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Consumer Advisory Bulletin

"Rent-to-Own" -- Know the Costs!

The total you pay can be astronomical, and rent-to-own can be risky.

More consumers are looking at "rent-to-own" transactions as a way to buy items such as a TV or stereo, furniture or appliances. The idea is that people pay an amount each week or month, they get the item, and they eventually own it after making many payments.

The ads are appealing, especially for lower-income persons and people without a strong credit record: "Get a TV for only \$14 a week! No waiting, no credit hassles."

But an ad telling the whole story might say: "How to pay \$1200 for a \$300 TV."

Rent-to-own can be very expensive. People ordinarily will pay several times the usual retail value of a product. Why? Because rent-to-own "sticker prices" usually are very high, and because payments usually run for 12 to 18 months. In the TV example, you might pay \$14 for 87 weeks -- or \$1218! If instead you "paid yourself" and set aside \$14 a week, you could buy the TV in 22 weeks for \$300 -- and save \$918.

Rent-to-own also can be risky. If you default on a payment during those 18 months, the item might be repossessed -- with you losing credit for all the payments made. (You also must be careful that you aren't buying a used TV or appliance without knowing it, although the law says a used product should be labeled as used.)

Follow these tips if you are considering a rent-to-own purchase:

- Compare "sticker prices" on the item in the rent-to-own store and other stores. (Rent-to-own sticker prices often are twice as high.)
- Determine the total price you would pay with rent-to-own (the weekly or monthly amount times the number of payments.)
- Consider "paying yourself" a weekly amount of savings and buying at retail. You will be surprised at how much sooner you can own an item "free and clear" (and you won't risk repossession in case you missed a rent-to-own payment.)
- Finally, figure all the money you would save and decide what to do with it!

If you would like more information, or if you have a consumer complaint, please contact the Consumer Protection Division, Hoover Building, Des Moines, Iowa 50319. Phone 515-281-5926.

HEY! I CAN PAY \$1200 FOR A \$300 TV! WHAT A GREAT DEAL!!

"No waiting. No credit hassles. Only \$13.99/ a week." Sound good?

"Buy 1, Pay for 4!" You have to have a lot of money to waste for that to sound good!

The "low" weekly or monthly payments to buy from a RTO store may sound appealing, but it's a very expensive (and risky) way to buy. It's risky, because by taking so long to buy it, you run the risk of having it repossessed even if you may have already shelled out far more than the real value of the TV or washing machine before you missed a payment. It's risky because you might even be buying a used TV or washing machine without knowing it, although the law says that a used product should be labelled as such.

If that "low weekly payment" is tempting you, here's something to think about:

-- Their weekly payments go on for 1 year to as much as 1 1/2 years, and you pay twice as much or more than the product is worth. But you can pay yourself a weekly payment for just a few months, to save up to pay cash at a retail store for that TV.

Pay Yourself Pay Them

Weekly Payment \$14 \$14....How long 20 weeks 87 weeks... It costs you \$280 \$1218

You saved \$938! Wouldn't you rather have that \$900 than watch it go down the drain? If money's tight, you can avoid that bite.

* Check the cash price at retail stores. Don't just look at the cash price listed in the RTO store. Compare it to prices in regular stores.

* Look at how long you'd be paying them a weekly or monthly payment before you "own" the product, and then figure out how much shorter the time is to pay yourself in a weekly savings to buy it cheaper, for cash. You'll be surprised at how much sooner you can "own" it free and clear!

* Figure up how much money you'd save by doing it that way, and then figure out how much money you've kept from going down the drain. Figure out what you'll do with the extra money you've saved!

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