

**ACORN  
Consumer Action  
Consumer Federation of America  
Consumers Union  
National Community Reinvestment Coalition  
U.S. PIRG**

10 June 2005

**Re: National Consumer Groups Urge Opposition To A3851 (Caraballo) --  
Would Create A Safe Harbor For Usury By The Predatory Rent To Own Industry**

Dear Members of the New Jersey Assembly:

We, the undersigned national consumer protection organizations, write to urge you to strongly oppose A3851 (Caraballo), which would legalize the practices of the predatory rent-to-own industry in New Jersey by exempting it from your well-reasoned criminal usury ceiling and instead substitute unenforceable, industry-supported rules designed solely to make its legalization of debt servitude and its elimination of strong consumer protections appear less anti-consumer.

For many years, the New Jersey legislature has been a recognized national leader in resisting the self-serving efforts of the rent-to-own industry to legalize its practices, which include undisclosed triple-digit interest rates. We urge you to continue to oppose this industry, which preys on citizens in too many other states. Industry friendly proposals such as A3851 are designed to allow the rent to own industry to falsely promise the American dream of product ownership, then unjustly take that dream away with usurious contract terms that create a harsh form of debt servitude for many working class American consumers. Worse, this industry-friendly legislation also fails to give citizens the opportunity all other Americans enjoy under the Truth In Lending Act's APR disclosure rules that allows them to fairly compare the costs of credit, let alone to enjoy future ownership of the products. Nothing in this bill will prevent consumers from paying, and paying, and paying, for 78 weeks, for the same television that they have probably already completely paid for after the first 23 or so weekly payments, without, in most cases, ever acquiring its ownership.

We understand that Assemblyman Caraballo's proposed legislation would allow the following unfair and anti-consumer practices.

1. Triple-Digit Loan Shark Interest Rates (APR). On its face, the bill does not mention what interest rates may be charged, other than to say that the criminal usury statute (which caps rates at 30%), does not apply. However, the bill explicitly permits RTO stores to charge a "cost of lease services" that is double the inflated cash price, regardless of the length of the contract, and in this way opens the door to exorbitant interest rates. If the RTO contract is one year, doubling the price reflects a 152% annual percentage rate; if it is 18 months, the interest rate is 103%. In all other retail contexts, charging more than 30% interest is criminal.

2. Artificially inflated “cash prices.” The “cash price” is the minimum the consumer can pay, and is the base from which interest is calculated. Under the bill’s formula, the “cash price” can be as much as double what other retailers in the same area charge, artificially distorting and reducing the purported APR. State rent-to-own schemes based on “double the cash price” only falsely appear to protect consumers from high cost goods, since they are based on the industry’s own concept of a cash price, not any real market price.

3. Concealing the APR. The bill does not require disclosure of the APR, and in fact prevents the NJ Consumer Affairs Director from writing any regulation that would require the disclosure of the APR. Calculating an APR is difficult math, because the interest is being charged on a declining balance, and it is beyond anyone’s ability to do even with a calculator. Failing to disclose the APR enables RTO stores to hide just how bad the deal they offer is.

4. Allows Excessive Fees. The “cost of lease services” is disingenuously named; it does not represent the total cost of renting to own. The “cost of lease services” excludes a variety of fees, namely: “late payment fees, processing fees, default, pickup and reinstatement fees or charges and applicable taxes”. Every time a payment is late, the RTO store may charge \$5. Given that contracts can be set up for weekly payments, this provision alone would allow as much as an extra \$260/year.

Assemblyman Caraballo’s bill, A3851, would make all of these abusive practices legitimate under New Jersey law. We understand that the bill contains some other somewhat more beneficial provisions. Nevertheless, none of these could possibly offset the underlying principle of the Caraballo bill, which is nothing less than to establish in New Jersey law a safe harbor for usury.

Instead, the legislature should restrict unfair industry practices, without legalizing its worst practice—usury. The state’s consumer and civil rights groups, including New Jersey PIRG, NAACP and Consumers League of New Jersey, have proposed such laudatory legislation, which would protect consumers from the predatory rent –to-own industry.

We urge you to reject the industry-supported bill, A3851, and instead pass the legislation proposed by the groups that work for consumers and social justice.

Sincerely,

**ACORN**  
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