



Americans for Financial Reform
1629 K St NW, 10th Floor, Washington, DC, 20006
202.466.1885

August 1, 2011

All Senators
United States Senate
Washington, DC 20510
(VIA EMAIL)

Dear Senator,

Re: Oppose S. 881 (Landrieu) -- Unfair To Rent-to-Own Consumers

Dear Senator,

We write on behalf of Americans for Financial Reform and the other undersigned organizations to strongly urge you not to co-sponsor or support S. 881 (Landrieu), The Consumer Rental-Purchase Agreement Act, regarding rental purchase agreements of consumer goods. Although the bill's supporters argue that it protects consumers in rent-to-own ("RTO") transactions, in actuality it is intended to preempt state consumer protection laws. The bill is designed to preempt the state laws providing the strongest protections for the consumers of these transactions, including the laws of Minnesota, New Jersey, Vermont and Wisconsin. Congress should not overturn state laws that prevent predatory financial practices or that provide consumers basic information about the cost of RTO transactions. Attached also find "Say No To This Offer," from the June issue of *Consumer Reports*. [Consumer Reports investigates RTO June 2011x.pdf \(39KB\)](#);

Rent-to-own businesses are essentially appliance and furniture retailers which arrange lease agreements rather than typical installment sales contracts for those customers who cannot purchase goods with cash or who are unsophisticated about money management. These lease agreements contain several special features. First, the leases are short term, so that "rental payments" are due weekly or monthly. Second, the lease agreements contain various purchase options which typically enable the consumers to obtain title to the goods by completing all payments over a period such as eighteen months or seventy-eight weeks, or more. Third, the leases are "at will." In other words, the leases theoretically need not be renewed at the end of each weekly or monthly term.

The RTO industry aims its marketing efforts at low-income consumers by advertising in minority media, buses, and public housing projects. Statistics from the FTC show that the RTO customer base is among the poorest and that the vast majority of their customers enter into these transactions with the expectation of buying an appliance and are seldom interested in the rental aspect of the contract. This

attitude is encouraged by RTO dealers who emphasize the purchase option in their marketing even while they are minimizing its importance in the written contract. Data also show that the RTO industry targets military families. Increasingly, the industry is also targeting middle class consumers.

The chief problems with RTO contracts are that these supposed leases are used to mask installment sales, and that these sales are made at astronomic, and undisclosed, annual percentage rates. Under most RTO contracts, the customer will pay between \$1000 and \$2400 for a TV, stereo, or other major appliance worth as little as \$200 retail, if used, and seldom more than \$600 retail, if new. A recent study in Ohio found that the most vulnerable consumers were “in the position of paying three to four times the retail price for products that are sub-par to start with.”

There should be no misunderstanding about this bill – it is not designed to protect consumers. The purpose of this bill is to preempt stronger state laws that provide more meaningful consumer protections (see Sec. 1018(b)). A cursory reading of the bill might lead one to believe that some of the provisions would actually help consumers. However, a close evaluation reveals that there are no meaningful protections whatsoever in this bill. The section that comes closest to requiring some helpful information to consumers is Sec. 1010. It would require disclosures about the cost of the RTO transactions to be displayed on a tag attached to the item. However, the penalty to a dealer for failing to comply with this provision is meaningless – only equaling one quarter of one month’s lease payment – thus providing no incentive for dealers to comply with even the minimal protection provided in the bill.

The RTO customer base, almost exclusively low-income, could certainly benefit from meaningful consumer protections from an industry which preys upon consumers’ lack of perceived options. Mostly these consumers need protection from high costs and unfair practices. There are numerous ways in which RTO legislation can be improved, none of which are included in a meaningful way in this bill.

Instead, RTO consumers would truly benefit from protections such as the following:

- Limitations on the total of payments that a consumer should be required to pay for the purchase of the item. Some states have these limits already, but many do not.
- Limits on “fees” such as late fees, insurance fees, home pick-up fees, reinstatement fees, and etc. Some states have limits already, many do not.
- Reinstatement rights that clearly allow the consumer to have payments made on previous contracts applied to new contracts for the same types of items. While Sen. Landrieu’s bill has a minimal provision on this point (Sec. 1005(a)(4)) it provides little protection to consumers, and there is no enforcement mechanism.
- Price tag disclosures, as well as contract disclosures. By the time the customer gets the contract the decision to proceed with the transaction has often been made. Yet, this bill, while requiring price tag disclosures – in section 1010 – does not provide an effective remedy for a dealer’s failure to comply with this requirement.
- Meaningful penalties for dealers who violate the provisions of the RTO statute. As the maximum penalty to be assessed against a dealer who violates the minimal disclosure requirements of this

bill is merely 25% of one month's rental payment, there is virtually no incentive for dealers to comply.

- A disclosure like the annual percentage rate (APR) to show the consumer the true cost of renting to own, to allow comparison with other methods of purchasing personal items. This bill would preempt Vermont's law, which requires such a disclosure.
- Limits on maximum RTO interest rates, as New Jersey requires. Recently, the New Jersey Supreme Court upheld these limits on rent-to-own interest rates. The industry's petition to the U.S. Supreme Court for review has been rejected. That is the primary reason they are here in the Congress: to get relief from strong state laws.

On behalf of America's poorest consumers – the customer base of the rental purchase industry – please oppose S. 881. It only serves to preempt the state laws of Wisconsin, Minnesota, Vermont, and New Jersey – all of which provide more protections to consumers. It does not, in any way, advance consumer protection. Further, the notion advanced by the industry proponents of the bill that the bill does not preempt stronger state laws is false. While the bill allows states to tweak the limited protections it allows, which many states already provide, its core provision is designed to eliminate the strongest state laws and prevent other states from emulating those laws.

We would be happy to provide you with further information. If you have concerns or questions, you may contact Ed Mierzwinski at U.S. PIRG (202-461-3821) or Margot Saunders at the National Consumer Law Center (202-452-6252).

Sincerely,

Americans for Financial Reform

Arizona PIRG
Arkansans Against Predatory Lending
California Reinvestment Coalition
Center for Responsible Lending
Chicago Consumer Coalition
Consumer Action
Consumer Assistance Council (Hyannis, MA)
Consumer Federation of America
Consumer Federation of the Southeast (FL)
Consumers for Auto Reliability and Safety (CARS)
Consumers League of New Jersey
Consumers Union
Demos
Empire Justice Center (NY)
Greenlining Institute

Jacksonville Area Legal Aid (FL)
Legal Services Advocacy Project (MN)
Legal Services of New Jersey
Legal Services of Southern Piedmont (NC)
Legal Services Resource Center of Connecticut, Inc.
National Association of Consumer Advocates
National Community Reinvestment Coalition
National Consumer Law Center, on behalf of its low-income clients
National Fair Housing Alliance
National People's Action
Neighborhood Economic Development Advocacy Project (NEDAP)
New Jersey PIRG
North Carolina Justice Center
Policy Matters Ohio
Texas Legal Services Center
U.S. PIRG
Vermont PIRG
Virginia Poverty Law Center
Wisconsin PIRG
Woodstock Institute

Following are the partners of Americans for Financial Reform.

All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.

- A New Way Forward
- AARP
- AFL-CIO
- AFSCME
- Alliance For Justice
- Americans for Democratic Action, Inc
- American Income Life Insurance
- Americans United for Change
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Media and Democracy
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO Mobile
- CTW Investment Group
- Demos
- Economic Policy Institute
- Essential Action
- Greenlining Institute

- Good Business International
- HNMA Funding Company
- Home Actions
- Housing Counseling Services
- Information Press
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Krull & Company
- Laborers' International Union of North America
- Lake Research Partners
- Lawyers' Committee for Civil Rights Under Law
- Move On
- NASCAT
- National Association of Consumer Advocates
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National People's Action
- National Council of Women's Organizations
- Next Step
- OMB Watch
- OpenTheGovernment.org
- Opportunity Finance Network
- Partners for the Common Good
- PICO
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen
- Sargent Shriver Center on Poverty Law
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Fuel Savers Club
- The Leadership Conference on Civil and Human Rights
- The Seminal
- TICAS
- U.S. Public Interest Research Group

- UNITE HERE
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Western States Center
- We the People Now
- Woodstock Institute
- World Privacy Forum
- UNET
- Union Plus
- Unitarian Universalist for a Just Economic Community

Partial list of State and Local Signers

- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans For Responsible Lending
- Association for Neighborhood and Housing Development NY
- Audubon Partnership for Economic Development LDC, New York NY
- BAC Funding Consortium Inc., Miami FL
- Beech Capital Venture Corporation, Philadelphia PA
- California PIRG
- California Reinvestment Coalition
- Century Housing Corporation, Culver City CA
- CHANGER NY
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)
- Chicago Community Loan Fund, Chicago IL
- Chicago Community Ventures, Chicago IL
- Chicago Consumer Coalition
- Citizen Potawatomi CDC, Shawnee OK
- Colorado PIRG
- Coalition on Homeless Housing in Ohio
- Community Capital Fund, Bridgeport CT
- Community Capital of Maryland, Baltimore MD
- Community Development Financial Institution of the Tohono O'odham Nation, Sells AZ
- Community Redevelopment Loan and Investment Fund, Atlanta GA
- Community Reinvestment Association of North Carolina
- Community Resource Group, Fayetteville A
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (NYC)

- Cooperative Fund of New England, Wilmington NC
- Corporacion de Desarrollo Economico de Ceiba, Ceiba PR
- Delta Foundation, Inc., Greenville MS
- Economic Opportunity Fund (EOF), Philadelphia PA
- Empire Justice Center NY
- Empowering and Strengthening Ohio's People (ESOP), Cleveland OH
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing
- Fitness and Praise Youth Development, Inc., Baton Rouge LA
- Florida Consumer Action Network
- Florida PIRG
- Funding Partners for Housing Solutions, Ft. Collins CO
- Georgia PIRG
- Grow Iowa Foundation, Greenfield IA
- Homewise, Inc., Santa Fe NM
- Idaho Nevada CDFI, Pocatello ID
- Idaho Chapter, National Association of Social Workers
- Illinois PIRG
- Impact Capital, Seattle WA
- Indiana PIRG
- Iowa PIRG
- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc., Mayville NY
- La Casa Federal Credit Union, Newark NJ
- Low Income Investment Fund, San Francisco CA
- Long Island Housing Services NY
- MaineStream Finance, Bangor ME
- Maryland PIRG
- Massachusetts Consumers' Coalition
- MASSPIRG
- Massachusetts Fair Housing Center
- Michigan PIRG
- Midland Community Development Corporation, Midland TX
- Midwest Minnesota Community Development Corporation, Detroit Lakes MN
- Mile High Community Loan Fund, Denver CO
- Missouri PIRG
- Mortgage Recovery Service Center of L.A.
- Montana Community Development Corporation, Missoula MT
- Montana PIRG
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital, Trenton NJ
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City Aids Housing Network

- NOAH Community Development Fund, Inc., Boston MA
- Nonprofit Finance Fund, New York NY
- Nonprofits Assistance Fund, Minneapolis M
- North Carolina PIRG
- Northside Community Development Fund, Pittsburgh PA
- Ohio Capital Corporation for Housing, Columbus OH
- Ohio PIRG
- OligarchyUSA
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance, Charlottesville VA
- Michigan PIRG
- Rocky Mountain Peace and Justice Center, CO
- Rhode Island PIRG
- Rural Community Assistance Corporation, West Sacramento CA
- Rural Organizing Project OR
- San Francisco Municipal Transportation Authority
- Seattle Economic Development Fund
- Community Capital Development
- TexPIRG
- The Fair Housing Council of Central New York
- The Loan Fund, Albuquerque NM
- Third Reconstruction Institute NC
- Vermont PIRG
- Village Capital Corporation, Cleveland OH
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty - Florida
- WashPIRG
- Westchester Residential Opportunities Inc.
- Wigamig Owners Loan Fund, Inc., Lac du Flambeau WI
- WISPIRG

Small Businesses

- Blu
- Bowden-Gill Environmental
- Community MedPAC
- Diversified Environmental Planning
- Hayden & Craig, PLLC
- Mid City Animal Hospital, Pheonix AZ
- The Holographic Repatterning Institute at Austin
- UNET

