

CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

BRIAN E. FROSH, MARYLAND ATTORNEY GENERAL

RENT-TO-OWN: WORTH THE CONVENIENCE?

A Maryland woman signed a rent-to-own agreement for a computer. The weekly payments were \$28 for a period of 52 weeks. If she made all the payments, she would pay a total of \$1,456 to own the computer-which was used and had a cash price of only \$650.



If you need a television, major appliance or furniture but you don't have the cash or credit to buy it outright, you might be tempted to go to a rent-to-own store. These stores advertise that you can take home the item immediately, simply by agreeing to make a weekly or monthly payment. You're obligated only to pay each rental payment as it comes due, and you are free to end the arrangement by returning the merchandise to the store.

This arrangement may sound convenient, but it comes at a very high price. Buying on a rent-to-own plan will often cost you double what you would pay for the item with cash, on layaway, or on an installment plan.

For example, a new \$400 washing machine purchased on an 18-month installment plan at the maximum allowable interest (24%) would cost \$480 total. Under an 18-month rent-to-own plan, you'd typically pay \$1,000 or more for the same washing machine. Plus, the rent-to-own washing machine might be a couple of years old and previously rented to many other people.

Maryland law does not place any limits on the finance charges or interest rent-to-own dealers can charge. The dealers are also not required to disclose as an annual percentage rate (APR) the finance charge or interest consumers end up paying to own the product. Therefore, you cannot easily compare the cost of buying under a rent-to-own plan with buying on, for example, an installment plan. If rent-to-own dealers did have to disclose an APR, consumers would see that their rates are often as high as 120% to 150%.

Dealers, however, are required to disclose the "Cost of Lease Services," which is the difference between the final purchase price of the rental property if you make all payments due under the lease and the cash price of the rental property. The rental agreement must contain a disclosure similar to the one below above your signature disclosing the costs under your rental agreement:

Consider All Your Options

Rent-to-own stores market to people who may think they have no other options, because of low income or bad credit. But there may be less-expensive alternatives:

- Can you do without the item until you have saved enough money in the bank to pay cash? If the woman who wanted a computer could wait a few months, perhaps by using a friend's computer or one at the public library, she could save \$28 a week instead of paying a rent-to-own dealer. In six months she would have enough to buy a new computer priced at \$650. She would own the computer in half the time and save more than \$700.
- Can you buy the item on a layaway plan? You may only need a small down payment.
- Can you buy the item on an installment plan at a retail store? With an installment plan you can take the item home immediately, as with rent-to-own. The law limits the amount of interest that can be charged on installment plans (maximum 24%), so



these plans are less costly than rent-to-own agreements.

- Can you get a short-term loan from a lending institution such as a bank or credit union to purchase the item?
- Can you find a used item through the classified ads, a yard sale or second-hand store? You may be able to find what you need for the cost of only a few rent-to-own payments.

Your Rights Under the Law

If you do decide to enter a rent-to-own agreement, be aware that Maryland law provides some protections for rent-to-own consumers. The lessor must give you a written receipt for any payment made by cash or money order. The required disclosures must be available in any language that the lessor uses to advertise rental purchases.

Rent-to-own contracts must disclose the following important information:

Whether the item is new or used. This information may be especially important to know when considering purchasing an appliance, a TV or a computer.

What it will cost you. The contract must state how much the item would cost if you paid cash, how many rental payments you must make to own the item, how much each payment will be, and how much you'll have to pay in total to own the item. With this information, you can look at the total amount you will pay to own the item and consider if it is worth it.

Your early purchase option. The contract must give you the option to purchase the item earlier than originally planned by paying a certain amount. The method for determining that amount must be described.

Your right to "reinstate" after late payments or repossession. The law allows consumers who are late in making payments to retain their rights to the item, even after it has been repossessed, if they make all outstanding payments. These provisions protect consumers who have made a substantial investment toward owning the property.

If the dealer repossesses an item you were renting because you failed to make a payment, the dealer must give you a written notice that states your right to reinstate the rent-to-own agreement, the last date by which you can reinstate the agreement, and the amount you will

have to pay to reinstate. You may reinstate the rent-to-own agreement within 15 days of the repossession by paying all past due charges, the reasonable costs of pickup and redelivery and a reinstatement fee of \$5.

Maintenance and damage. The dealer is responsible for keeping your rented items in good working order without extra charge to you, as long as you have not damaged it. You are responsible for loss, damage, theft or destruction of the property while it is in your possession. If the item is lost, damaged or stolen while in your possession, you must pay the dealer the early purchase option price of the item.

Warranties. If any part of a manufacturer's warranty covers the rental item at the time you acquire ownership, the warranty will be transferred to you if allowed by the warranty.

A sample rental-purchase agreement can be found on the next page.

If you have a problem with a rent-to-own transaction, contact the Consumer Protection Division at 410-528-8662.

HOW TO CONTACT US

Consumer Protection Division

200 St. Paul Place, 16th Fl., Baltimore, MD 21202

- **General Consumer Complaints:** 410-528-8662
Toll-free: 1-888-743-0023 TDD: 410-576-6372
9 a.m. to 3 p.m. Monday-Friday
www.marylandattorneygeneral.gov/Pages/CPD/
- **Health Consumer Complaints:** 410-528-1840
Toll-free: 1-877-261-8807 TDD: 410-576-6372
9 a.m. to 4:30 p.m. Monday-Friday
www.marylandcares.org
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: www.marylandattorneygeneral.gov/Pages/contactus.aspx

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MARYLAND
ATTORNEY GENERAL
BRIAN E. FROSH

www.marylandattorneygeneral.gov



§12-1111.

(a) The following is an example of a form which shall be used to satisfy the disclosure requirements of §§ 12-1103(c) and 12-1104(a) of this subtitle:

“Rental-Purchase Agreement

- | | |
|---|--|
| 1. Lessor(s):
Name
Address
Telephone no. | Lessee(s):
Name
Address
Telephone no. |
|---|--|

2. Description of Rental Property:

Item	Quantity	Identification Number	Condition
			New Used

Cash Price:

3. Total Initial Payment:

Rental Payment:	\$ _____
Delivery Charge:	\$ _____
Tax:	\$ _____
Other (specify):	\$ _____
Total:	\$ _____

4. Rental Payments:
- Total Weekly Rental Payment: _____ (includes tax)
- Total Monthly Rental Payment: _____ (includes tax)

5. Other Charges:
- In Home Pick-up Fee: \$ _____
- Reinstatement Fee: \$ _____
- Other (specify): \$ _____

6. Total Cost To Acquire Ownership:
- If you renew this rental agreement each week/month, for _____ weeks/months, you will pay a total of \$_____ to own the rental property. This amount includes your total initial payment but does not include other charges such as damage, reinstatement or pick-up fees for which you may be liable.

7. Cost of Lease Services:
- The cost of lease services is the difference between the final purchase price of the rental property and the cash price of the rental property. The cost of lease services for the rental property is \$_____.

8. No Ownership Until Total Paid:
- You will not acquire ownership of the rental property until you pay the total rental payments necessary to acquire ownership, or unless you exercise an early purchase option.

9. Early Purchase Option:
You may purchase the rental property at any time after your first rental payment.

(Describe formula or method here)

10. Maintenance:
We (lessor) are responsible for maintaining the rental property in good working condition while it is being rented. We will provide all necessary service, repair or replacement (specify if in home or in store) if you notify us by phone or mail that service is needed. We will not be responsible for repairs done by anyone other than us.

11. Warranty:
If allowed by the manufacturer, the manufacturer's express warranty covering the rental property rented under this agreement will be transferred to you if, and at the time, you acquire ownership of the rental property.

12. Damages:
You (lessee) are entirely responsible for loss, damages, theft or destruction of the rental property while it is in your possession. Your liability for such damage will not exceed the early purchase option price of the rental property as of the date it is lost, stolen, damaged or destroyed.

13. Termination:
You (lessee) may terminate this agreement without penalty at the end of any weekly or monthly term by returning the rental property to us in good condition. You will be liable for any unpaid rental payments due upon the date of return.

14. Reinstatement:
If you (lessee) fail to make a timely payment, you may reinstate the agreement without penalty, if:

- 1) You pay all past due rental charges and a reinstatement fee within 2 days (weekly renters) or 5 days (monthly renters) of your renewal date; or
- 2) You return or voluntarily surrender the rental property within 2 days (weekly renters) or 5 days (monthly renters) of your renewal date. If you choose to reinstate the agreement after returning the rental property, you will have up to 21 days (or longer depending on how long you have rented the rental property) to pay all past due rental charges, a reinstatement fee and a reasonable redelivery fee if we deliver the rental property.

I have read the above disclosures before signing this rental-purchase agreement.

Lessee(s): _____ Date: _____
_____ ."

(b) The following is an example of a form which shall be used to satisfy the disclosure requirements of §§ 12–1103(c) and 12–1104(b) of this subtitle:

Summary of Costs of Your Rental–Purchase Agreement			
Cash Price	Scheduled Payments	Final Purchase Price	Cost of Lease Services
<p>The price of the rental property if purchased in–store at the time of consummation.</p> <p>\$ _____</p>	<p>The amount you pay per week/month.</p> <p>\$ _____</p>	<p>The amount you will have paid after you have made all payments as scheduled.</p> <p>\$ _____</p>	<p>The cost of your rental–purchase transaction.</p> <p>\$ _____</p>
<p>Timing of Payments: Payment in the amount of \$ _____ is due on a (weekly/bi–weekly/semi–monthly/monthly) basis.</p>			
<p>Early Payment Option: You have the right to purchase the rental property prior to the date listed above for (enter formula).</p>			
<p>Termination: You have the right to terminate this rental–purchase agreement at the end of any term by surrendering the rental property to the lessor.</p>			
<p>The disclosures above are part of the terms and conditions of your rental–purchase agreement with (company name).</p>			
<p>Lessee(s): _____</p> <p>Date: _____</p>			