent-to-own agreements).⁸¹

The survey found that 71 percent of the merchandise that customers began renting more than two years before the survey had been purchased by the customer, 25 percent had been returned to the rent-to-own store, and two percent was still being rented.⁸²

The percentage of customers purchasing merchandise. The purchase of rent-to-own merchandise was not concentrated among a small percentage of customers each purchasing a large number of items, but was widespread across most rent-to-own customers. Seventy percent of the customers who had rented merchandise more than two years before the survey had purchased at least one of those items. This result is presented in Table 5.3.

Consistency with customer purchase intentions. The purchase of rent-to-own merchandise was highly consistent with customer purchase intentions. As noted above, 67

⁸⁰ The questionnaire instructed customers to count the item as purchased if they had either rented it long enough to acquire ownership, or if they had purchased it by paying it off early; and to count the item as returned if it was taken back to the store, by either the customer or the store.

⁸¹ The results from more recent transactions cannot be used as a direct estimate of the purchase rate because a large percentage of this merchandise was still being rented at the time of the survey, with the ultimate disposition not yet determined. As can be seen in the second column of Table 5.2, 67 percent of the merchandise rented less than six months before the survey was still being rented. The percentage of merchandise still being rented steadily declines as the rental date becomes less recent, and the percentage of merchandise purchased steadily increases. While the results from more recent transactions cannot be used as a direct estimate of the purchase rate, the purchase rate can be estimated by projecting the ultimate disposition of the items still being rented. This analysis is presented later in this chapter.

⁸² The 95 percent binomial confidence intervals for these estimates are 67 to 76 percent for the percentage of merchandise purchased, and 21 to 30 percent for the percentage of merchandise returned. (See footnote 53 for an explanation of confidence intervals.)

percent of customers intended to purchase the merchandise, and 71 percent of rent-to-own merchandise was purchased.

Actual purchases also were highly consistent with customer purchase intentions when examined at the individual customer level. As shown in Table 5.4, 87 percent of the customers who intended to purchase the rent-to-own merchandise actually did purchase it. Similarly, 90 percent of the customers who intended to rent temporarily and return the merchandise actually did return it. Customers who were unsure of their intentions when they began renting divided fairly evenly, with 47 percent purchasing the merchandise and 44 percent returning it.⁸³

Purchases across demographic groups. The percentage of rent-to-own merchandise purchased by customers was consistently high across almost all demographic groups.⁸⁴ The purchase rate ranged between 61 and 88 percent in nearly 90 percent of the demographic groups examined.⁸⁵ While there were statistically significant differences in the purchase rate across some of these groups, customers in almost all of the groups had purchased most of the merchandise they had rented from rent-to-own stores.⁸⁶

The only demographic groups with purchase rates less than 60 percent were the oldest age group, the retired employment category, the highest income categories, the highest education

⁸³ These results are based on the one randomly-selected item for each customer that was the subject of the purchase intentions question, and only for those randomly-selected items that had been rented more than two years before the survey.

⁸⁴ The purchase rate was examined in approximately 70 different demographic groups, including all of the demographic groups listed earlier in Table 3.2, and all of the vehicle, credit card, and bank account ownership groups listed in Tables 3.5 and 3.6. The sample sizes for some of the groups were small.

⁸⁵ One group, respondents who had attended technical school, had a purchase rate of 95 percent, but the sample size for the group was small, consisting of only 13 respondents.

⁸⁶ One example of a significant difference across demographic groups is that the purchase rate was 62 percent for customers who had a credit card, but 81 percent for customers who did not.

categories, and the Western region category.⁸⁷ As noted in Chapter 3, these same groups also had the lowest incidence of rent-to-own use.⁸⁸

Purchase rate estimates from more recent rentals. All of the above purchase rate results were based on merchandise customers began renting more than two years before the survey. The results from more recent transactions cannot be used as a direct estimate of the purchase rate, because a large percentage of the merchandise was still being rented at the time of the survey, with the ultimate disposition not yet determined. But analysis of the results from more recent rentals shows that they are consistent with the results found for earlier rentals, and support the conclusion that most rent-to-own merchandise is purchased by the customer.

Table 5.2 shows that a relatively high percentage of more recently rented merchandise already had been purchased by the time of the survey. Of the merchandise that customers began renting between six months and one year before the survey, 31 percent already had been purchased, and an additional 39 percent was still being rented. Similarly, of the merchandise that customers began renting between one and two years before the survey, 50 percent already had been purchased, and an additional 14 percent was still being rented.

⁸⁷ The purchase rate was between 20 and 40 percent in five of these groups, and was approximately 50 percent in two of them. One additional group, Asian-Americans, had a purchase rate of zero percent, but the sample size for this group consisted of only three respondents.

⁸⁸ The high purchase rate found across almost all demographic groups suggests that the absence from the survey sample of households without a telephone did not artificially inflate the overall purchase rate found in the survey. The demographic groups that typically have the lowest telephone subscription rates – low income, minority, and Southern households (FCC, 1999), for example – had purchase rates equal to or higher than the purchase rate found for the overall sample. If the purchase rates for low-income, minority, and Southern households without a telephone are similar, the absence of non-telephone households from the sample would not affect the overall purchase rate estimate. And even if the purchase rate for non-telephone households is substantially different from the purchase rate for telephone households, the resulting effect on the overall purchase rate estimate is not likely to change the conclusion that most merchandise is purchased. If 25 percent of all rent-to-own customers do not have a telephone, for example, (an industry-commissioned study by Cheskin and Masten (1991) suggests that it may be 22 percent), and these non-telephone households have a *zero* percent purchase rate, adjusting the FTC staff survey estimate to account for the non-telephone households would still yield an overall purchase rate estimate of 53 percent $((0.71 \times 0.75) + (0.0 \times 0.25) = 53.3\%)$. And if the non-telephone households had a purchase rate of 25 percent, the adjusted overall purchase rate would be 60 percent $((0.71 \times 0.75) + (0.25 \times 0.25) = 59.5\%)$.

The percentage of more recently rented merchandise already returned to the store by the time of the survey also is relatively high. As shown in Table 5.2, 29 percent of the merchandise rented between six months and one year before the survey had already been returned to the store, as had 34 percent of the merchandise rented between one and two years before the survey. These return percentages already are slightly higher than the 25 percent return rate found for merchandise rented more than two years before the survey.⁸⁹

To estimate the ultimate purchase rate for more recently rented merchandise, one must estimate the ultimate disposition of the merchandise that was still being rented.⁹⁰ The ultimate disposition of the merchandise still being rented can be estimated using a survey result presented later in this chapter. As shown in Table 5.8, the FTC staff survey found that 90 percent of the merchandise rented for six months or more was ultimately purchased by the customer. This implies that 90 percent of the merchandise that was rented more than six months before the survey, and was still being rented at the time of the survey, eventually will be purchased. The projected purchases from merchandise still being rented can be added to the purchases that already had occurred by the time of the survey to obtain a projected purchase rate for more recent rentals.

As shown in Table 5.5, these projections yield a purchase rate estimate of 66 percent for merchandise rented between six months and one year before the survey, 63 percent for merchandise rented between one and two years before the survey, and 73 percent for

⁸⁹ The 34 percent result for merchandise rented between one and two years before the survey is significantly different from the 25 percent result obtained for merchandise rented more than two years before the survey, but neither of these results is significantly different from the 29 percent result for merchandise rented between six months and one year before the survey.

⁹⁰ Basing the purchase rate estimate only on items that already had been purchased or returned would yield a biased result that understates the purchase rate. The purchase rate would be understated because purchased items are typically rented for a longer period of time than returned items. (As discussed below in section 5.3, and presented in Table 5.6, 81 percent of returned merchandise was rented for six months or less prior to being returned, but only 11 percent of purchased merchandise was rented for six months or less prior to being purchased.) If the purchase rate estimate were based only on items that already had been purchased or returned, merchandise that ultimately would be purchased would have a much greater probability of being excluded from the estimate because the merchandise was still being rented, while most returned merchandise would be included in the estimate because it already had been returned, biasing the purchase rate estimate downwards.

merchandise rented more than two years before the survey.⁹¹ A weighted average that combines the three estimates yields an overall projected purchase rate of 69 percent.

The projected purchase rates for more recent rentals are consistent with the purchase rate found for earlier rentals. While the projected purchase rates for more recent rentals are slightly lower than the estimate for earlier rentals, all of the estimates are consistent in finding that most rent-to-own merchandise is purchased by the customer.

The projected purchase rates for more recent rentals also indicate that potential memory bias is not affecting the conclusions of the purchase rate analysis.⁹² If memory bias were significantly affecting the results, one would expect to find a large difference between the purchase rates for older rentals and recent rentals, since any memory bias would have a larger effect on the results for older rentals. The consistency of the projected purchase rate estimates across all rental date categories in the FTC staff survey results indicates that any potential memory bias, if present at all, is slight, and does not affect the conclusions of the purchase rate

⁹¹ The 63 and 66 percent purchase rates projected for more recently rented merchandise are significantly different from the 73 percent rate projected for merchandise rented more than two years before the survey.

⁹² A memory bias would occur if respondents were more likely to remember purchases rather than returns (or *vice versa*). If respondents were more likely to remember purchases rather than returns, for example, the purchase rate estimate would be biased upwards. One might speculate that respondents are more likely to remember purchases, because purchased merchandise is typically rented for a longer period of time than returned merchandise, and because purchased merchandise still may be in the respondent's home, aiding recall. But one might also speculate the opposite, that returns are more likely to be remembered, because many returns involve either financial difficulties, problems with the merchandise or store, or rentals that were made for special occasions or temporary needs. These rentals may be more easily remembered than purchases, because the purchases may have been more routine transactions. If respondents were equally likely to remember both purchases and returns, however, memory limitations would not bias the purchase rate estimate, even if a large percentage of transactions were not recalled. In that case, the failure to recall transactions would only reduce the number of rented items reported in the survey.

analysis.⁹³ The estimated purchase rates for both recent and older rentals are consistent in finding that most rent-to-own merchandise is purchased by the customer.

5.3 Rental Duration

The FTC staff survey found that merchandise purchased from the rent-to-own store was rented for an average of almost 14 months before being purchased. As shown in the first column of Table 5.6, 11 percent of purchased merchandise was rented for less than six months, 36 percent was rented between six months and a year, 31 percent was rented between a year and a year and a half, and 20 percent was rented for more than a year and a half. Combining the first two categories shows that 47 percent of purchased merchandise was rented for a year or less before being purchased.⁹⁴ The large percentage of purchases occurring within a year or less suggests that many rent-to-own customers may have used an early-purchase option.⁹⁵

Most of the merchandise returned to the rent-to-own store was returned after a relatively short rental duration averaging approximately five months. As shown in the fifth column of Table 5.6 (which presents the cumulative percentages for returned merchandise) 51 percent of

⁹³ As described above, purchases for more recently rented merchandise that was still being rented at the time of the survey were projected using the survey result that found that 90 percent of the merchandise rented for six months or more was purchased by the customer. A question might be raised as to whether this 90 percent figure also is subject to possible memory bias. But a significant bias appears unlikely. The 90 percent figure is based only on merchandise that had been rented for six months or more (and a 90 percent figure also is found for merchandise that had been rented for one year or more). Since both returned and purchased merchandise in this group were rented for a substantial period of time, a selective memory bias in which purchases are more likely to be remembered and returns forgotten would seem unlikely. Further, even if a figure less than 90 percent were used to project ultimate purchases, the conclusions would not be greatly affected. For example, if a 75 percent figure were used instead of 90 percent, one would still obtain projected purchase rates of 60 to 61 percent.

⁹⁴ These results, and the others in this section, are based only on merchandise customers began renting more than two years before the survey. Including more recent rentals could bias the results, because more recent rentals, by definition, could not have had long rental durations. The actual effect, however, was relatively small. Including all purchases, regardless of the rental date (which increases the sample size from 144 to 226), results in an average rental duration of 12.6 months, with 53 percent of the purchases occurring within a year or less.

⁹⁵ Most rent-to-own agreements allow the customer to obtain early ownership of the merchandise through a lump-sum payment equal to a pre-specified proportion of the remaining rental payments.

returned merchandise was returned within three months, 81 percent was returned within six months, and 90 percent was returned within a year.⁹⁶

Combining the results for both purchases and returns shows that 36 percent of all rent-to-own merchandise was either purchased or returned within six months, and 62 percent was purchased or returned within a year. These results are presented in the last column of Table 5.6.

5.4 Reasons for Returning Merchandise

The reasons why merchandise was returned to the rent-to-own store are presented in the first column of Table 5.7.⁹⁷ The survey found that 59 percent of returned merchandise was returned because the renter's need for the merchandise had changed: forty percent because the merchandise "was no longer needed" or "had been needed only temporarily;" 14 percent because the renter had either purchased or obtained the same type of merchandise elsewhere; and five percent because of changed circumstances, such as a move, divorce, or death in the family.

Twenty-four percent of returned merchandise was returned for explicitly financial reasons: fifteen percent because the renter thought the merchandise was too expensive, and eight percent because the renter could no longer afford it or had other expenses.⁹⁸

Eight percent of returned merchandise was returned because of some type of problem: six percent because of a problem with the merchandise and two percent because of a disagreement with the rent-to-own store.⁹⁹

⁹⁶ Including all returns, regardless of the rental date (which increases the sample size from 80 to 189), results in an average rental duration of 4.5 months, with 93 percent of the returns occurring within a year or less.

⁹⁷ The other two columns in the table present the reasons why customers returned merchandise after making substantial payments towards ownership. These results are discussed in the analysis of late-term returns, presented in the next section of this chapter.

⁹⁸ Two of the customers who said that the merchandise was returned because they "bought one elsewhere" explicitly said that they bought one elsewhere because it was less expensive. Other customers who "bought one elsewhere" may have had a similar reason, even though they did not explicitly state it. These customers were included with the need-related, rather than the financial-related returns, because the responses indicated that they could afford a retail purchase, and no longer needed the rent-to-own merchandise.

⁹⁹ As with the rental duration results, the results in this section are based only on
(continued...)

The merchandise returned for financial reasons represented seven percent of all rent-to-own merchandise, and merchandise returned because of problems with the merchandise or store represented two percent.¹⁰⁰

5.5 *Late-Term Returns*

The disposition of merchandise rented for six months or more was examined to determine the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.¹⁰¹ As shown in Table 5.8, 90 percent of the merchandise that had been rented for six months or more was purchased by the customer, and ten percent was returned to the store.¹⁰² Similar percentages were found for both merchandise rented for more than a year and merchandise rented for more than two years.¹⁰³

⁹⁹ (...continued)

merchandise customers began renting more than two years before the survey. More recent rentals would include a larger proportion of rentals with a short rental duration, which could have different reasons for return than longer rentals. The actual effect of including more recent rentals, however, was not significant. Including all returns, regardless of the rental date (which increases the sample size from 80 to 189), finds that 62 percent of returns were for need-related reasons, 22 percent for financial reasons, and nine percent because of a problem with the merchandise or store.

¹⁰⁰ These figures are calculated from the results presented above. Approximately 30 percent of all rent-to-own merchandise was returned to the store, and 24 percent of returns were for financial reasons, implying that 7.2 percent of all merchandise was returned to the store for financial reasons ($0.30 \times 0.24 \times 100 = 7.2\%$). Similarly, 2.4 percent of all merchandise was returned to the store because of a problem with the merchandise or store ($0.30 \times 0.08 \times 100 = 2.4\%$).

¹⁰¹ The survey did not attempt to distinguish between returns and repossessions, counting all merchandise taken back to the store, by either the customer or the store, as a return. The survey did examine the reason for returns, as discussed above, identifying the extent to which merchandise was returned for financial reasons.

¹⁰² These results are based only on merchandise customers began renting more than two years before the survey. More recent rentals were excluded for the same reasons discussed earlier in regard to the purchase rate results, presented in section 5.2, above.

¹⁰³ The differences across the three rental date categories were not statistically significant.

The reasons why customers returned merchandise to the rent-to-own store after rental durations of six months or more were similar to the reasons found for all returns. Sixty percent of returns were because the item was no longer needed, 18 percent were for financial reasons, and eight percent because of a problem with the merchandise or store. These results are presented in the second column of Table 5.7.¹⁰⁴

The merchandise returned for financial reasons represented two percent of all merchandise rented for six months or more, and merchandise returned because of problems with the merchandise or store represented one percent.¹⁰⁵

5.6 Conclusions

The FTC staff survey found that approximately 70 percent of rent-to-own merchandise was purchased by the customer. The purchase rate was consistently high (at least 60 percent) in almost all demographic groups, and for both older and more recent transactions. Purchases also were widespread across most customers, with 70 percent of customers purchasing at least one item of merchandise.

Purchases were consistent with customer purchase intentions. 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.

The survey also found that merchandise purchased from the rent-to-own store was rented for an average of 14 months before being purchased. Almost half of the purchased merchandise was rented for a year or less before being purchased, suggesting that many customers may have used an early purchase option.

Most of the merchandise returned to the rent-to-own store was returned after a relatively short rental duration averaging five months. Fifty-one percent of returned merchandise was

¹⁰⁴ Table 5.7 also presents results for returned merchandise that was rented for more than a year before being returned. As indicated in the table, the sample sizes for both categories of late-term returns were small. The small sample sizes reflect the fact that few items were returned to the store after rental durations of six months or more.

¹⁰⁵ These figures are calculated from the results presented above. Approximately ten percent of the merchandise rented for six months or more was returned to the store, and 18 percent of these returns were for financial reasons, implying that 1.8 percent of all late-term rentals were returned to the store for financial reasons ($0.10 \times 0.18 \times 100 = 1.8\%$). Similarly, 0.8 percent of all late-term rentals were returned to the store because of a problem with the merchandise or store ($0.10 \times 0.08 \times 100 = 0.8\%$).

Rent-to-Own Purchases and Returns

returned within three months, 81 percent was returned within six months, and 90 percent was returned within a year.

The survey found that 59 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. The merchandise returned to the store for financial reasons represented seven percent of all rent-to-own merchandise, and the merchandise returned because of problems with the merchandise or store represented two percent.

The survey also found that ninety percent of the merchandise on which customers had made substantial payments towards ownership (of six months or more) was purchased by the customer. The other ten percent was returned to the store. Sixty percent of the returns were because the item was no longer needed, 18 percent for financial reasons, and eight percent because of a problem with the merchandise or store. Merchandise returned to the store for financial reasons represented two percent of all merchandise rented for six months or more, and merchandise returned because of some type of problem represented less than one percent. These results suggest that late-term repossessions are not a widespread problem and do not represent the typical experience of rent-to-own customers.

Table 5.1 Customer Purchase Intentions

Customer Intentions (N)	Percent of Customers (532)
Purchase	66.8%
Temporary rental	25.0
Wasn't sure	7.8
Don't know	0.3
Refused	0.0

DATA. Survey question RO-7. All percentages weighted.

NOTES. N's are unweighted sample sizes.

Table 5.2 Disposition of Rent-to-Own Merchandise: Percentage of Items Purchased, Returned, and Still Being Rented

Disposition (N)	Percent of All Items (1271)	Rental Date			
		Percent of items rented less than 6 months before the survey (224)	Percent of items rented 6 months to 1 year before the survey (231)	Percent of items rented 1 to 2 years before the survey (287)	Percent of items rented more than 2 years before the survey (515)
Purchased	48.5%	12.4%	30.8%	50.0%	71.4%
Returned	26.9	20.7	28.7	34.1	25.3
Still renting	22.5	66.6	39.3	14.0	2.0
Other	1.1	0.0	0.4	1.6	1.2
Don't know	0.9	0.3	0.9	0.2	0.0
Refused	0.1	0.0	0.0	0.0	0.1

DATA. Survey questions RO-4 and RO-5. All percentages weighted.

NOTES. The rental date indicates the date the customer began renting the merchandise. N's are unweighted sample sizes.

Table 5.3 Customers Purchasing at Least One Item

Purchased at Least One Item (N)	Percent of Customers (269)
Purchased at least one item	69.9%
Did not purchase at least one item	30.1

DATA. Survey questions RO-4 and RO-5. All percentages weighted.

NOTES. The sample includes only customers who began renting merchandise more than two years before the survey. N's are unweighted sample sizes.

Table 5.4 Comparison of Customer Purchase Intentions to the Actual Disposition of Rent-to-Own Merchandise

Actual Disposition (N)	Customer Purchase Intention		
	Percent of customers who intended to purchase (145)	Percent of customers who intended a temporary rental (65)	Percent of customers who were not sure (24)
Purchased	86.6%	10.1%	46.8%
Returned	9.5	90.0	44.0
Still renting	2.0	0.0	5.0
Other	1.9	0.0	4.2

DATA. Survey questions RO-4, RO-5 and RO-7. All percentages weighted.

NOTES. The sample includes only the randomly-selected items included in the purchase intentions question that the customer began renting more than two years before the survey. N's are unweighted sample sizes.

Table 5.5 Purchase Rate Estimates for More Recent Rentals

Disposition of Rented Items (N)	Rental Date			Weighted average of the three time periods (1033)
	Percent of items rented 6 months to 1 year before the survey (231)	Percent of items rented 1 to 2 years before the survey (287)	Percent of items rented more than 2 years before the survey (515)	
(1) Percentage purchased by the survey date	30.8%	50.0%	71.4%	---
(2) Percentage still renting at the survey date	39.3	14.0	2.0	---
(3) Percent of items rented for six months or more that are ultimately purchased	90.0	90.0	90.0	---
(4) Estimated eventual purchases from items still being rented	35.4	12.6	1.8	---
(5) Estimated ultimate purchase rate	66.2	62.6	73.2	68.7

DATA. Survey questions RO-4; RO-5; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. Data in rows (1) and (2) are from Table 5.2. Data in row (3) are from Table 5.8 (with the figures rounded to 90.0 percent in each category). Row (4) is calculated by multiplying row (2) by row (3) and dividing by 100. Row (5) is calculated by adding rows (1) and (4). The rental date indicates the date the customer began renting the merchandise. N's are unweighted sample sizes.

Table 5.6 Rental Duration for Purchased and Returned Merchandise

Rental Duration (N)	Percent of Purchases (144)	Percent of Returns (80)	Percent of Both (224)	Cumulative Percent of Purchases (144)	Cumulative Percent of Returns (80)	Cumulative Percent of Both (224)
Less than 3 months	3.3%	50.8%	20.3%	3.3%	50.8%	20.3%
3 to 6 months	7.2	30.4	15.5	10.5	81.2	35.8
6 months to 1 year	35.6	8.6	26.0	46.1	89.8	61.8
Less than 1 year (non-specific)	0.7	0.0	0.5	46.8	89.8	62.3
Total less than 1 year	46.8	89.8	62.3	46.8	89.8	62.3
1 to 1½ years	31.4	6.5	22.5	78.2	96.3	84.8
1½ to 2 years	9.4	0.0	6.0	87.6	96.3	90.8
2 to 2½ years	4.7	1.3	3.5	92.3	97.6	94.3
More than 2½ years	5.5	1.9	4.2	97.8	99.5	98.5
1 year or more (non-specific)	1.9	0.0	1.2	99.7	99.5	99.7
Total 1 year or more	52.9	9.7	37.4	---	---	---
Don't know	0.4	0.6	0.5	100.1	100.1	100.2
Mean (months)	13.9	4.9	10.7	---	---	---

DATA. Survey questions RO-4; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.

Table 5.7 Reasons for Returning Rent-to-Own Merchandise

Reason for Return (N)	Percent of all returned items (80)	Rental Duration	
		Percent of returned items rented for 6 months or more (15)	Percent of returned items rented for 1 year or more (7)
<u>Need-Related Reasons (total)</u>	59.2%	60.4%	60.1%
Only needed it temporarily / didn't need it anymore	40.1	28.4	35.1
Bought one / got one elsewhere	14.1	23.2	25.0
Changed circumstances (divorce / death in family / move)	5.0	8.8	0.0
<u>Cost / Financial Reasons (total)</u>	23.5	18.0	13.4
Too expensive / too costly / too much interest	15.4	8.3	0.0
Couldn't afford it anymore / had other expenses	8.1	9.7	13.4
<u>Problem-Related Reasons (total)</u>	7.6	7.6	0.0
The item did not work properly / item defective	5.6	0.0	0.0
Disagreement with the rent-to-own store	2.0	7.6	0.0
No specific reason given	1.3	7.2	13.6
Other	6.3	6.9	13.0
Don't know	2.0	0.0	0.0
Refused	0.0	0.0	0.0

DATA. Survey question RO-9, 9a, 9b, and RO-9c. All percentages weighted.

NOTES. One response per respondent. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.

Table 5.8 Disposition of Merchandise Rented for Six Months or More

Disposition (N)	Rental Duration		
	Percent of items rented for 6 months or more (137)	Percent of items rented for 1 year or more (81)	Percent of items rented for 2 years or more (16)
Purchased	89.9%	92.4%	87.3%
Returned	10.1	7.6	12.8

DATA. Survey questions RO-4; RO-5; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.

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.

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

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

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

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)	Some-what Satisfied (166)	Neither (32)	Some-what Dissatisfied (46)	Very Dissatisfied (58)
<u>ANY POSITIVE RESPONSE (NET TOTAL)</u>	58.7%	99.3%	38.7%	41.0%	0.0%	5.4%
<u>Access / Good Price / Flexibility (net total)</u>	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
<u>Good Merchandise / Services (net total)</u>	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)	Some-what Satisfied (166)	Neither (32)	Some-what Dis-satisfied (46)	Very Dis-satisfied (58)
<u>Good Employees / Treatment (net total)</u>	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
<u>General / Other Good (net total)</u>	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
<u>ANY NEGATIVE RESPONSE (NET TOTAL)</u>	42.4	2.0	64.6	52.2	100.0	94.0
<u>High Prices / Hidden / Added Costs (net total)</u>	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
<u>Problems with Merchandise / Services (net total)</u>	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
<u>Problems with Employees / Treatment (net total)</u>	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)	Some-what Satisfied (166)	Neither (32)	Some-what Dis-satisfied (46)	Very Dis-satisfied (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)
<u>Any Mixed or Neutral Response (net total)</u>	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)
<u>Any Positive Response (net total)</u>	14.1%	<u>Any Negative Response (net total)</u>	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	<u>Any Mixed or Neutral Response (net total)</u>	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.

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

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

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

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

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 (Mierzewski, 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

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

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

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

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 ($100 \text{ million} \times 0.049 \times 0.456 \times 0.016 / 5 \text{ years} = 7,150$). 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.

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

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.

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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Media, Pennsylvania 19063

Job #N949
December 3, 1998
CLIRT1203QN.DOC
OMB #3084-0116

FTC RENT-TO-OWN CUSTOMER SURVEY QUESTIONNAIRE

Screening

RO-1. 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 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)?

- 1 Yes QUALIFIED. CONTINUE
- 2 No NOT QUALIFIED. GO TO NEXT SECTION OF EXCEL
- D Don't Know NOT QUALIFIED. GO TO NEXT SECTION OF EXCEL
- R Refused NOT QUALIFIED. GO TO NEXT SECTION OF EXCEL

Main Questionnaire

RO-2. Please tell me all of the items that you rented from rent-to-own stores in the last five years, that is, since approximately (December 1993/January 1994/February 1994). If you rented the same type of item more than once, for example, two different TV's, please tell me that.

PROBE: Is there anything else you rented in the last five years? (PROBE UNTIL UNPRODUCTIVE OR UNTIL 20 ITEMS ARE LISTED.)

(NOTE: IF RESPONDENT SAYS, "3 TVs", FOR EXAMPLE, WRITE "TV1", "TV2", "TV3" ON THREE SEPARATE LINES.)

(IF RESPONDENT'S ANSWER IS A "SET", ETC., PROBE FOR ITEMS IN THE SET AND LIST THEM SEPARATELY. FOR EXAMPLE, IF RESPONDENT SAYS "WASHER AND DRYER", LIST THOSE AS TWO SEPARATE ITEMS. IF RESPONDENT SAYS "LIVING ROOM SET", PROBE: "What was included in the living room set?", IF RESPONSE TO THE PROBE IS "SOFA, CHAIR, AND TABLE", LIST THIS AS THREE SEPARATE ITEMS.)

(NOTE: **DO NOT LIST**: CARS, TRUCKS, TOOLS, CONSTRUCTION EQUIPMENT, MUSICAL INSTRUMENTS, MEDICAL EQUIPMENT, REAL ESTATE. IF RESPONDENT MENTIONS ITEMS OF THIS TYPE, SAY: "For the purpose of this survey, we will not count items of this type.")

- 0 (SPECIFY ITEM 1 – 20) _____
- N No additional items (VALID FOR ITEMS 2 – 20 ONLY)
- D Don't Know
- R Refused

(IF 20 ITEMS LISTED IN Q.2 ASK Q.2A, OTHERWISE SKIP TO INSTRUCTION FOLLOWING Q.2B.)

RO-2A Is there anything else you rented from the rent-to-own store in the last 5 years?

- 1 Yes ASK Q.2B
- 2 No SKIP TO INSTRUCTION FOLLOWING Q.2B
- D Don't Know SKIP TO INSTRUCTION FOLLOWING Q.2B
- R Refused SKIP TO INSTRUCTION FOLLOWING Q.2B

RO-2B Approximately how many other items did you rent from a rent-to-own store in the last 5 years (aside from those we listed)?

_____ ENTER NUMBER (1-996)

DD Don't Know

RR Refused

(PROGRAMMER NOTE: RECORD THE TOTAL NUMBER OF ITEMS LISTED IN Q.2 AND Q.2B AND DISPLAY FOR ANNOTATES.)

(PROGRAMMER NOTE: IF NO VALID ITEMS LISTED IN Q.2 GO TO NEXT SECTION OF EXCEL; OTHERWISE CONTINUE.)

(IF ONLY ONE VALID ITEM LISTED IN Q.2, SELECT THIS ITEM AND GO TO Q.4. RECORD ITEM SELECTED: _____.)

(IF MORE THAN ONE VALID ITEM LISTED IN Q.2, SELECT A RANDOM ITEM. RECORD ITEM SELECTED: _____. CONTINUE WITH Q.3.)

QUESTIONS FOR RESPONDENTS WITH MORE THAN ONE ITEM IN Q.2:

RO-3. Were (both/all) of these items rented on the same day?

1 Yes

2 No

D Don't Know

R Refused

QUESTIONS FOR RESPONDENTS WITH ANY VALID ITEM(s) IN Q.2:

RO-4. (IF Q.2=2+: Now I want to ask you when you began renting each of the items you listed. I'll read through the list of items, and for each item, please tell me whether you began renting the item less than 6 months ago, between 6 months and 1 year ago, between 1 and 2 years ago, or more than 2 years ago.

When did you begin renting the (READ EACH Q.2 ITEM ONE AT A TIME)?
Was it less than 6 months ago, between 6 months and 1 year ago, between 1 and 2 years ago, or more than 2 years ago?)

(IF Q.2=ONLY 1: When did you begin renting the (Q.2 ITEM)? Was it less than 6 months ago, between 6 months and 1 year ago, between 1 and 2 years ago, or more than 2 years ago?)

- 1 Less than 6 months ago
- 2 Between 6 months and 1 year ago
- 3 Between 1 and 2 years ago
- 4 More than 2 years ago
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

(PROGRAM NOTE: SUMMARIZE THE NUMBER OF CODE 1/2/3/4/D/R RESPONSES PER RESPONDENT FOR Q.4 AND DISPLAY.)

Rent-to-Own Customer Survey Questionnaire

RO-5. (IF Q.2=2+: 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.

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?)

(IF Q.2=ONLY 1: Now I want to ask you what happened to the (Q.2 ITEM). 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? 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.)

- 1 Still renting
- 2 Purchased from the rent-to-own store
- 3 Returned to the rent-to-own store
- 7 (DO NOT READ) Other (SPECIFY) _____
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

(PROGRAM NOTE: SUMMARIZE THE NUMBER OF CODE 1/2/3/7/D/R RESPONSES PER RESPONDENT FOR Q.5 AND DISPLAY.)

(PROGRAM NOTE: Q.6A, 6B AND 6C ARE DATA LOCATIONS TO DETERMINE THE NEXT APPROPRIATE QUESTION TO BE ASKED.)

RO-6A. DISPLAY Q.2 ITEM/RANDOM Q.2 ITEM SELECTED EARLIER.

RO-6B RECORD THE Q.4 RESPONSE FOR THE SELECTED ITEM DISPLAYED IN Q.6A.

- 1 Less than 6 months ago
- 2 Between 6 months and 1 year ago
- 3 Between 1 and 2 years ago
- 4 More than 2 years ago
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

RO-6C RECORD THE Q.5 RESPONSE FOR THE SELECTED ITEM DISPLAYED IN Q.6A.

- 1 Still renting ASK Q.7 THEN GO TO Q.11
- 2 Purchased from the rent-to-own store ASK Q.7 THEN GO TO Q.8
- 3 Returned to the rent-to-own store ASK Q.7 THEN GO TO Q.9
- 7 (DO NOT READ) Other (SPECIFY) _____ ASK Q.7 THEN GO TO Q.10
- D (DO NOT READ) Don't Know ASK Q.7 THEN GO TO Q.11
- R (DO NOT READ) Refused ASK Q.7 THEN GO TO Q.11

RO-7. Now I want to ask you some questions about your experience renting the (SELECTED Q.2 ITEM).

(NOTE: IF SELECTED ITEM IS SOMETHING THE RESPONDENT LISTED MORE THAN ONE OF, FOR EXAMPLE, "TV1", "TV2", or "TV3", SAY: "the first/second/third television you mentioned".)

When you first began renting the (SELECTED Q.2 ITEM), did you intend to rent it long enough to purchase it from the rent-to-own store, or did you intend to rent it only for awhile and then return it to the store, or weren't you sure at the time?

- 1 Intended to rent it long enough to purchase it from the rent-to-own store
- 2 Intended to rent it only for awhile and then return it
- 3 Wasn't sure at the time
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

QUESTIONS FOR RESPONDENTS WITH ITEM "PURCHASED" IN Q.5:

RO-8. You mentioned earlier that you purchased the (SELECTED Q.2 ITEM) from the rent-to-own store. For approximately how long did you make payments before it became yours to keep? Was it more than a year or was it 1 year or less?

- | | | |
|---|------------------|--------------|
| 1 | More than a year | SKIP TO Q.8B |
| 2 | 1 year or less | CONTINUE |
| D | Don't Know | SKIP TO Q.11 |
| R | Refused | SKIP TO Q.11 |

RO-8A. Was it...?

- | | | |
|---|-----------------------------|--------------|
| 1 | Less than 3 months, | SKIP TO Q.11 |
| 2 | Between 3 and 6 months, | SKIP TO Q.11 |
| 3 | Between 6 months and 1 year | SKIP TO Q.11 |
| D | (DO NOT READ) Don't Know | SKIP TO Q.11 |
| R | (DO NOT READ) Refused | SKIP TO Q.11 |

RO-8B. (IF Q.8 = 1) Was it...?

- | | | |
|---|-------------------------------|--------------|
| 1 | Between 1 year and 1 ½ years, | SKIP TO Q.11 |
| 2 | Between 1 ½ and 2 years, | SKIP TO Q.11 |
| 3 | Between 2 and 2 ½ years, | SKIP TO Q.11 |
| 4 | More than 2 ½ years | SKIP TO Q.11 |
| D | (DO NOT READ) Don't Know | SKIP TO Q.11 |
| R | (DO NOT READ) Refused | SKIP TO Q.11 |

QUESTIONS FOR RESPONDENTS WITH ITEM "RETURNED" IN Q.5:

RO-9. You mentioned earlier that the (SELECTED Q.2 ITEM) was returned to the rent-to-own store. For approximately how long did you rent it before it was returned? Was it more than a year or was it 1 year or less?

- | | | |
|---|------------------|--------------|
| 1 | More than a year | SKIP TO Q.9B |
| 2 | 1 year or less | CONTINUE |
| D | Don't Know | SKIP TO Q.9C |
| R | Refused | SKIP TO Q.9C |

Rent-to-Own Customer Survey Questionnaire

RO-9A. Was it...?

- | | | |
|---|-----------------------------|--------------|
| 1 | Less than 3 months, | SKIP TO Q.9C |
| 2 | Between 3 and 6 months, | SKIP TO Q.9C |
| 3 | Between 6 months and 1 year | SKIP TO Q.9C |
| D | (DO NOT READ) Don't Know | SKIP TO Q.9C |
| R | (DO NOT READ) Refused | SKIP TO Q.9C |

RO-9B. (IF Q.9 = 1) Was it...?

- | | | |
|---|-------------------------------|----------|
| 1 | Between 1 year and 1 ½ years, | CONTINUE |
| 2 | Between 1 ½ and 2 years, | CONTINUE |
| 3 | Between 2 and 2 ½ years, | CONTINUE |
| 4 | More than 2 ½ years | CONTINUE |
| D | (DO NOT READ) Don't Know | CONTINUE |
| R | (DO NOT READ) Refused | CONTINUE |

RO-9C. Why was the (SELECTED Q.2 ITEM) returned to the rent-to-own store?
(PROBE: "Was there any other reason?")
(PROBE UNTIL UNPRODUCTIVE. WHERE APPLICABLE, PROBE FOR CLARIFICATION: "What do you mean by (REPEAT RESPONSE)?")

- | | |
|---|--------------------------|
| 1 | Response Given (SPECIFY) |
| D | Don't Know |
| R | Refused |

(NOW SKIP TO Q.11)

QUESTIONS FOR RESPONDENTS WITH ITEM "OTHER" IN Q.5:

RO-10. You mentioned earlier that the (SELECTED Q.2 ITEM) was (SPECIFIED OTHER RESPONSE LISTED IN Q.5). For approximately how long did you rent it before it was (SPECIFIED OTHER RESPONSE LISTED IN Q.5)? Was it more than a year or was it 1 year or less?

- | | | |
|---|------------------|---------------|
| 1 | More than a year | SKIP TO Q.10B |
| 2 | 1 year or less | CONTINUE |
| D | Don't Know | SKIP TO Q.10C |
| R | Refused | SKIP TO Q.10C |

RO-10A. Was it...?

- | | | |
|---|-----------------------------|---------------|
| 1 | Less than 3 months, | SKIP TO Q.10C |
| 2 | Between 3 and 6 months, | SKIP TO Q.10C |
| 3 | Between 6 months and 1 year | SKIP TO Q.10C |
| D | (DO NOT READ) Don't Know | SKIP TO Q.10C |
| R | (DO NOT READ) Refused | SKIP TO Q.10C |

RO-10B. (IF Q.10 = 1) Was it...?

- | | | |
|---|-------------------------------|----------|
| 1 | Between 1 year and 1 ½ years, | CONTINUE |
| 2 | Between 1 ½ and 2 years, | CONTINUE |
| 3 | Between 2 and 2 ½ years, | CONTINUE |
| 4 | More than 2 ½ years | CONTINUE |
| D | (DO NOT READ) Don't Know | CONTINUE |
| R | (DO NOT READ) Refused | CONTINUE |

RO-10C. You said the (SELECTED Q.2 ITEM) was (SPECIFIED OTHER RESPONSE IN Q.5). Can you explain to me what happened?

(WHERE APPROPRIATE, PROBE FOR CLARIFICATION: "What do you mean by (REPEAT RESPONSE)?")

(PROBE IF ITEM WAS "EXCHANGED": "Why was it exchanged?")

- | | |
|---|--------------------------|
| 1 | Response Given (SPECIFY) |
| D | Don't Know |
| R | Refused |

QUESTIONS FOR ALL RESPONDENTS:

RO-11. Now I want to ask you some questions about all of your experience renting from rent-to-own stores. Overall, how satisfied or dissatisfied are you with your experience with rent-to-own? Would you say you are...?

(ROTATE 5 TO 1 AND 1 TO 5)

- | | |
|---|------------------------------------|
| 5 | Very satisfied |
| 4 | Somewhat satisfied |
| 3 | Neither satisfied nor dissatisfied |
| 2 | Somewhat dissatisfied |
| 1 | Very dissatisfied |
| D | (DO NOT READ) Don't Know |
| R | (DO NOT READ) Refused |

RO-12. Why are you (Q.11 RESPONSE, IF D OR R SKIP TO Q.13) with rent-to-own?

(PROBE: "Are there any other reasons?")

(PROBE UNTIL UNPRODUCTIVE. WHERE APPLICABLE, PROBE FOR CLARIFICATION: "What do you mean by (REPEAT RESPONSE)?")

- 1 Response Given (SPECIFY)
- D Don't Know
- R Refused

RO-13. Sometimes people are late making a payment to a rent-to-own store. Were you ever late making a payment to a rent-to-own store?

- 1 Yes CONTINUE
- 2 No SKIP TO Q.16
- D Don't Know SKIP TO Q.16
- R Refused SKIP TO Q.16

QUESTIONS FOR RESPONDENTS WITH LATE PAYMENTS:

RO-14. How were you treated by rent-to-own stores when you were late making a payment? Would you say that the treatment you received was...?

(ROTATE 5 TO 1 AND 1 TO 5)

- 5 Very good
- 4 Good
- 3 Fair
- 2 Poor
- 1 Very poor
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

RO-15. Why do you say the treatment you received was (Q.14 RESPONSE, IF D OR R SKIP TO Q.16)?

(PROBE: "Anything else?")

(PROBE UNTIL UNPRODUCTIVE. WHERE APPLICABLE, PROBE FOR CLARIFICATION: "What do you mean by (REPEAT RESPONSE)?")

- 1 Response Given (SPECIFY)
- D Don't Know
- R Refused

QUESTIONS FOR ALL RESPONDENTS:

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

(PROBE: "Anything else?")

(PROBE UNTIL UNPRODUCTIVE. WHERE APPLICABLE, PROBE FOR CLARIFICATION: "What do you mean by (REPEAT RESPONSE)?")

- 1 Response Given (SPECIFY)
- 2 No, nothing else
- D Don't Know
- R Refused

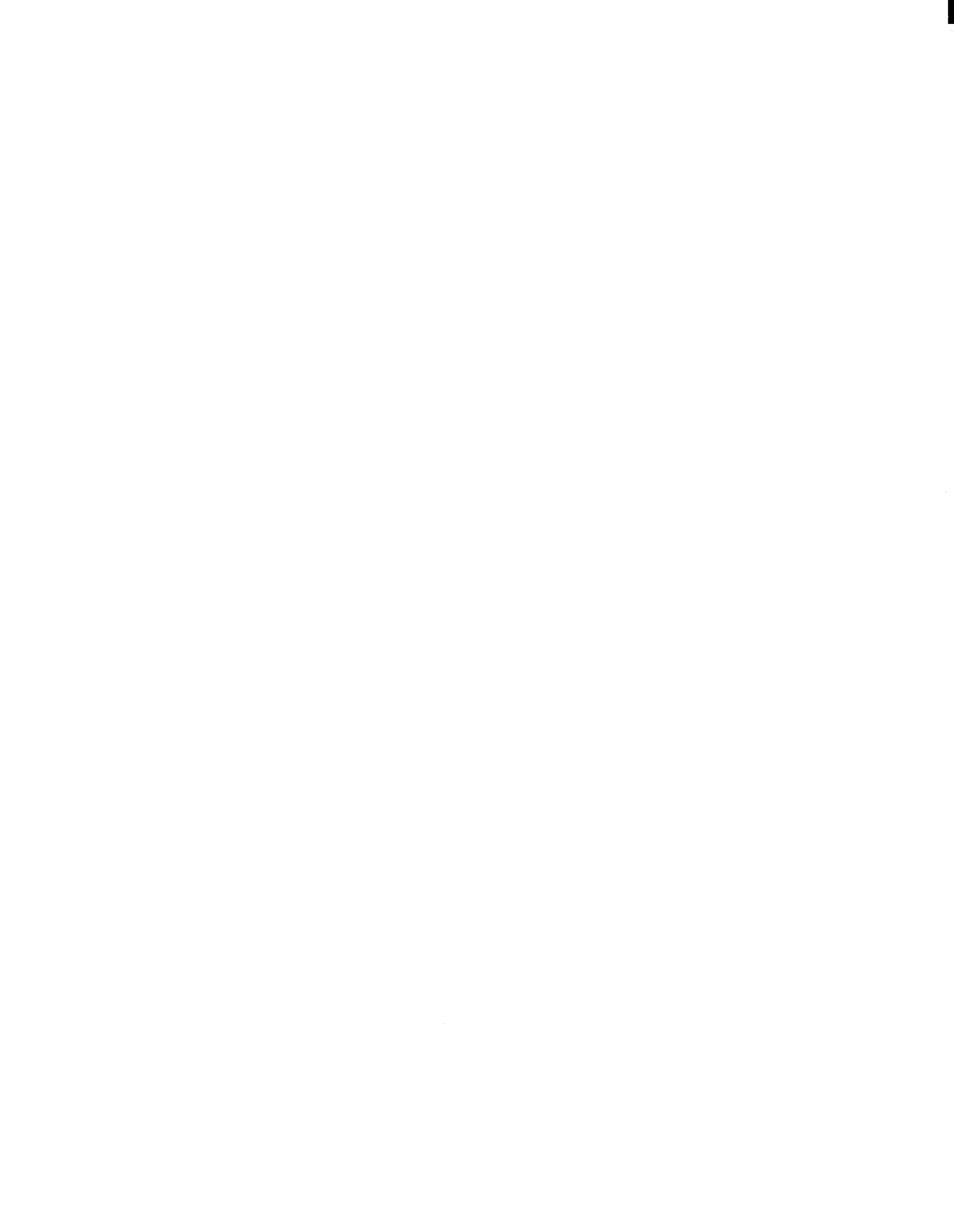
RO-17. For classification purposes, do you or anyone in your household have a...?
(RESPONSE REQUIRED FOR EACH OF ITEMS a – d.)

- 1 Yes
- 2 No
- D Don't Know
- R Refused

a. Car or truck (DO NOT READ: either own outright, have auto loan, or lease)

(ROTATE b-d)

- b. Credit card
- c. Savings account
- d. Checking account





EXCEL Job #L
Date

Media, Pennsylvania 19063
DEMOQN.DOC

ICR DEMOGRAPHIC QUESTIONNAIRE

(ASK EVERYONE)

And finally, just a few questions for classification purposes only. . .

Z-1. Is your home owned or rented?

- 1 Owned
- 2 Rented
- D Don't Know
- R Refused

Z-2. Are you: (READ LIST)

- 1 Single, that is never married
- 2 Single, living with a partner
- 3 Married
- 4 Separated
- 5 Widowed, or
- 6 Divorced
- R (DO NOT READ) Refused

(ASK MALES)

Z-3. Would you consider yourself to be the male head of this household?

- 1 Yes
- 2 No
- D Don't Know
- R Refused

(SKIP TO Q.Z-4)

ICR Demographic Questionnaire

(ASK FEMALES)

Z-3. Would you consider yourself to be the female head of this household?

- 1 Yes
- 2 No
- D Don't Know
- R Refused

Z-4. Currently, are you yourself employed full-time, part-time, or not at all?

- 1 Full-time (SKIP TO Q.Z-6)
- 2 Part-time (SKIP TO Q.Z-6)
- 3 Not employed (GO TO Q.Z-5)
- R Refused (SKIP TO Q.Z-6)

(ASK IF NOT EMPLOYED IN Q.Z-4)

Z-5. Are you: (READ LIST)

- 1 Retired
- 2 A homemaker
- 3 A student, or
- 4 Temporarily unemployed
- 5 (DO NOT READ) Disabled/handicapped
- 0 (DO NOT READ) Other (SPECIFY) _____
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

Z-6. Including yourself, how many people are there living in your household?
(RECORD SINGLE-DIGIT NUMBER)

- 8 Eight or more people
- R Refused

(IF 1 OR IF REFUSED, SKIP TO Q.Z-7)

ICR Demographic Questionnaire

Z-6A. How many of these are adults, 18 or older?
(RECORD SINGLE-DIGIT NUMBER)

-
- 8 Eight or more people
 - R Refused

(IF 1 AND IF NUMBER IN Q.Z-6A IS LESS THAN Q.Z-6, SKIP TO Q.Z-6B)

Z-6AA. How many of these adults are male?
(RECORD SINGLE-DIGIT NUMBER)

-
- 0 None
 - 8 Eight or more people
 - R Refused

Z-6AB. How many of these adults are female?
(RECORD SINGLE-DIGIT NUMBER)

-
- 0 None
 - 8 Eight or more people
 - R Refused

Z-6B. How many are children 12 to 17?
(RECORD SINGLE-DIGIT NUMBER)

-
- 0 None
 - 8 Eight or more people
 - R Refused

Z-6C. How many are children 6 to 11?
(RECORD SINGLE-DIGIT NUMBER)

-
- 0 None
 - 8 Eight or more people
 - R Refused

ICR Demographic Questionnaire

Z-6D. How many are children under 6?
(RECORD SINGLE-DIGIT NUMBER)

- _____
- 0 None
 - 8 Eight or more people
 - R Refused

IF TOTAL NUMBER OF ADULTS AND CHILDREN DO NOT EQUAL NUMBER IN Z-6,
RE-ASK Z-6 THROUGH Z-6D

DI-22A. You mentioned there is (a) child(ren) between the ages of 12 and 17. Could you please me give me the age and gender of (the first/next) child?

_____ ENTER AGE OF FIRST/NEXT CHILD

_____ ENTER GENDER OF FIRST/NEXT CHILD
(ASK FOR FIRST EIGHT (8) CHILDREN IN THIS AGE GROUP)

DI-22B. You mentioned there is (a) child(ren) between the ages of 6 and 11. Could you please me give me the age and gender of (the first/next) child?

_____ ENTER AGE OF FIRST/NEXT CHILD

_____ ENTER GENDER OF FIRST/NEXT CHILD
(ASK FOR FIRST EIGHT (8) CHILDREN IN THIS AGE GROUP)

DI-22C. You mentioned there is (a) child(ren) under the age of 6. Could you please me give me the age and gender of (the first/next) child?

_____ ENTER AGE OF FIRST/NEXT CHILD

_____ ENTER GENDER OF FIRST/NEXT CHILD
(ASK FOR FIRST EIGHT (8) CHILDREN IN THIS AGE GROUP)

Z-7. What is your age?
(RECORD 2-DIGIT NUMBER)

RR Refused

ICR Demographic Questionnaire

Z-8. What is the last grade of school you completed?
(DO NOT READ LIST)

- 1 Less than high school graduate
- 2 High school graduate
- 3 Some college
- 4 Graduated college
- 5 Graduate school or more
- 6 Technical school/Other
- R Refused

Z-9. Is your total annual household income from all sources, and before taxes:
(READ LIST)

- 1 Less than \$10,000
- 2 \$10,000 but less than \$15,000
- 3 \$15,000 but less than \$20,000
- 4 \$20,000 but less than \$25,000 (SKIP TO Q.Z-10)
- 5 \$25,000 but less than \$30,000
- 6 \$30,000 but less than \$40,000
- 7 \$40,000 but less than \$50,000
- 8 \$50,000 but less than \$75,000, or
- 9 \$75,000 and over (ASK Q.Z-9AA)
- D (DO NOT READ) Don't Know (ASK Q.Z-9A)
- R (DO NOT READ) Refused (ASK Q.Z-9A)

Z-9A. Is your total annual household income from all sources and before taxes under or over \$25,000?

- 1 \$25,000 and over, or
- 2 Under \$25,000
- D Don't Know
- R Refused

Z-9AA. Just to check, is that over or under \$100,000?

- 1 Over \$100,000
- 2 Under \$100,000
- D Don't Know
- R Refused

ICR Demographic Questionnaire

Z-10. Are you of Hispanic origin or background?

- 1 Yes (CONTINUE)
- 2 No (SKIP TO Q.Z-11)
- D Don't Know (SKIP TO Q.Z-11)
- R Refused (SKIP TO Q.Z-11)

Z-10A. Are you White Hispanic or Black Hispanic?

- 1 White
- 2 Black
- D Don't Know
- R Refused

(SKIP TO Q.Z-11A)

Z-11. Would you consider yourself to be White, Black or of some other race?

If "other" say: "I'm not referring to your nationality. I just want to know if you consider yourself white or black."

- 1 White
- 2 Black
- 3 Asian/Oriental/Chinese/Japanese
- 4 Native American/American Indian
- 0 Other (SPECIFY) _____
- R Refused

Z-11A. Generally speaking, do you usually think of yourself as:

If respondent gives answer such as: "conservative, liberal, vote for best man"
Probe: Would that be Republican, Democrat, or independent?

- 1 A Republican
- 2 A Democrat, or
- 3 An independent
- 7 (DO NOT READ) Other (SPECIFY) _____
- D (DO NOT READ) Don't Know
- R (DO NOT READ) Refused

ICR Demographic Questionnaire

Z-11B. Are you registered to vote at your present address?

- 1 Yes
- 2 No
- D Don't Know
- R Refused

Z-12. Besides the telephone number I reached you on, how many other telephone numbers, if any, does your household have that I could have reached you on?

An interviewer note will be on the screen instructing them not to count phone lines such as those dedicated to a fax or modem.

(RECORD SINGLE-DIGIT NUMBER)

-
- 0 None
 - R Refused

Sex of Respondent:

- 1 Male
- 2 Female

Respondent's Name: _____

Phone Number: _____