

**PREPARED STATEMENT OF THE
FEDERAL TRADE COMMISSION**

before the

**FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE,
HOUSE FINANCIAL SERVICES COMMITTEE**

on

Rent-to-Own Transactions

July 12, 2001

I. INTRODUCTION

Mr. Chairman and members of the Committee: I am Howard Beales, Director of the Federal Trade Commission's Bureau of Consumer Protection.⁽¹⁾ I appreciate the opportunity to appear before you today on behalf of the Commission to discuss a recent report by the FTC's Bureau of Economics titled, "Survey of Rent-to-Own Customers." I will discuss the methodology and findings of the survey and the conclusions of the report, which I hope will be helpful in informing the discussion of rent-to-own issues and policies. The Commission has not had an opportunity to fully consider and analyze the bill to amend the Consumer Credit Protection Act that is currently before the Subcommittee and, therefore, believes it is inappropriate to comment on it at this time. Let me begin by speaking very briefly about the Commission's role in enforcing laws that bear on financial issues relevant to the rent-to-own industry.

As part of its mandate to protect consumers, the Commission enforces the Federal Trade Commission Act ("FTC Act"), which broadly prohibits unfair or deceptive acts or practices.⁽²⁾ The Commission also enforces a number of laws specifically governing lending and leasing practices, including the Truth in Lending Act ("TILA")⁽³⁾ and the Consumer Leasing Act ("CLA"),⁽⁴⁾ which require disclosures and establish certain substantive requirements in connection with consumer credit or lease transactions, respectively.⁽⁵⁾ The Commission has jurisdiction over most non-bank lenders.⁽⁶⁾ In addition to its enforcement duties, the Commission also responds to requests for information about consumer financial issues and consumer financial laws from consumers, industry, state law enforcement agencies, and the media.

II. 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, jewelry, and other items 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.

73% had a high school education or less, 59% had household incomes less than \$25,000, 67% had children living in the household, 62% rented their residence, 53% lived in the South, and 68% lived in non-suburban areas.

- 44% of rent-to-own customer households had a credit card; 49% had a savings

including nearly 70% of dissatisfied 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 made at least one late payment. 64% 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% reported that the treatment was "fair." 15% of late customers reported being treated poorly when they were late, including 11% who indicated possibly abusive collection practices.

The survey did not examine whether rent-to-

own transactions are credit sales and, therefore, are subject to state laws governing credit sales.

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 maintained that about 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. The survey found that approximately 70% of rent-to-own merchandise is purchased by the customer, and recommends that regulation of the rent-to-own industry recognize this important fact.

Because of this high purchase rate, the Bureau of Economics' report concludes that it is important that consumers know about basic terms of the rent-to-own transaction, in particular the total cost of purchase, before entering an agreement.⁽⁷⁾ According to the report, information on the total cost of purchase, including all mandatory fees and charges, would allow consumers to compare the cost of a rent-to-own transaction to alternatives, and would be most useful if it were available while the customer was shopping. The report also states that the best way to provide total cost information at the shopping stage would be to provide it on product labels on all merchandise displayed in the rent-to-own store. Finally, the report recommends that 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, should be provided on product labels, and in advertisements that make representations regarding the weekly or monthly rent-to-own payments. The report also noted that all of the terms and conditions of the transaction should be disclosed in the agreement document.

In addition, the report concludes that because rent-to-own dealers typically do not use abusive practices in collecting overdue rental payments and because few customers lost merchandise through return or repossession after making substantial payments toward ownership, federal regulation of industry collection practices and reinstatement rights may be unnecessary at this time.

V. CONCLUSION

Based on the Bureau of Economics' report, the Commission does not recommend federal legislation regarding the rent-to-own industry at this juncture. Determining whether legislation is needed requires information regarding these transactions in addition to that considered in the report. The Commission needs to know, for example, whether consumers currently understand the total cost of rent-to-own transactions, what information they have available at present, and what alternatives to the rent-to-own transaction they typically consider.

The Commission hopes that the survey results are helpful to the Subcommittee, and looks forward to working with Congress on rent-to-own issues.

ENDNOTES

1. The views expressed in this statement represent the views of the Commission. My oral statement and responses to questions you may have are my own and are not necessarily those of the Commission or any Commissioner.

2. *See* 15 U.S.C. § 45(a).

3. *See* 15 U.S.C. § 1601 *et seq.*

4. §

5. The Commission also enforces various other financial statutes, including the Equal Credit Opportunity Act, 15 U.S.C. § 1691 *et seq.*, which, *inter alia*, prohibits discrimination against applicants for credit on the basis of age, race, sex, or other prohibited factors; the Fair Credit R(o)-7vSv3yr3(e its)3(,4)5(e)-3(75(o)-12e)-8(. (a)-8(r)--5(e)eS)1-5(e)e-15