



Is Rent-To-Own Right for You?

Many times when consumers need a major item such as furniture or appliances, they turn to rent-to-own before checking out other options.

Unfortunately, consumers may not realize that the rental charges for such appliances and furnishings can amount to three or four times what the cash price would have been.

Rent-to-own businesses usually offer contract terms of either a week or a month at a time. At the end of the arranged time, the customer can either renew the contract or end the agreement and return the merchandise. If they renew the contract a certain number of times (usually spanning 18 months), the customer will then own the item.

About 75 percent of customers return the rental item within the first four months and less than 25 percent of customers actually continue renting long enough to own the item.

Before deciding to use rent-to-own to make a purchase, there are several questions you

should ask yourself:

- ◆ Would a used item from a garage sale, classified ad, or consignment shop serve my needs?
- ◆ Do I absolutely need this item right now? Could I borrow the item temporarily from a friend or relative?
- ◆ Can I wait until I have saved enough money to pay cash— or at least make a down payment on an installment plan?
- ◆ Could I use a layaway plan at a retail store instead?
- ◆ Have I considered all my credit options, including applying for retail credit from a store or borrowing money from a credit union, bank, or small loan company?

If you do decide to purchase a new item instead of a previously owned one, you will want to calculate your actual costs by comparison shopping. Here is an example to help you:

Cost Comparison Example

Item: Electric Washer and Dryer	Rent-to-Own	Credit	Layaway	Cash
Time Until Ownership	21 months	11 months	3 months	0 months
Cash Price	\$740.94	\$657.20	\$657.20	\$657.20
Initial Payment	\$19.61	\$70.00	20%	\$657.20
Weekly/Monthly Payment	\$78.44/mo.	\$70.00/mo.	\$175.25/mo.	N/A
Total Paid	\$1,647.24	\$735.33	\$657.20	\$657.20
Amount Above Cash Price	\$906.30	\$78.13	\$0.00	\$0.00

(Rent to own APR=105%; Credit APR=24.9%; both washer/dryer sets same brand and features)

Use this blank chart for figuring the real cost of a purchase before you decide to buy.

Item: _____	Rent-to-Own	Credit	Layaway	Cash
Time Until Ownership				
Cash Price				
Initial Payment				
Weekly/Monthly Payment				
Total Paid				
Amount Above Cash Price				

After you've gathered the information needed to fill in the boxes on the chart, compute the costs related to the various purchasing methods. Review the bottom line of the chart to determine which buying option will best suit your needs. Take into consideration that prices vary from store to store for similar items.

If you do decide that rent-to-own is your best choice, ask your salesman these questions before signing the contract:

- ◆ What is the total cost of the item?
- ◆ Am I getting a new or used ("previously rented") item?
- ◆ Can I purchase the item before the end of the rental term? (Some rental companies will offer a "90 days same as cash" plan).
- ◆ Will my rental payments count towards the purchase price if I decide to buy the item?
- ◆ Is there a charge for repairs during the rental period?
- ◆ If the item does need repairs during my rental period, will I get a replacement while it is being fixed?
- ◆ What happens if I am late on a payment? Will the item be repossessed?
- ◆ Will I pay a penalty if I return the item before the end of the contract?

As with any purchase, be sure to comparison shop among various rent-to-own merchants. Contact your local consumer protection agency to find out if there are any complaints on record against the business. Check for any specific state laws concerning rent-to-own.

And be sure to read the contract carefully before you sign. Always know exactly how much you are paying and what you are getting for your money.

Sources:

- 1997 Consumer Resource Handbook, U.S. Office of Consumer Affairs.
- Cude, B. (1991) Rent-to-own. Urbana: University of Illinois Cooperative Extension Service.
- Association of Progressive Rental Organizations 1995 statistical survey.

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