

Rent-to-Own Contracts: Are They for You?

Laura Connerly
Family and Consumer
Sciences Associate

Rent-to-own purchase contracts are popular. Their appeal is great – quick delivery with no down payment, low weekly payment with no credit check and no penalty for discontinuing the contract.

Rent-to-own contracts are technically rental-purchase agreements. These contracts allow you to rent merchandise. For example, you can rent a television set by the week or by the month. Eventually, if you make enough payments you will own the TV. But if you miss a payment, a rental-purchase agreement requires you to promptly return the TV to the rental store.

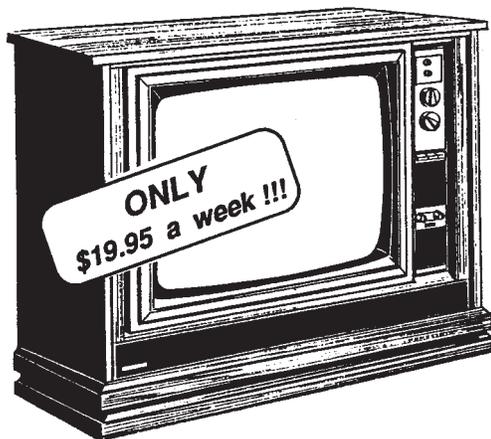
If you only want to use furniture or appliances for a few weeks or months, renting may be for you. BUT if your goal is to own the item, those low weekly payments can add up to a high total cost. If you miss a payment, the item can be repossessed. Then you have nothing to show for the payments you have made.

???Ask Before You Rent???

Before you enter into a rent-to-own agreement or any contract, get answers to the following questions:

- \$ How much are your payments?**
- \$ When are they due?**
- \$ How many rental payments are you required to make?**

Rent-to-own agreements may require you to make a specific number of rental payments before you can return the merchandise. If you want to return the item early, then you may have to pay a penalty.



*Arkansas Is
Our Campus*

Visit our web site at:
<http://www.uaex.edu>

Each rent-to-own store decides the length of the minimum rental period. The only way to be sure about a rental store's policy is to check the contract before you sign it. One store may allow you to rent an item for a week, another for two weeks and a third rental store may insist you keep the item for a month. In Arkansas, a rental store can legally require that you rent the merchandise for a minimum of four months.

An advantage of rent-to-own contracts is that after the required minimum time period, you can simply return the item without a penalty or further payments due.

\$ How many payments must you make before you own the item?

\$ What other fees or charges are part of the contract?

Arkansas law requires that all extra charges must be stated in the contract. Read your rent-to-own contract carefully! Handling fees or service charges increase your total cost. Some rental stores may require you to purchase insurance on the rented item.

\$ What is the total dollar cost to own the item?

To check the total dollar cost, first multiply the number of payments required times the amount of each payment. Then add any extra handling fees or service charges to that amount. For example, if your contract requires you to make 12 payments of \$20 each, and there is a \$15 handling fee, then –

Number of payments:	12
Amount of payment:	\$20.00
Handling fee:	\$15.00

To Figure Your Total Cost:

12 payments x \$20 =	\$240.00
Add handling fee	+15.00

TOTAL COST	<u>\$255.00</u>
-------------------	------------------------

In this example, you must pay \$255.00 before the rented merchandise belongs to you.

\$ When do you own the merchandise?

In a rent-to-own contract, you will not own the merchandise UNTIL you have made ALL of your payments.

\$ 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 to get the most use from it.

\$ Are you responsible for loss or damage to the merchandise?

The contract must state if you are liable for loss or damages to the rented item. It should also state the maximum amount you can be required to pay for the merchandise if it is stolen or is damaged.

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

\$ Is there a grace period for a late payment?

A grace period is the amount of time you have to get your late payment to the bank or the store before you have to pay a penalty or return the merchandise. Arkansas law allows the rental store to demand the merchandise after two (2) days if your payments are weekly or due every other week and after five (5) days if you make monthly payments.

Schedule your rental payments around payday. If you miss a payment, the rental store has the right to repossess their merchandise. If a financial emergency arises, you may find you are out of luck.

\$ How do you reinstate a rent-to-own contract?

Guard your right to reinstate your rent-to-own contract. If you have made a substantial investment toward owning the item, you don't want it repossessed and gone for good.

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

In Arkansas, you can reinstate your rent-to-own contract by the following methods. First, if you have the merchandise in your possession, you can pay the late payments, the late charges and any reinstatement fees directly to the rental store. Or secondly, you can voluntarily return the rented item within five (5) days of the first missed monthly payment or within two (2) days of the first missed weekly or bi-weekly payment.

If the merchandise is returned during this reinstatement period, the right to reinstate will be legally extended for a minimum of thirty (30) days. This extension only applies if there is no judicial process.

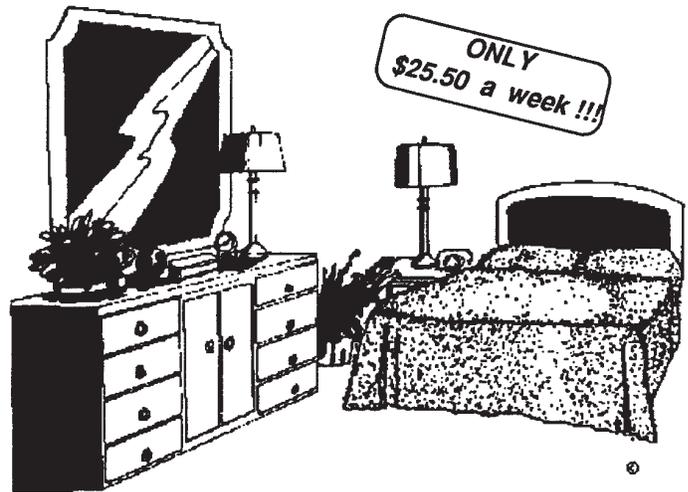
Legally you can reinstate your contract three (3) separate times in Arkansas. However, the rental store is not required to return the same item you were renting to you. The store can substitute merchandise of comparable quality.

Before you sign any contract, read it carefully. The questions above or similar items appear in all contracts, including rental-purchase lease agreements and retail installment contracts.

Rent-to-Own Contracts and Retail Installment Contracts: What Is the Difference?

Don't confuse rent-to-own contracts with installment contracts. With a rental-purchase or rent-to-own contract, you are leasing or renting the item. Remember, you are renting,

not buying. You are paying for the use of the item for a certain time period. You are not obligated to continue payments and become the owner. When you are finished renting an item, you no longer have to make payments. But if you choose to make enough payments, you will own the item.



With a retail installment contract, you are buying an item with a specified number of periodic 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 interest charges.

The installment contract also states the following: 1) monthly payment; 2) total installment purchase price (monthly payments times how many payments you must make); and 3) cash sale 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 any item and sell the item to recover the amount due. If the merchant cannot recover the amount due, you may be legally obligated for the balance of the loan, even though you no longer have use of the merchandise. If there is any surplus from the sale, you are legally entitled to that amount.

Before you sign any contract, shop around. Compare the costs of buying an item if you:

- Use rent-to-own.
- Use installment credit.
- Pay cash.

References

Ark Code Ann § 87.4-92-101-197.

Bannister, R., Credit: Tool or Trap, Ypsilanti, MI: Michigan Consumer Education Center, College of Education, Eastern Michigan University, 1989.

**Compare the following prices in one Arkansas town
for a 19-inch color TV with built-in VCR, financed for 21 months.**

Store	Payment Amount (a)	How Many 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
Installment Sale @ 8½% APR	\$33.42/month	21	\$15.00	\$716.83	You Do
Cash Sale	\$649.99	1	None	\$649.99	You Do

Acknowledgment is given to Cynthia G. Vories, former county Extension agent, family and consumer sciences - 4-H, Mississippi County, and Dr. Judith R. Urich, former Extension specialist, Little Rock, with the University of Arkansas Division of Agriculture, Cooperative Extension Service, for their contribution to this manuscript.

Printed by University of Arkansas Cooperative Extension Service Printing Services.

LAURA CONNERLY is family and consumer sciences associate, University of Arkansas Division of Agriculture, Cooperative Extension Service, Little Rock.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Director, Cooperative Extension Service, University of Arkansas. The Arkansas Cooperative Extension Service offers its programs to all eligible persons regardless of race, color, national origin, religion, gender, age, disability, marital or veteran status, or any other legally protected status, and is an Equal Opportunity Employer.