

# AN EMPIRICAL EXAMINATION OF CUSTOMER EXPERIENCE WITH RENT-TO-OWN TRANSACTIONS

Signe-Mary McKernan,

Urban Institute

James M. Lacko, Federal Trade Commission

Manoj Hastak, American University

Consumer Decisionmaking: Insights from Behavioral Economics

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## Road Map

- Rent-to-own (RTO) Industry
- Consumer Protection Issues
- Past Research
- Survey
- Results
  - Customers
  - Purchase rate (open question)
  - State laws
- Policy Options
- Conclusion

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## RENT-TO-OWN INDUSTRY

- Rents furniture, appliances, electronics, jewelry
- Self-renewing weekly or monthly lease
- Consumer can terminate at any time
- Consumer obtains ownership by:
  - (a) continuing payments for pre-specified interval,  
or
  - (b) early payment

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## REASONS FOR CHOOSING RTO

- Low monthly or weekly payments
- No credit check
- No down payment
- Terminable at any time
- Termination does not affect credit rating
- Maintenance, repair, and delivery included

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## CONSUMER PROTECTION ISSUES

- High prices
  - Substantially more than retail
  - Credit sale or lease
  - Purchase rate
- Abusive Practices
  - Payment collection practices
- Adequacy of disclosures
  - Costs & terms of transaction
  - New vs. used merchandise

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## Rent-to-Own vs. Retail For \$974.35, you get....

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Rent-to-Own:               <ul style="list-style-type: none"> <li>– 27 inch Samsung TV set (\$14.99 per week for 65 weeks)</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• Retail:               <ul style="list-style-type: none"> <li>– 27 inch TV (\$299)</li> <li>– 4-head VCR</li> <li>– Oak entertainment center</li> <li>– Oversized recliner</li> <li>– One video rental a week for a year</li> </ul> </li> </ul> |
|--|---|

Source: Cleveland Plain Dealer, April 3, 2000

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## PAST RESEARCH

### **Pricing**

Breslau 87; Swagler & Wheeler 89; Walden 90; Rudman 94;  
PIRG 94, 97; Swagler, Burton, & Lewis 95;  
Caskey 97; Hill, Ramp & Silver 98

### **Reasons why customers use RTO**

Swagler & Wheeler 89; Rudman 94; APRO 94, 99;  
Hill, Ramp, & Silver 98; Zikmund-Fisher & Parker 99

### **Customer demographics**

Breslau 87; Rudman 94; Caskey 97; APRO 94, 99; FINRA 09; FDIC 09

### **Purchase rate**

Ramp 90; Rudman 94; APRO 94, 98, 99;  
Zikmund-Fisher & Parker 99; Anderson & Jackson 04; Anderson & Jaggia 08

### **Customer satisfaction**

Swagler and Wheeler 89; Rudman 94; APRO 94, 99

### **Abusive collection practices**

WSJ 93; Rudman 94; APRO 94, 99

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## LIMITATIONS OF PAST RESEARCH

- Small samples
- Samples from select demographic or geographic populations
- Samples from customers of a single RTO company
- Industry sponsored studies

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## SURVEY OBJECTIVES

- Develop demographic profile of RTO customers
- Estimate purchase rate
- Assess customer experience:
  - Overall satisfaction
  - Incidence of abusive collection practices

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## SURVEY METHODOLOGY

- Telephone survey conducted by ICR between December 98 and February 99
- Nationwide random sample of 12,136 adults screened for RTO use in last 5 years. Demographic data collected on these respondents
- 532 qualified respondents surveyed on RTO experience

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## RESULTS: RTO CUSTOMERS

- Use of RTO
  - 2.3% of U.S. households used RTO in previous year, 4.9% in previous 5 years
- Customer Demographics
  - 31% African American (vs. 11%)
  - 79% 18 to 44 years old (vs. 52%)
  - 73% High School education or less (vs. 49%)
  - 59% Household incomes < \$25,000 (vs. 29%)
  - 53% South (vs. 35%)

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## RESULTS: RTO CUSTOMERS

- Ownership of Credit Cards / Bank Accounts
  - 44% Credit card (vs. 68%)
  - 49% Savings account (vs. 56%)
  - 64% Checking account (vs. 87%)
  - 77% at least one of the three
- Vehicle Ownership
  - 84% car or truck (vs. 83%)

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## RESULTS: PURCHASE RATE

- 70% of rented merchandise was purchased
  - Rented for an average of 14 months before purchase
- 67% of customers intended to purchase
- 87% of customers intending to purchase actually did so

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## Determinants of RTO Use by Customer Purchase Intent

- Consumers with lower income, less access to credit, lower education, and African Americans are significantly more likely to use RTO with intent to purchase
- Determinants differ for consumers intending to purchase and rent, suggesting two separate and distinct markets

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## State Laws

- State laws requiring total cost disclosures on product labels were significantly related to consumer RTO use:
  - 30% less likely to use RTO intending to purchase
  - 50% more likely to use RTO intending to rent
- State laws requiring disclosures in the contract were not significantly related to consumer RTO use

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## RESULTS: CUSTOMER EXPERIENCE

- Overall Satisfaction
  - 75% were satisfied, 19% were dissatisfied
- Late payment: 46% of customers
  - 64% said treatment was “very good” or “good”
  - 20% said treatment was “fair”
  - 15% said treatment was “poor” or “very poor”
    - 11% indicated possibly abusive collection practices
- Few late term returns
  - 90% purchased, 10% returned

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## POLICY OPTIONS

- Disclose total cost and terms of purchase
  - Product labels, contracts, advertisements
- APR disclosures could raise difficulties
  - Could be manipulated and understated by dealers
  - Could be difficult to enforce
- Price restrictions could limit availability

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## CONCLUSION

- Most customers use RTO to purchase
- RTO is a very expensive way to purchase
- Need clear and timely disclosures of the total cost to ensure that customers are aware of the cost
- Most customers are satisfied and do not experience abusive treatment when paying late

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