



RENT-TO-OWN (RTO)

INTRODUCTION

Governor Walker's state budget includes a provision to create a new set of statutes solely for RTO companies, thereby removing them from the jurisdiction of the Wisconsin Consumer Act (WCA) and freeing them from having to post annual percentage rates (APR). If this provision becomes law, Wisconsin consumers will be exposed to predatory lending practices with damaging consequences.

The Wisconsin Catholic Conference (WCC) strongly opposes, and seeks to eliminate, this budget provision.

DISCUSSION

In a RTO agreement, the customer agrees to make a weekly or monthly payment in order to immediately take home merchandise, usually furniture, electronics, or computers. If customers make all the required payments, they then own the merchandise outright. Or they can return the merchandise at any time and cancel their contracts with no further obligations. RTO stores do not require down payments, nor do they perform credit checks, so the agreements are especially attractive to customers with poor or no credit. Customers end up paying at least twice (and often far more) the market value in order to own a RTO item. An appliance costing \$600 retail could end up costing a RTO customer \$2400.

Wisconsin treats RTO agreements as consumer credit transactions, since there is a significant difference between the market value of the merchandise and the amount customers will end up paying if they opt to purchase. As such, RTO stores have to abide by the WCA and post APRs, which help customers make informed decisions.

A few Wisconsin-based RTO companies can and do currently operate in our state and, therefore, abide by the WCA. However, the large national RTO chains have chosen not to operate here. In past legislative sessions, they have tried to change state law, arguing that their contracts should be treated as leases and not credit sales. Thus far, they have not been successful.

CATHOLIC TEACHING

The Church has always condemned lending at exorbitant interest rates as usury. Papal and Catholic social teaching – with their emphasis on the dignity of the human person, the common good, and special concern for the poor and vulnerable – lead us to oppose any practice or policy that harms those least able to defend themselves.

Blessed John Paul II, while affirming the benefit of free markets, also understood that a free economy “presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience.” For this reason, the government “has

the task of determining the juridical framework within which economic affairs are to be conducted, and thus of safeguarding the prerequisites of a free economy” (*Centesimus annus* #15).

WCC POSITION

Our Catholic Charities and Society of St. Vincent de Paul agencies have direct experience helping clients who are trapped and impoverished by predatory contracts. They confirm that one of the tragic circumstances of poverty is that those who are least able to pay for goods often end up paying the most. Public policy should not compound that tragedy by encouraging businesses that depend on ignorance and perpetual indebtedness.

Our opposition to exempting RTO agreements from the WCA is not based solely on our teachings, or on the experience of our charitable agencies. On July 26, 2011, the Federal Trade Commission (FTC) testified before the U.S. House Financial Institutions and Consumer Credit Subcommittee. It explained that RTO customers tend to come from poorer segments of the population. The FTC’s own survey found that 73 percent of RTO customers had a high school education or less, and 59 percent had household incomes of less than \$25,000.

The FTC also explained “that the basic terms of the RTO transaction, in particular the total cost of purchase, should be fully disclosed to consumers before they enter into the agreement. Information regarding the total cost of purchase, including all mandatory fees and charges, would allow consumers to compare the cost of an RTO transaction to alternatives and would be most useful if it were available while the customer was shopping.” The FTC concluded that, “The availability of RTO products may fill an important need for some consumers. But the market will function properly only if the practices of RTO businesses are transparent, fair, and honest.” (pp. 6, 11-12 at <http://www.ftc.gov/os/testimony/110726renttoowntestimony.pdf>)

The WCA represents the juridical framework that keeps consumer transactions in our state transparent, fair, and honest, thereby allowing the market to function properly. RTO contracts, like every other consumer credit transaction, should continue to be regulated by it.

ACTION REQUESTED

Please urge legislators to remove the budget provision that exempts rent-to-own (RTO) agreements from the Wisconsin Consumer Act.

- Rent-to-own transactions are predatory and constitute usury.
- Public policies should not encourage businesses that depend on ignorance and indebtedness.
- Low-income families and individuals – those least able to afford financial missteps – are those most likely to lose money and go into debt.

For more information, please contact Barbara Sella at 608-257-0004.

To find contact information for your State Representative or Senator, visit the Wisconsin State Legislature website at <http://legis.wisconsin.gov> and click on “Who Represents Me,” or call the State Legislative Hotline, 1-800-362-9472.