

CONSUMERS LEAGUE OF NEW JERSEY

Founded in 1900 in MONTCLAIR, NJ ■ 973-744-6449

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Opposes A.3851– Allows Rent to Own Stores to Exceed N.J.'s 30% Criminal Usury Law

Bill A.3851 gives away the store to rent to own lobbyists. The Supreme Court of New Jersey has accepted an appeal which will decide whether rent to own stores may continue to sell TVs to the urban poor at rates exceeding the 30% criminal usury law. The rent to own industry hopes bill A.3851 will snatch the issue away from the Supreme Court, where Camden consumer Hilda Perez hopes to obtain justice.

Rent to own stores sell goods by pretending to rent them. At the end of the rental period, the consumer owns the goods. A poster in Rent-a-Center's window in Paterson states that you can OWN the goods in 12 months. The emphasis is on the OWN in rent to own. The alleged rental is a dodge to avoid N.J.'s 30% criminal usury limit.

What are the three worst problems with A.3851?

(1) Sets Artificially High Cash Price:

Bill A.3851 allows rent to own stores to set an artificially high "cash price" equal to 175% to 225% of the cost of the goods. Competitive electronics merchants instead have a markup of only 5% to 25% over cost. So first RTO doubles its cost for a phoney cash price.

(2) A.3851 allows rent to own to charge loanshark interest rates: 152% APR.

Then bill A.3851 allows RTO to double the cash price to get the credit price. So if the cost of a TV to RTO is \$285, then A.3851 allows RTO to set a phoney cash price of \$500, (\$285 times 1.75) and a credit price of \$1,000! Over a 12 month term, that adds up to 12 payments of \$83.33, payable at **152% annual percentage rate!**

(3) No disclosure of the annual percentage rate:

No rent to own customer is ever told what interest rate rent to own is charging. In the Hilda Perez case, the APR exceeded 80%. A.3851 would allow 152% APR (see our chart). Concealing the interest rate is inherently deceptive. If the urban poor knew the real interest rates which rent to own charges, they would be outraged at being treated as second class citizens, paying interest rates of 80% to 152% while the middle class pays 21% at Sears.

This is not a complete list of the problems with this industry bill. A.3851 allows a \$5 late charge on every payment, which is excessive, considering that payments are sometimes made weekly. A \$5 late charge on a \$20 payment is extremely high. There are more bad charges too.

In 1990, Public Advocate Wilfredo Caraballo testified *against* a bill similar to A.3851, the bill he inexplicably now sponsors. The Public Advocate said his investigation found a "pattern of unconscionable sales practices" that "significantly exploited consumers." (*Star-Ledger*, May 11, 1990). A.3851 provides that rent to own's practices shall not be considered unconscionable. The 1990 Public Advocate got it right: government should protect the poor, not help fleece them through evading the criminal usury law.

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A.3851 says a TV bought by rent to own for \$285 may be sold with "cash price" of \$500, with a total of \$1,000 required to buy the TV:

Over 12 monthly payments, this is an **Annual Percentage Rate of 152.3%**, (not counting the inflated cash price) and a monthly interest rate of 12.69%

Principal Balance	Plus monthly interest earned (Balance x .1269)	Less payment	Equals new principal balance
500.00	63.47	83.33	480.14
480.14	60.95	83.33	457.76
457.76	58.11	83.33	432.54
432.54	54.91	83.33	404.12
404.12	51.30	83.33	372.09
372.09	47.23	83.33	335.99
335.99	42.64	83.33	295.31
295.31	37.49	83.33	249.47
249.47	31.67	83.33	197.81
197.81	25.11	83.33	139.59
139.59	17.72	83.33	73.98
73.98	9.39	83.37	0.00

If the term of the rent to own sale is instead increased to **18 months**, then the payment will be \$55.55 and the Annual Percentage Rate would be **103%**. Total of payments remains \$1,000.

What would competitive merchants out at the mall charge?

Competitive merchants would sell a TV it acquired for \$285 at a markup of 5% to 25%. So the cash price would be no more than \$350. At 21% interest, the monthly payment would be only \$32.58 for 12 months and the total of payments would be only \$391, which is less than the RTO cash price. In sum, rent to own costs the urban poor more than double what the middle class pays out at the mall. Bill A.3851 puts the seal of the Legislature upon a ripoff which exploits the urban poor. A.3851 does nothing to solve the rent to own scam: the poor are not being told they are charged interest rates of 80% to 152%.

If the the Legislature wishes to protect N.J. consumers, then should explicitly set RTO's usury ceiling at 30%, as the Legislature intended in 1981 when it passed the laws of 1981, chapters 103 and 104. Governor Byrne said they intended one usury ceiling— the 30% criminal usury law to cover all consumer credit, including sales on credit. This issue will be decided by the New Jersey Supreme Court in the case *Perez v. Rent-a-Center*, recently accepted for review.