

Rent-to-Own

An Alternative to Purchase?

consumer *brief*

Rent-to-Own (R.T.O.) companies have profited greatly in recent years from those who need a household appliance, but fear they will not qualify for credit or a layaway plan.

Claims of “no credit hassles,” “no down payment,” and “low weekly payments” are attractive. What consumers don’t realize is the final cost may be more than double the retail value of the item.

For example, a washer selling for \$404 finally costs \$1,002 after 18 monthly payments of \$55.69. A television valued at \$500 finally costs \$1,400 after a consumer paid \$17.95 per week for 78 weeks. This large margin of profit has resulted in the spiraling growth of rental-purchase outlets nationwide.

You may find out that you not only paid more than the item is worth, but that it can be repossessed with no compensation for payments already received. Loss of invested monies may also apply if the item is defective and returned, or if payments are missed during the time an item is being repaired. Many forms of abusive collection and repossession practices have been used by R.T.O. companies, so consumers are encouraged to be aware of their rights.

If you are attracted by the concept of low installment payments for an item you cannot afford, ask the following questions:

- How does the payment total compare to the retail value of the item?
- After entering into a payment agreement, is there a penalty for an early payment?
- Does the R.T.O. company guarantee the item being rented is new or are you paying for an item that has been used?
- Is there a grace period if you miss a payment? Is a penalty charged?

- Does the company require a large “balloon payment” for you to become an owner at the end of the lease?
- Does the length of the term change the cost basis (R.T.O. contract lengths can vary, i.e. 6, 12, 18, or 24 months)?
- Does the company require you to purchase insurance on the rented item even though you may already have home coverage?

There may be valid reasons for entering into an R.T.O. agreement, such as trying an item before buying, but in most cases the problems associated with this type of arrangement deserve careful consideration. Additionally, you may have other options. ***Ask yourself the following questions before you enter into an R.T.O. contract.***

- Could your purchase be delayed until enough money is saved to pay cash?
- Does a retail store offer a layaway agreement for the item?
- Have you tried to obtain credit to purchase the item from a retail store which would provide a long-term warranty and an in-store service plan to cover the cost of needed repairs?

The R.T.O. stores will argue that the enormous overcharge on items is not an interest charge, but a charge for services. The value of the service provided is definitely questionable and you should be certain you are not being deceived by the offer of low weekly or monthly payments.

If you have any questions, contact the Division by telephone at 800-242-5846, or 973-504-6200, or via e-mail at AskConsumerAffairs@lps.state.nj.

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