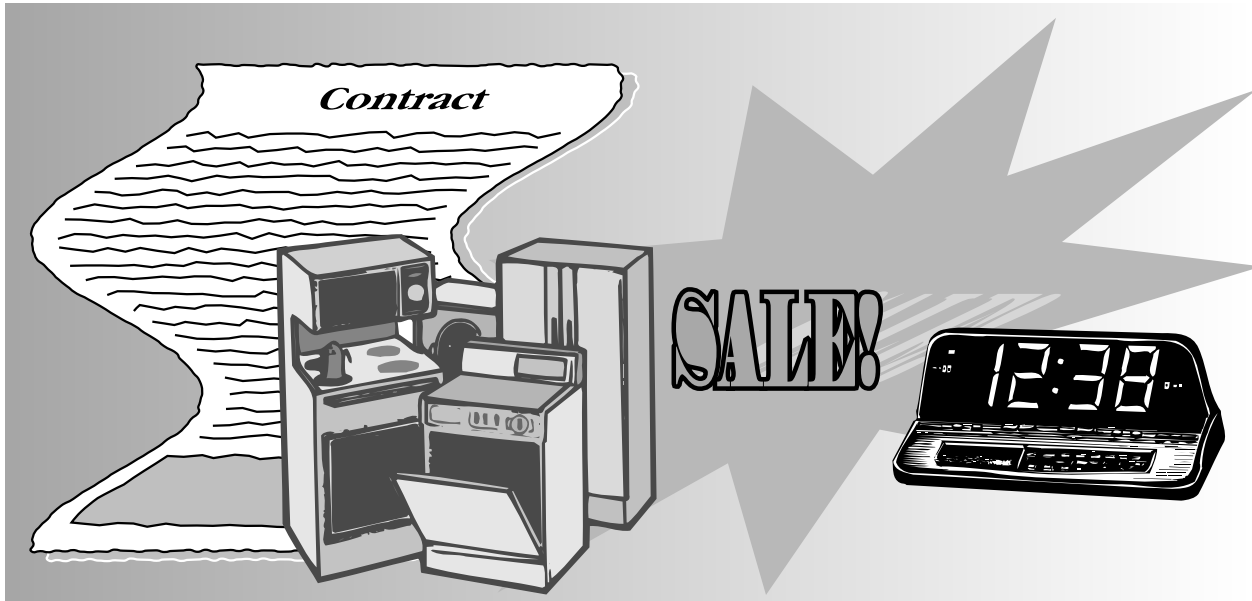




FACT SHEET

Rent-to-Own Contracts

Fact Sheet 706



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 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.

Questions to 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 my payments? When are they due? How many rental payments am I required to make?

Rent-to-own agreements must state how much each payment will be. The agreement may require you to make a specific number of rental payments before you can return the merchandise. You may have to pay a penalty if you want to return the item early.

Each rent-to-own store decides the length of the minimum rental period. The only way to be sure of a rental store's policy is to check the contract before signing 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.

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

How many payments must I make before I own the item? What other fees or charges are part of the contract?

Are extra charges 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 \$20.00 =	\$240.00
Add handling fee	+15.00
TOTAL COST	\$255.00

In this example you must pay \$255 before the rented merchandise belongs to you.

When do I own the merchandise?

In rent-to-own contracts, you will not own the merchandise until you have made all 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 new merchandise so you can get the most use from it.

Am I responsible for loss or damage to the merchandise?

The contract must tell you 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 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.

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 I reinstate a rent-to-own contract?

Guard your right to reinstate your rent-to-own contract. If you have paid a lot toward owning the item, you do not want it repossessed.

Reinstatement means that within a certain 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.

Before you sign any contract, read it carefully. Similar information appears in all contracts, including rental-purchase lease agreements and retail installment contracts.

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

Do not 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 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 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 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 will be given the difference.

Maryland 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 end up paying to own the product. Therefore, you cannot easily compare the cost of buying under a rent-to-own plan with buying on, for example, an installment plan. But, you can comparison shop by comparing the total cost of an item as illustrated in the following chart:

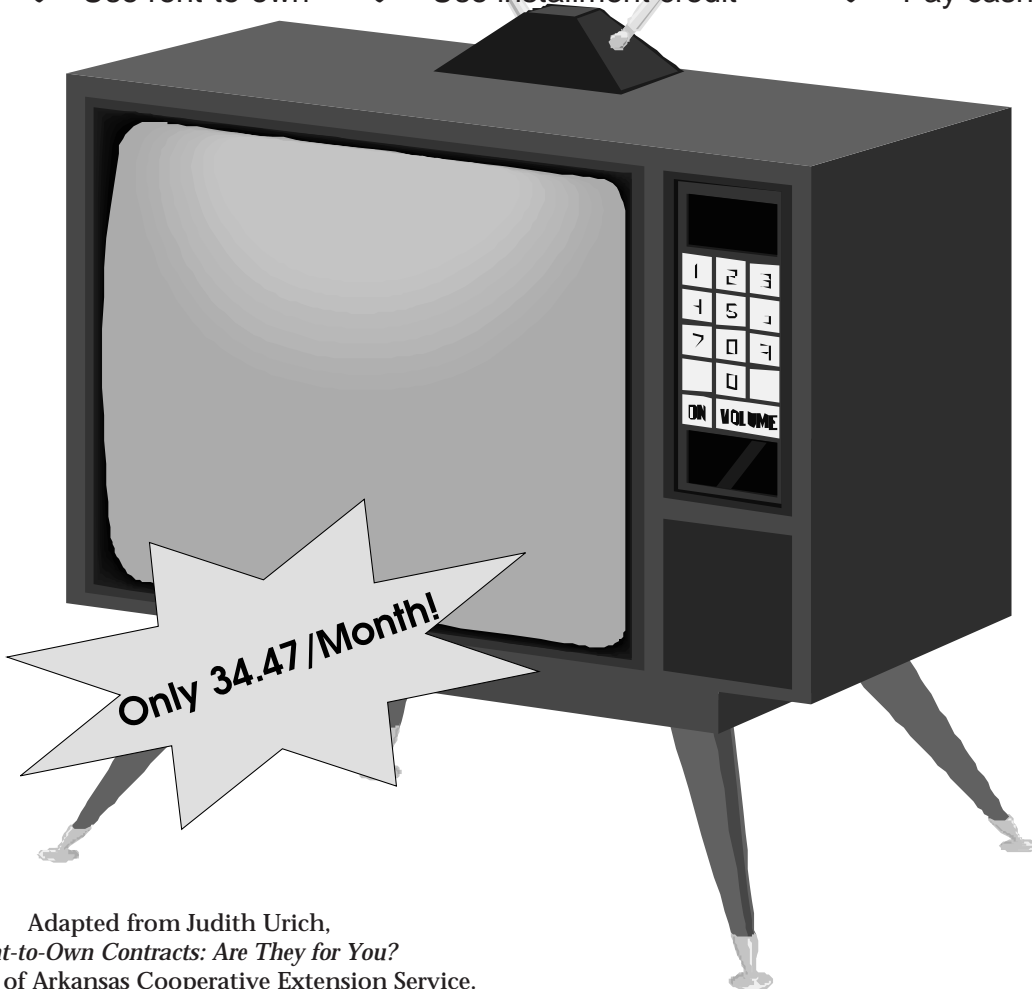


Comparison: Three Ways to Buy a Television

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
Installment Sale	@12% APR	21	\$15.00	\$738.87	You Do
	@8½% APR	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:

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



Adapted from Judith Urich,
Rent-to-Own Contracts: Are They for You?
 University of Arkansas Cooperative Extension Service.

Adapted by Mary J. Stephenson,
 family resource management specialist,
 Cooperative Extension Service,
 University of Maryland at College Park.