

Rent-to-own industry praised and panned during hearing

By ROBERT SCHWANBERG

The "rent-to-own" industry—where rents appliances, furniture and other consumer products with an option to buy—was assailed yesterday as a "ripoff" and praised as a service to lower-income persons who cannot afford such merchandise through other means.

Public Advocate Wilfredo Caraballo said an investigation of the rent-to-own industry by his department uncovered a "pattern of unconscionable sales practices" that "significantly exploited consumers."

A similar investigation by the New Jersey Public Interest Research Group (PIRG) found rent-to-own contracts typically charge monthly or weekly payments that, while seemingly modest, total two to four times the value of the merchandise before it is paid off.

Patricia Donsey, PIRG's consumer issues coordinator, cited a contract for a refrigerator for \$17.11 a week for 94 weeks. She said, "\$1,400 for a \$450 refrigerator is a ripoff, and consumers are being duped into thinking it's a deal by the low weekly payments."

But Robert Moore, representing the New Jersey Rental Dealers Association, maintained the rent-to-own industry enables low-income consumers, for modest rental fees, to enjoy the use of appliances and other products and have the prospect of eventually owning them. If they change their minds, he added, they can terminate the contract "at any time" by returning the item and owe nothing more.

The debate unfolded during a hearing in Trenton before the Assembly Consumer Affairs Committee. The



Public Advocate Wilfredo Caraballo reviews notes as he waits to testify before the Assembly Consumer Affairs Committee. Looking on is Rob Stuart of the New Jersey Public Interest Research Group

Photos by Frank DiGiacomo

chairman, Assemblyman David Kronick (D-Hudson), called for stronger regulation of rent-to-own businesses, declaring, "It is apparent that business as usual for the industry in New Jersey must not be allowed to continue."

"In the past, there have been abuses," Moore conceded. "This is an industry that has not been regulated and I would like to see regulated."

But he defended the large spread between the retail price of an appliance and the total paid through a rent-to-own contract as dictated by the costs of a "high-risk industry."

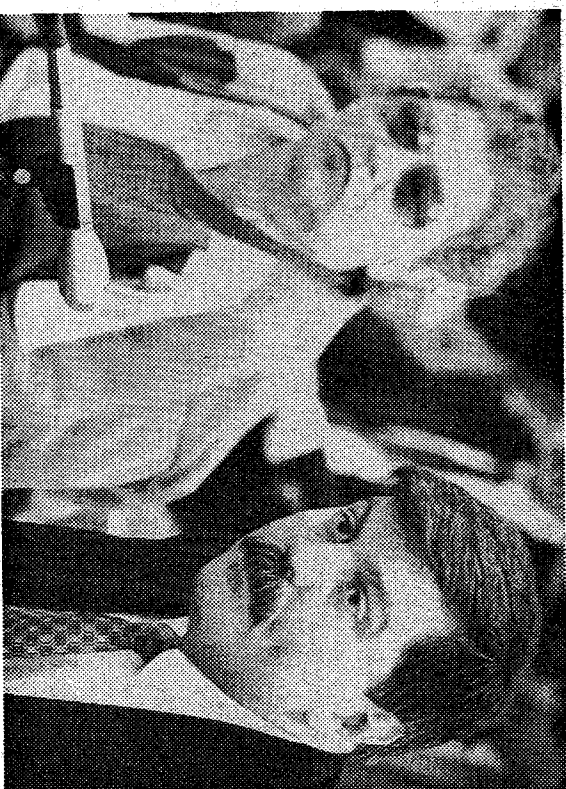
He said when he rents out an item,

he runs the risk that it will be returned broken or in poor condition.

Moore said the profit margin for the company he co-owns, Prime Time Rentals, is 3 to 4 percent a year.

Moore brought with him Barbara Angelo of Trenton, a customer of his stores since 1988. She told how after she and her husband bought their house, they had no money left for a refrigerator but went to Prime Time.

"We had our refrigerator the same day, which was a blessing," she said. Since then, she continued, she has rented other appliances and has never had a complaint.



Robert Moore, right, of the New Jersey Rental Dealers Association, defends the rent-to-own industry during a public hearing by the Assembly Consumer Affairs Committee. With Moore is Barbara Angelo, a consumer from Trenton, who praised Moore's rent-to-own stores

"Angelo was so effusive in praising Prime Time that Kronick remarked, 'For a moment, I thought we were doing a commercial here.'"

Caraballo said his investigators visited six rent-to-own stores and at all of them, "missing the final payment left customers with nothing to show for all their investment. Even if they had already paid \$1,000 for a \$300 television, the rent-to-own store would repossess the TV and leave the consumers with nothing."

Moore said his stores allow customers having financial difficulty to take a "time out" of up to a year and

then pick up the payment schedule where they left off.

Patricia Royer, testifying shortly before she was sworn in as the state's new director of consumer affairs, said rent-to-own contracts tend to be targeted to "residents of large cities and lower-income individuals" and "young, inexperienced consumers."

"The potential for harm to New Jersey consumers—particularly the unknowing, the uneducated, the non-English speaking and the unsophisticated—reaches a level requiring legal review and protection," Royer said.

NEW JERSEY

Rent-to-own industry exploits the poor

One of our readers became unemployed about two months ago. His TV set broke down and is beyond repair. He has neither the money nor the creditworthiness to buy another one. He saw a store's advertisement, saying he could "rent to own."

Curious, he went to the store and was shocked by what he discovered. He now asks whether the deal offered to him is legal.

Here's the deal he described: He could take home a new TV set with a retail price of \$450 in return for an agreement to pay \$22 per week for 75 weeks. He could return the TV set at the end of any week. Or, if he made all 75 payments, he could keep the set.

However, he would not have any ownership rights or any equity rights in the TV set until he made that last payment. The store could repossess the set if he defaulted on any payment.

Our reader's question is inspired by the obvious: He would pay \$1,650 for a \$450 set. He knows that there are laws that forbid excessive interest rates.

Isn't this an example of an excessive rate, he asks?

That depends on who is doing the explaining.

The rent-to-own industry is a billion-dollar operation. It has some powerful friends, some of whom are in the Legislature. I found this out firsthand.

One of my early initiatives when I became the New Jersey public advocate was a bill to control the rent-to-own industry. My office had received a number of complaints and had investigated industry practices. The results were outrageous.

Think about it. Why would someone pay four or five times the retail price of an item? And why is it that at the end of the contract period, you become the owner, but until then, you do not have any equity rights?

I have been a law professor since 1975. I have taught contract law since 1977 and commercial law since 1979.

When I got to Trenton and discovered the rent-to-own industry, I thought it would be easy to explain to lawmakers



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why the Legislature needed to deal with the situation. The explanation was easy, the response mind-boggling.

Industry representatives say that the industry provides a service. They say there are unusually high risks in their industry and they are entitled to factor in the risk when determining profit.

No one would dispute that higher risks deserve higher profits. But now

high should they be able to go? Usury laws are intended to ensure that no one is charged an excessive rate, no matter how high the risk.

If someone buys an item on credit, such as a TV set, he is charged interest on that item. A payment schedule is agreed upon, and each party has specific rights to the item. At the end of the payment period, the buyer gets full ownership rights to the TV. If he defaults, the creditor has the right to repossess.

The creditor may sell the repossessed TV set. It is possible for the borrower to be relieved of the debt if the resale price, together with the payments that were made, equal the contract price. If it turns out that the resale price plus the payments are more than the value of the contract, the borrower is entitled to a refund. Not so if you rent-to-own. The renter is not vested with any rights.

I testified before the Legislature. I explained the findings of my office. I

explained the law. I suggested a one-sentence statute that would clear up the law. Legislators promised a quick response. Legislators said they were outraged!

And then the industry's friends took over.

There is a major private lawsuit going on that seeks to bring the industry under control. Meanwhile, the Legislature remains curiously silent.

Conclusion: If you are unemployed, poor, or simply do not have good credit, don't worry, the rent-to-own industry is there to help. Have they got a deal for you!

The Public's Advocate appears every Sunday. If you have questions or complaints about New Jersey state government, write to: Wilfredo Caraballo, The Public's Advocate, The Record, 150 River St., Hackensack, N.J. 07601. Please include your name, address, and daytime telephone number.