

Americans for Financial Reform

and Arizona PIRG * Arizona Consumers Council * Arkansans Against Predatory Lending * California Reinvestment Coalition * Center for Responsible Lending * Chicago Consumer Coalition * Consumer Action * Consumer Assistance Council (Hyannis, MA) * Consumer Federation of America * Consumer Federation of the Southeast (FL) * Consumers for Auto Reliability and Safety (CARS) * Consumers League of New Jersey * Consumers Union * Demos * Empire Justice Center (NY) * Florida Consumer Action Network * Greenlining Institute * Illinois Asset Building Group (IABG) * Jacksonville Area Legal Aid (FL) * Legal Services Advocacy Project (MN) * Legal Services of New Jersey * Legal Services of Southern Piedmont (NC) * Legal Services Resource Center of Connecticut, Inc. * MCRC (Maryland Consumer Rights Coalition) * National Association of Consumer Advocates * National Community Reinvestment Coalition * National Consumer Law Center, on behalf of its low-income clients * National Fair Housing Alliance * National People's Action * Neighborhood Economic Development Advocacy Project (NEDAP) * New Jersey PIRG * North Carolina Justice Center * Policy Matters Ohio * Texas Legal Services Center * U.S. PIRG * Vermont PIRG * Virginia Citizens Consumer Council * Virginia Poverty Law Center * Wisconsin PIRG * Woodstock Institute

12 June, 2012

All Senators U.S. Senate Washington, DC 20510 (VIA EMAIL)

Re: Oppose S. 881 (Landrieu) Consumer Rental-Purchase Agreement Act Is Unfair To Rent-to-Own Consumers

Dear Senator,

We write on behalf of **Americans for Financial Reform** and the undersigned organizations to strongly urge you **not to co-sponsor or support S. 881 (Landrieu)**, the Consumer Rental-Purchase Agreement Act, regarding rental purchase agreements of consumer goods. Although the bill's supporters argue that it protects consumers in rent-to-own transactions, it does not. The bill is actually only *intended to preempt state laws providing better protections for consumers*. The bill would preempt the state laws providing the strongest protections for the consumers of these transactions, including the laws of Minnesota, New Jersey, Vermont and Wisconsin. Congress should not overturn state laws that prevent predatory financial practices or provide consumers essential information about the true cost of rent-to-own transactions.

Rent-to-own businesses are essentially appliance and furniture retailers that arrange lease agreements rather than typical installment sales contracts for those customers who cannot purchase goods with cash or who are unsophisticated about money management. These lease agreements contain several features: The "rental payments" are due weekly or monthly. There are purchase options to enable consumers to obtain ownership of the goods by successfully making all payments due over the rental period:

generally eighteen months or seventy-eight weeks. The leases are "at will," which means they theoretically need not be renewed at the end of each weekly or monthly term, however consumers generally strive to make their payments to achieve ownership.

The rent-to-own industry aims its marketing efforts at low-income consumers by advertising in minority media, buses, and in public housing projects. Statistics from the FTC show that the rent-to-own customer base is among the poorest. The vast majority of rent-to-own customers enter into these transactions with the expectation of buying an appliance and are seldom interested in the rental aspect of the contract. This attitude is encouraged by rent-to-own dealers who emphasize the purchase option in their marketing even while they are minimizing its importance in the written contract. Data show that the rent-to-own industry targets military families. Increasingly, the industry is also targeting middle class consumers.

The chief problems with rent-to-own contracts are that these supposed leases are hugely expensive and that these transactions involve astronomic, and undisclosed, annual percentage rates. Under most rent-to-own contracts, the customer will pay between \$1000 and \$2400 for a TV, stereo, or other major appliance worth as little as \$200 retail, if used, and seldom more than \$600 retail, if new. A recent study in Ohio found that the most vulnerable consumers were "in the position of paying three to four times the retail price for products that are sub-par to start with."

There should be no misunderstanding about this bill – it is not designed to protect consumers. The purpose of this bill is to preempt stronger state laws that provide more meaningful consumer protections (see Sec. 1018(b)). A cursory reading of the bill might lead one to believe that some of the provisions would actually help consumers. However, a close evaluation reveals that there are no meaningful protections whatsoever in this bill. The section that comes closest to requiring some helpful information to consumers is Sec. 1010. It would require disclosures about the cost of the rent-to-own transactions to be displayed on a tag attached to the item. However, the penalty to a dealer for failing to comply with this provision is meaningless – only equaling one quarter of one month's lease payment – thus providing no incentive for dealers to comply with even the minimal protection provided in the bill. *The bill does not add meaningful protections to existing state laws.*

The rent-to-own customer base, almost exclusively low-income, could certainly benefit from meaningful consumer protections from an industry which preys upon consumers' lack of perceived options. Mostly these consumers need protection from high costs and unfair practices. There are numerous ways in which rent-to-own legislation can be improved, *none of which are included in a meaningful way in this bill.*

Instead, rent-to-own consumers would truly benefit from protections such as the following:

- Limitations on the total of payments that a consumer should be required to pay for the purchase of the item. Some states have these limits already, but many do not.
- Limits on “fees” such as late fees, insurance fees, home pick-up fees, reinstatement fees, and etc. Some states have limits already, many do not.
- Reinstatement rights that clearly allow the consumer to have payments made on previous contracts applied to new contracts for the same types of items. While Sen. Landrieu's bill has a minimal provision on this point (Sec. 1005(a)(4)) it provides little protection to consumers, and there is no enforcement mechanism.
- Price tag disclosures, as well as contract disclosures. By the time the customer gets the contract the decision to proceed with the transaction has often been made. Yet, this bill, while requiring price tag disclosures – in section 1010 – does not provide an effective remedy for a dealer’s failure to comply with this requirement.
- Meaningful penalties for dealers who violate the provisions of the rent-to-own statute. As the maximum penalty to be assessed against a dealer who violates the minimal disclosure requirements of this bill is merely 25% of one month’s rental payment, there is virtually no incentive for dealers to comply.
- A disclosure like the annual percentage rate (APR) to show the consumer the true cost of renting to own, to allow comparison with other methods of purchasing personal items. This bill would preempt Vermont’s law, which requires such a disclosure.
- Limits on maximum rent-to-own interest rates, as New Jersey requires. Recently, the New Jersey Supreme Court upheld these limits on rent-to-own interest rates. The industry’s petition to the U.S. Supreme Court for review has been rejected. That is the primary reason they are here in the Congress: to get relief from strong state laws.

On behalf of America’s poorest consumers – the customer base of the rental purchase industry – *please oppose S. 881*. It only serves to preempt the state laws of Wisconsin, Minnesota, Vermont, and New Jersey – all of which provide more protections to consumers. It does not, in any way, advance consumer protection. Further, the notion advanced by the industry proponents of the bill that the bill does not preempt stronger state laws is false. While the bill allows states to tweak the limited protections it allows, which many states already provide, its core provision is designed to eliminate the strongest state laws and prevent other states from emulating those laws. We would be happy to provide you with further information.

Sincerely,

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26 June, 2012

All Representatives
U.S. House of Representatives
Washington, DC 20515
(VIA EMAIL)

Re: Oppose HR 1588 (Canseco)

Consumer Rental-Purchase Agreement Act Is Unfair To Rent-to-Own Consumers

Dear Representative,

We write on behalf of Americans for Financial Reform and the other undersigned organizations to strongly urge you not to co-sponsor or support HR 1588 (Canseco), The Consumer Rental-Purchase Agreement Act, regarding rental purchase agreements of consumer goods. Although the bill's supporters argue that it protects consumers in rent-to-own transactions, in actuality it is intended to preempt state consumer protection laws. The bill is designed to preempt the state laws providing the strongest protections for the consumers of these transactions, including the laws of Minnesota, New Jersey, Vermont and Wisconsin. Congress should not overturn state laws that prevent predatory financial practices or that provide consumers basic information about the cost of rent-to-own transactions.

Rent-to-own businesses are essentially appliance and furniture retailers which arrange lease agreements rather than typical installment sales contracts for those customers who cannot purchase goods with cash or who are unsophisticated about money management. These lease agreements contain several special features. First, the leases are short term, so that "rental payments" are due weekly or monthly.

Second, the lease agreements contain various purchase options which typically enable the consumers to obtain title to the goods by completing all payments over a period such as eighteen months or seventy-eight weeks, or more. Third, the leases are "at will." In other words, the leases theoretically need not be renewed at the end of each weekly or monthly term.

The rent-to-own industry aims its marketing efforts at low-income consumers by advertising in minority media, buses, and in public housing projects. Statistics from the FTC show that the rent-to-own customer base is among the poorest and that the vast majority of their customers enter into these transactions with the expectation of buying an appliance and are seldom interested in the rental aspect of the contract. This attitude is encouraged by rent-to-own dealers who emphasize the purchase option in their marketing even while they are minimizing its importance in the written contract. Data also show that the rent-to-own industry targets military families. Increasingly, the industry is also targeting middle class consumers.

The chief problems with rent-to-own contracts are that these supposed leases are used to mask installment sales, and that these sales are made at astronomic, and undisclosed, annual percentage rates. Under most rent-to-own contracts, the customer will pay between \$1000 and \$2400 for a TV, stereo, or other major appliance worth as little as \$200 retail, if used, and seldom more than \$600 retail, if new. A recent study in Ohio found that the most vulnerable consumers were "in the position of paying three to four times the retail price for products that are sub-par to start with."

There should be no misunderstanding about this bill – it is not designed to protect consumers. The purpose of this bill is to preempt stronger state laws that provide more meaningful consumer protections (see Sec. 1018(b)). A cursory reading of the bill might lead one to believe that some of the provisions would actually help consumers. However, a close evaluation reveals that there are no meaningful protections whatsoever in this bill. The section that comes closest to requiring some helpful information to consumers is Sec. 1010. It would require disclosures about the cost of the rent-to-own transactions to be displayed on a tag attached to the item. However, the penalty to a dealer for failing to comply with this provision is meaningless – only equaling one quarter of one month's lease payment – thus providing no incentive for dealers to comply with even the minimal protection provided in the bill.

The rent-to-own customer base, almost exclusively low-income, could certainly benefit from meaningful consumer protections from an industry which preys upon consumers' lack of perceived options. Mostly these consumers need protection from high costs and unfair practices. There are numerous ways in which rent-to-own legislation can be improved, none of which are included in a meaningful way in this bill.

Instead, rent-to-own consumers would truly benefit from protections such as the following:

- Limitations on the total of payments that a consumer should be required to pay for the purchase of the item. Some states have these limits already, but many do not.
- Limits on "fees" such as late fees, insurance fees, home pick-up fees, reinstatement fees, and etc. Some states have limits already, many do not.

- Reinstatement rights that clearly allow the consumer to have payments made on previous contracts applied to new contracts for the same types of items. While Rep. Canseco's bill has a minimal provision on this point (Sec. 1005(a)(4)) it provides little protection to consumers, and there is no enforcement mechanism.
- Price tag disclosures, as well as contract disclosures. By the time the customer gets the contract the decision to proceed with the transaction has often been made. Yet, this bill, while requiring price tag disclosures – in section 1010 – does not provide an effective remedy for a dealer's failure to comply with this requirement.
- Meaningful penalties for dealers who violate the provisions of the rent-to-own statute. As the maximum penalty to be assessed against a dealer who violates the minimal disclosure requirements of this bill is merely 25% of one month's rental payment, there is virtually no incentive for dealers to comply.
- A disclosure like the annual percentage rate (APR) to show the consumer the true cost of renting to own, to allow comparison with other methods of purchasing personal items. This bill would preempt Vermont's law, which requires such a disclosure.
- Limits on maximum rent-to-own interest rates, as New Jersey requires. Recently, the New Jersey Supreme Court upheld these limits on rent-to-own interest rates. The industry's petition to the U.S. Supreme Court for review has been rejected. That is the primary reason they are here in the Congress: to get relief from strong state laws.

On behalf of America's poorest consumers – the customer base of the rental purchase industry – please oppose HR 1588. It only serves to preempt the state laws of Wisconsin, Minnesota, Vermont, and New Jersey – all of which provide more protections to consumers. It does not, in any way, advance consumer protection. Further, the notion advanced by the industry proponents of the bill that the bill does not preempt stronger state laws is false. While the bill allows states to tweak the limited protections it allows, which many states already provide, its core provision is designed to eliminate the strongest state laws and prevent other states from emulating those laws.

We would be happy to provide you with further information. If you have concerns or questions, you may contact Ed Mierzwinski at U.S. PIRG (202-461-3821 or edm@pirg.org) or Margot Saunders at the National Consumer Law Center (202-452-6252 or msaunders@nclc.org).

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