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# Rent-to-Own Contracts

by Marsha A. Goetting, PhD, CFP, CFCS and Judith R. Urich, PhD, CFP, CFCS. Goetting is Professor and Family Economics Specialist, MSU Extension Service-Bozeman; Urich is Extension Family Resource Management Specialist, University of Arkansas Cooperative Extension Service.

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Important factors to consider as you comparison-shop for a rent-to-own contract, which is technically a rental-purchase agreement.

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**R**ent-to-own stores have become very popular in Montana. Nationwide, there are over 8,000 rent-to-own stores, and their appeal is tempting. Consumers can take immediate delivery on new furniture, appliances or other items. There is no down payment or credit check. Weekly payments are low. If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it.

Rental stores offer **rent-to-own contracts** that are technically rental-purchase agreements. These contracts allow you to rent merchandise such as furniture or appliances from a rental store either by the week or by the month. You own the item after enough payments have been made. But, if you miss a payment, the rental-purchase agreement requires you to promptly return the item to the store.

If you want to use furniture or appliances for just a few weeks or months, renting may be for you. But, if your goal is to own the item, low weekly payments can add up to a high total cost. And, if you miss a payment, the item can be *repossessed* (taken back by the rental store). If that happens, you will have nothing to show for all the payments you made. Keep in mind that about 75 percent of customers return a rental item within the first four months, and less than 25 per-

cent of customers actually rent long enough to own the item.

The purpose of this MontGuide is to provide information to help you comparison shop for a rent-to-own contract. Also included is a checklist that may be useful as you explore the rent-to-own option.

## Questions to Ask Before You Sign a Rent-to-Own Contract

Before you enter into a rent-to-own agreement or contract, find out answers to the questions that follow. Write your answers on the checklist on the back of this MontGuide.

### *How much are my payments? When are they due?*

Rent-to-own agreements or contracts must state how much each payment will be and when they are due. The payments could be weekly, every other week, or monthly. For example, the payment on a television could be \$17.95 each week due every Monday for 91 weeks.

### *What is the minimum number of payments?*

The contract may require you to make a specific number of rental payments before you can return the merchandise. You also may be required to pay a penalty if you return the item early (before the end of the contract).

Each rent-to-own store decides its minimum rental period. One

store may allow you to rent an item for a week, another for two weeks, and a third may require that you keep the item for a month. Before you sign the contract, check for the store's policy on the minimum length of rental time.

### *What other fees or charges are part of the contract?*

Handling fees or service charges increase the total cost of the item. Read your rent-to-own contract carefully to see if there are extra charges. Some rental stores may require you to purchase insurance on the rented item. What does the insurance cost? What does the insurance cover? Are there limits or exceptions to the insurance coverage? Additional fees that may be found in rent-to-own contracts include: collection, processing, late payment, delivery, redelivery, reinstatement, and moving (to move the rented property from one location to another).

### *What is the total dollar cost to own the item?*

To figure the total dollar cost of the item you want to rent, first multiply the number of payments that the rental store requires by the amount of each payment. Then, add to that amount any extra handling fees or service charges.

For example, if the contract requires 12 payments of \$20 each,

and there is a \$15 handling fee, the total cost is \$255. You must pay \$255 before the rented merchandise belongs to you.

12 payments x \$20 =	\$240
Add handling fee +	<u>\$ 15</u>
<b>TOTAL COST</b>	<b>\$255</b>

### **When do I own the merchandise?**

In a rent-to-own contract, you do not own the merchandise until all payments have been made. Check the contract to find out when you gain ownership of the item

### **Is the merchandise new or used?**

Your rental contract must tell you whether the merchandise is new or used. If you are planning to eventually own the item, you will want new merchandise so you can get the most use from it. You will also want to have the benefits of a manufacturer's warranty and an owner's manual.

### **Am I responsible for loss or damages to the item?**

The contract must tell who is liable for loss or damages to the rented item. Typically the renter is the one responsible for loss or damages—not the rental business. The contract should also state the maximum amount that you can be required to pay for the merchandise if it is stolen or damaged.

### **Who pays for repairs if the item breaks down?**

The contract should include information on how to get an item repaired and who is responsible for the repair bills—you or the rental store. Does the store provide a substitute item at no extra charge while repairs are being made?

### **What is the grace period for a late payment?**

A grace period is the amount of time you have to get your late payment to the rental store before you have to pay a penalty or return the merchandise.

Remember, if you miss a payment, the rental store has the legal right to repossess (take back) the merchandise. Many consumers schedule their

rental payments around payday because they know they will have the cash on hand that day.

### **How do I reinstate a rent-to-own contract?**

*Reinstatement* means that within a certain time period, you have the right to pay all late payments to the rental store. All other charges will also have to be paid to prevent your losing any rights or investments you made in the rental merchandise. Your right to reinstate the rent-to-own contract exists even if the merchandise has been repossessed.

Guard your right to reinstate your rent-to-own contract. If you have paid a lot of money towards owning the item, you do not want to lose it because of a lack of reinstatement.

### **Is there a balloon payment (larger than all other regular payments)?**

Some rental contracts call for a *balloon payment* at the end of the lease. A balloon payment may be substantially larger than your other payments. Can the balloon payment be made in several smaller payments? What happens if you can't afford it? Don't sign a contract that includes a balloon payment that you can't afford.

### **What is the difference between rent-to-own contracts and retail installment contracts?**

Rent-to-own contracts and installment contracts are not the same. With a *rental-purchase* or *rent-to-own* contract you are leasing or renting the item. You are not buying it. You are paying for the use of the item for a certain time period. You do not have to continue making payments if you choose to return the item. But, if you choose to keep the item and make enough payments, eventually you will own it.

With a *retail installment contract* you are buying an item by making a number of monthly payments. You are required to pay more than the cash price because it takes longer for the store to collect the full price of the item.

The installment contract spells out the annual percentage rate (APR) and the finance charge. The APR tells

you the interest rate you are charged on the loan. The finance charge is the total cost in dollars of the installment contract charges.

The installment contract also states the following:

1. monthly payment
2. total *installment purchase price* (monthly payment amount times the number of payments you must make) and cash sales price.

Part of each monthly payment is used to pay interest on the loan and part is used to pay off the *principal* (balance due on your loan).

When you buy furniture, appliances or automobiles, read your retail installment contract carefully. In most cases, you will not own the item until the last payment has been made. If you do not make all of your payments, the merchant may have the legal right to repossess the item and sell it to recover the remaining balance on your loan. If the merchant cannot recover the amount due, you may have to pay the balance of the loan, even though you no longer have the merchandise. If the merchant sells the item for more than it is worth, you may be given the difference.

Montana law does not place any limits on the finance charges or interest rent-to-own dealers may charge. Dealers are also not required to disclose an APR, the finance charge or the interest consumers pay to own the product. Therefore, you cannot easily compare the cost of a rent-to-own plan with an installment plan. But, you can compare the total cost of an item as illustrated in Figure 1.

## **Summary**

A rent-to-own contract is advertised as a way to own an item without a credit check or down payment. By paying a weekly or monthly "rental" fee for a certain period of time, you can enjoy the item without paying a large sum of money.

There are situations in which renting may be the most practical choice—for example, when you want a temporary replacement for an appliance being repaired, when you want to try out a new appliance before buying one, or when you have some other short-term need. Before

signing a rent-to-own contract as an alternative to buying an item, however, look at all of the options available. For example:

- Can you delay the purchase until you save enough money to pay cash?
- Is there a discount allowance for paying the total amount in cash?
- Is there a retail store that offers a layaway agreement for the item?
- Have you tried to obtain credit to buy the item from a retail store?
- Could you obtain a short-term consumer loan from a financial institution, such as a bank or credit union?
- Would a cheaper, used item from a garage sale, the classified ads, or a second-hand store or repair shop meet your household need?

If you decide on the rent-to-own option, make sure you understand everything in the contract. Ask questions! Consider taking a copy of the contract to someone who can help you to understand it or bring this person with you when you sign it.

Do not sign a contract with blank spaces. Either mark through them or have them filled in. **Get a copy of the contract at the time that you sign it.**

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**Figure 1. Comparison: Three Ways to Buy a Television**

Store	Payment Amount (a)	Number of Payments (b)	Other Fees? (c)	Total Cost (a x b) + c	Who Makes Repairs?
Rent-to-Own	\$17.95/week	91	None	\$1,633.45	Read Contract
<i>Installment sale</i>					
12% APR	\$34.47/month	21	\$15.00	\$738.87	You Do
8½% APR	\$33.42/month	21	\$15.00	\$716.83	You Do
Cash sale	\$649.99	1	None	\$649.99	You Do
Before you sign any contract, shop around. Compare the costs of buying an item if you: <input type="checkbox"/> Use rent-to-own <input type="checkbox"/> Use installment credit <input type="checkbox"/> Pay cash					

## Questions to Ask Before You Sign a Rent-to-Own Contract

The following checklist may be helpful to you as you explore the rent-to-own option. Take the list with you when you shop. Before you leave home, write down additional questions you want to ask.

ITEM: \_\_\_\_\_

RETAIL COST (at stores other than rent-to-own businesses): \_\_\_\_\_

Questions	Store A	Store B	Store C
Store name			
How much are my payments?			
When are my payments due?			
What is the minimum number of payments?			
What other fees or charges are part of the contract?			
handling fees			
late fees			
insurance			
delivery			
reinstatement			
collection			
processing			
What is the total dollar cost to own the item?			
When do I own the item?			
Is the merchandise new or used?			
Am I responsible for loss or damage to the item?			
Who pays for repairs if the item breaks down?			
What is the grace period for a late payment?			
How do I reinstate a rent-to-own contract?			
Is there a balloon payment?			
Other questions I want to ask:			

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