

RENT - TO - OWN

Televisions, washers and dryers, stereos, VCRs, reclining loveseats...these are just some of the things you can rent-to-own for a "small" weekly or monthly fee. But before you decide, know what you're getting into.

What Is Rent-To-Own (RTO) And How Is It Different From Using Credit And Making Monthly Payments?

In a rent-to-own program, you aren't under a contractual obligation to make payments for the life of the loan, as if you had purchased the item on credit. If you decide you no longer desire that 27-inch color television for \$225 a month, you would return the product and discontinue making the payments. Another difference is that while payments are being made, the dealer usually agrees to maintain and repair the product. This is a big selling point to customers. Rent-to-own companies remind customers that they won't have to worry about having to pay for any appliance repairs during the time they are "renting" the product.

When payments are made throughout the term of the Rent-to-own contract (usually 18 months), the consumer becomes the owner of the product. That may also mean the end of the "free" maintenance agreement.

Is There An Advantage To The Rent-To-Own Option?

People who use the RTO option generally do so because they don't have enough money for the full purchase price or downpayment needed in retail stores. Consumers who have no credit, or bad credit, choose RTO because there is usually no credit check.

How Much Will Rent-To-Own End Up Costing?

The total cost to own the item may be two to four times what you would have actually paid if you had paid cash or even paid on credit. Before you decide to RTO, shop around, and get an idea of how much things cost. Investigate other payment plans. Find out what the actual price will end up being after you've made all payments. Use the chart in this fact sheet to help you.

Things To Be Aware Of

- ◆ Rental payments. Read your contract before you sign. Do the number of payments on the contract agree with what the sales associate told you? If you were to miss a payment, what would the consequences be? Would a late fee be charged? Would they take the item from you?
- ◆ Ownership of the item. Find out when you will actually own the product. If you decide to return the item and stop the payments, is there a penalty? When the item is finally yours, is a maintenance/service agreement still available and for what cost?
- ◆ Additional fees. Ask the sales associate to highlight **all possible** fees with a highlighting marker in the contract. There could be charges for delivery, returning merchandise, and repairs (even though you have a maintenance agreement, you could still be charged a small fee for pick-up, paperwork, etc.).
- ◆ Condition of the item. Find out if the item is brand new or if it has been rented before. If the item is brand new and would happen to stop working or fall apart, would they replace it or offer repairs only?

And remember--you have legislation to protect you. Illinois Public Law 85-957 specifically addresses rental-purchase agreements that are for an initial period of four months or less. It requires the agreement to disclose:

- ◆ Whether the merchandise is new or used
- ◆ The total number of payments and the total amount to be paid
- ◆ The amount and purpose of any payment, charge or fee in addition to the regular periodic payments
- ◆ Whether you are liable for loss or damage to the merchandise
- ◆ That you do not have ownership rights unless you have complied with the terms of the agreement
- ◆ The cash price of the agreement

Consumers who are aware of the full costs of the RTO option would no doubt choose other options if they are able.

Another option is to buy on credit. The consumer still has the item immediately and the costs are much lower. However, a large percentage of people who

choose the RTO option are unable to obtain credit. Saving the funds and layaway are also options. So it comes down to asking yourself: **Do I really need it? Can I wait for it?**

Sources

Cude, B. (1991) Rent-to-own. Urbana: University of Illinois Cooperative Extension Service.

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Cost Comparison...Shop Around Before you Buy				
	Rent To Own	Credit	Cash	Layaway
Time until Ownership				
Cash Price				
Initial Payment				
Weekly/Monthly Pmt.				
Total Paid				
Amount Above Cash Price				

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