

# CONSUMERS LEAGUE OF NEW JERSEY

Founded in 1900 in MONTCLAIR, NJ • 973-744-6449

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## Opposes A.695– Allows Rent to Own Stores to Break N.J.’s 30% Criminal Usury Law

Bill A.695 gives away the store to rent to own lobbyists. The Supreme Court of New Jersey ruled (*Perez v. Rent-a-Center, 2006*) that rent to own stores *may not* sell TVs to the urban poor at interest above the 30% criminal usury law. Industry bill A.695 will let rent to own resume those loanshark rates. Should the N.J. Legislature encourage exploiting the poor?

Rent to own stores sell goods by pretending to rent them. At the end of the rental period, the consumer owns the goods. A poster in Rent-a-Center’s window in Paterson stated that you can OWN the goods in 12 months. The emphasis is on the OWN in rent to own. Bill A.695 would put the Legislature on the side of interest rates of 100% - 152% for poor consumers.

### What are the three worst problems with A.695?

#### (1) A.695 Sets an Artificially High Cash Price:

Bill A.695 allows rent to own stores to set an artificially high "cash price" equal to 175% to 225% of the cost of the goods. Competitive electronics merchants instead have a markup of only 5% to 25% over cost. So first RTO doubles its cost for a phony cash price. That’s bad enough in itself.

#### (2) A.695 allows rent to own to charge loanshark interest rates: 152% APR.

Then bill A.695 allows RTO to double the cash price to get the credit price. So if the cost of a TV to RTO is \$285, then A.695 allows RTO to set a phony cash price of \$500, (\$285 times 1.75) and a credit price of \$1,000! Over a 12 month term , that adds up to 12 payments of \$83.33, payable at **152% annual percentage rate!**

#### (3) No disclosure of the annual percentage rate:

No rent to own customer is ever told what interest rate rent to own is charging. In the Hilda Perez case, the APR exceeded 80%. A.695 would allow 152% APR (see our chart). Concealing the interest rate is inherently deceptive. If the urban poor knew the real interest rates which rent to own charges, they would be outraged. Rent to own treated its urban customers as second class citizens, paying interest rates of 80% to 152% while the middle class pays 21% at Sears.

This is not a complete list of the problems with this industry bill. A.695 allows a \$5 late charge on every payment, which is excessive, considering that payments are sometimes made weekly. A \$5 late charge on a \$20 payment is extremely high. There are more bad charges too.

In 1990, the Public Advocate’s investigation found a "pattern of unconscionable sales practices" that "significantly exploited consumers." (*Star-Ledger, May 11, 1990*). A.695 provides that rent to own’s practices shall *not* be considered unconscionable. In 2006, the New Jersey Supreme Court rightly declared that 80% interest for Ms. Perez was illegal. Bill A.695 would overturn the Supreme Court and bring back loanshark interest rates. A.695 is a “get-out-of-jail” card for Rent to Own stores, telling RTO it’s OK to break the criminal usury law. The 1990 Public Advocate and the 2006 Supreme Court got it right: government should protect the poor, not help rent to own stores fleece them.

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*Rent to own overcharges the urban poor as Second class customers who pay double*

Competitive merchants would sell a TV it acquired for \$285 at a markup of 5% to 25%. So the cash price would be no more than \$350. At 21% interest, the monthly payment would be only \$32.58 for 12 months and the total of payments would be only \$ 391, at 21%, a credit price which is less than the RTO cash price.

A.695 treats the urban poor as second class citizens, who pay double what the middle class pays at the mall. A TV bought by rent to own for \$285 may be sold with "cash price" of \$500, with a total credit price of **\$1,000** required to buy the TV. This exploitation was found illegal by the New Jersey Supreme Court.

Over 12 monthly payments, RTO charges an **Annual Percentage Rate of 152.3%**, (not counting the inflated cash price) and a monthly interest rate of **12.69%**, proven by the chart below:

Principal Balance	Plus monthly interest earned (Balance x 152% / 12, that is .1269)	Less payment	Equals new principal balance
500.00	63.47	83.33	480.14
480.14	60.95	83.33	457.76
457.76	58.11	83.33	432.54
432.54	54.91	83.33	404.12
404.12	51.30	83.33	372.09
372.09	47.23	83.33	335.99
335.99	42.64	83.33	295.31
295.31	37.49	83.33	249.47
249.47	31.67	83.33	197.81
197.81	25.11	83.33	139.59
139.59	17.72	83.33	73.98
73.98	9.39	83.37	0.00
<b>Total credit price at rent to own:</b>		<b>\$ 1,000.44</b>	<b>APR 152.3%</b>

<i>Compare:</i> credit price at Sears, Electronics stores:	\$ 391	APR 21%
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If the term of the rent to own sale is instead increased to **18 months**, then the payment will be \$55.55 and the Annual Percentage Rate would be **103%**. Total of payments remains \$1,000.

In sum, rent to own costs the urban poor more than double what the middle class pays out at the mall. Bill A.695 would put the seal of the Legislature upon a ripoff which exploits the urban poor. A.695 does nothing to solve the rent to own scam: the poor are still not being told they are charged interest rates of 80% to 152%.