

A Review of State Rent-to-Own Legislation

Currently there is no federal law protecting consumers in RTO contracts, but states have made RTO legislation part of their consumer protection plan. While the federal government has made several attempts at creating RTO legislation, they have not successfully created a RTO law. The purpose of this paper is to examine state RTO laws and to make a necessary first step towards consumer protection in the RTO arena at a federal level.

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Over the last 25 years the RTO business has grown into a four billion dollar industry serving 2.8 million customers in 1996. Consumer advocates and rent-to-own (RTO) industry leaders continue to debate consumer protection legislation in the RTO arena. Several states have made RTO legislation a part of their consumer protection programs. Of these, a few states have legislation that has proven to be effective while others have passed laws that result in more protection for the industry than for the citizenry. A review of these laws and their effectiveness is the purpose of this paper and a first step toward greater public scrutiny of this industry.

Below is a list of some of the existing state laws:

- Twenty four states have enacted statutes treating RTO transactions different from other retail installment sales. All require limited disclosure provisions and restrict some of the terms of RTO transactions. However, none of the states' statutes call for the disclosure of the implied annual percentage rate (APR), as required by The Truth in Lending Act (TILA) for credit sales.
- North Carolina and Pennsylvania have amended their statutes regulating consumer credit sales so that the definition includes RTO transactions.
- Wisconsin has expanded the definition of credit sales to include leases where the consumer "pays or agrees to pay" for the good.
- Seven states authorize a fee, paid by the consumer, for the right to terminate the rental agreement. The industry often utilizes the terminable-at-will clause as justification for RTO contracts to remain outside credit legislation.
- Three states, Ohio, New York and Michigan, have disclosure laws which require each RTO item to prominently disclose important consumer information: the cash price and the amount and total number of periodic payments.
- Minnesota, Nebraska and New York have statutes that address the reinstatement period. These states instituted a staggered reinstatement period where the more payments the customer has made, the longer the time period allowed for reinstatement.
- Sixteen states exempt RTO transactions from retail interest rate limits. As this allows them to set their own rates, without legislative bounds, the RTO consumer often faces and pays very exorbitant rates of interest.
- South Carolina has deregulated interest rates on all types of retail credit, including the implied credit of RTO contracts. The longer the duration of the RTO transaction, the lower the maximum APR in this approach.

It is apparent that there is a consumer issue as several states have applicable laws. The Federal Government has discussed the issue on several occasions but has been unable to agree on legislation. Given the high implied APR of interest, the lack of disclosure and overly punitive reinstatement practices, it is obvious that some sort of Federal protection is needed. The law does not need to be regulatory, except to require information be provided on par with that of the credit industry. A Federal law that is both fair to the industry and which provides necessary protections for consumers needs to be created.

Endnotes

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