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PUBLIC HEARING

before

ASSEMBLY CONSUMER AFFAIRS COMMITTEE

"To discuss the rent-to-own industry"

May 10, 1990  
Room 334  
State House Annex  
Trenton, New Jersey

MEMBERS OF COMMITTEE PRESENT:

Assemblyman David C. Kronick, Chairman  
Assemblyman Neil M. Cohen, Vice-Chairman  
Assemblyman James E. McGreevey  
Assemblyman Walter J. Kavanaugh

ALSO PRESENT:

David L. Sallach  
Office of Legislative Services  
Aide, Assembly Consumer Affairs Committee

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Hearing Recorded and Transcribed by  
Office of Legislative Services  
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Hearing Unit  
State House Annex  
CN 068  
Trenton, New Jersey 08625





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CHAIRMAN  
NEIL M. COHEN  
VICE-CHAIRMAN  
JAMES E. MCGREEVEY  
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WALTER J. KAVANAUGH

**New Jersey State Legislature**  
**ASSEMBLY CONSUMER AFFAIRS COMMITTEE**  
STATE HOUSE ANNEX, CN-068  
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**NOTICE OF PUBLIC HEARING**

The  
**Assembly Consumer Affairs Committee**  
will hold a public hearing on  
**Thursday, May 10, 1990 beginning at 10:00 a.m.**  
**Rm. 450**  
**State House Annex**  
**Trenton, New Jersey**

The purpose of this public hearing is to discuss the following:

**RENT-TO-OWN INDUSTRY**

The rent-to-own industry, through weekly installment agreements, offers families and individuals who have limited ready cash and credit status a method of obtaining major household appliances such as televisions, stereos, video recorders and players, stoves, refrigerators, and freezers. The industry contends that it is providing a valuable consumer service, offering low and moderate income families and individuals the opportunity to acquire major consumer goods they otherwise would be unable to obtain. Critics argue that the industry should be subjected to tighter regulation, citing claims of unclear and confusing agreements, total payments that, in some instances, exceed three times the actual cost of the item, interest rates and carrying charges of 200 to 300 percent, substitutions of used for new merchandise, and statistics that suggest that a significant percentage of rent-to-own customers never actually acquire ownership of the item they rent.

*The public may address comments and questions to David L. Sallach, committee aide, and persons wishing to testify should contact Selena Lewis, secretary, at (609) 984-0231. Persons presenting written testimony should provide 10 copies to the committee on the day of the hearing.*



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## TABLE OF CONTENTS

	<u>Page</u>
Patricia A. Royer Director, designee Division of Consumer Affairs New Jersey Department of Law and Public Safety	2
Robert J. Moore, III President New Jersey Rental Dealers Association	17
Barbara Angelo Private citizen	28
Wilfredo Caraballo Commissioner New Jersey Department of Public Advocate	54
Rob Stuart New Jersey Public Interest Research Group	61
Patricia Dorsey New Jersey Public Interest Research Group	63
Madeline L. Houston, Esq. Litigation Director Passaic County Legal Aid Society	67
John M. Cannel, Esq. Executive Director New Jersey Law Revision Commission	81
Samuel Choate, Esq. Counsel New Jersey Rental Dealers Association	86
Neil J. Fogarty President Consumers League of New Jersey	111
 <b>APPENDIX:</b>	
Statement submitted by Wilfredo Carabello	1x
Statement and articles submitted by Neil J. Fogarty	9x

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ASSEMBLYMAN DAVID C. KRONICK (Chairman): Can we have roll call please?

MR. SALLACH (Committee Aide): Assemblyman Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Here.

MR. SALLACH: Assemblyman McGreevey?

ASSEMBLYMAN MCGREEVEY: Here.

MR. SALLACH: Assemblyman Cohen?

ASSEMBLYMAN COHEN: Here.

MR. SALLACH: Chairman Kronick?

ASSEMBLYMAN KRONICK: Here.

MR. SALLACH: You have a quorum.

ASSEMBLYMAN KRONICK: We have a quorum.

Good morning everybody. This is the Consumer Affairs Committee, and the purpose of this public hearing is to discuss the issues surrounding the rent-to-own industry.

The rent-to-own industry, through weekly or monthly installment agreements, offers families and individuals who have limited available cash and credit a method of acquiring major household appliances.

The industry contends that it is servicing the needs of poor populations by offering these individuals the opportunity to obtain ownership of products they otherwise could not afford. However, research suggests that the industry should be subject to stronger regulation. Confusing contracts, final costs which exceed two to three times the actual cost of the product, and other statistics suggest a larger percentage of rent-to-own consumers never acquire ownership of the item.

Today, approximately 16 states have enacted rent-to-own statutes, and legislation is pending in other states.

Today, the Assembly Consumer Affairs Committee will begin to decide what course of regulation New Jersey will proceed with. It is apparent that business as usual for the

industry in New Jersey must not be allowed to continue. New Jersey must continue to be in the forefront of consumer protection issues, and this public hearing will help to ensure that New Jersey's consumers are adequately protected.

That's my prepared formal statement. We're going to begin with the first person to testify. I'm pleased to have Ms. Patricia Royer, Director of the Division of Consumer Affairs.

Welcome, Ms. Royer. It's a pleasure seeing you here today.

**P A T R I C I A   A .   R O Y E R:** Good morning.

Mr. Chairman, Members of the Committee, Ladies and Gentlemen: I am Patricia Royer, Director designee of the New Jersey Division of Consumer Affairs. I appreciate the courtesy of the Committee in allowing me to present my testimony to you at this time in your proceedings.

I am present today representing the Division of Consumer Affairs to share with you our concerns regarding rent-to-own agreements currently being used throughout New Jersey.

The typical rent-to-own contract received by the Division -- or reviewed by the Division -- provides that a consumer enter into an agreement to rent certain merchandise for household use for a weekly dollar amount with an agreement that upon receipt of each weekly payment the contract is renewed, and that ownership of the merchandise will pass to the consumer upon satisfaction of the total number of payments. In most cases, at any time throughout the stated period, the consumer may return the merchandise in the condition as delivered and terminate the agreement. The contracts reviewed by the Division show the payment periods which often extend over 52 weeks and sometimes as long as 104 weeks.

The rent-to-own industry targets a certain market in which to solicit and market these contracts. They target through advertisement and location those consumers who are unable to obtain credit under normal procedures. In addition, they target for solicitation residents of large cities and lower income individuals. These contracts are also attractive to young, inexperienced, consumers who have not yet established a credit rating or individuals who are involved in a temporary situation.

Advertisements by rent-to-own operations stress in usually large bold print, "No Credit Checks," "No Cancellation Penalties," "Quick or Easy Delivery," or "Low Payments." The typical rent-to-own consumer is of two different types. First we have the consumers who have needs only for the short-term emergency or temporary use of the merchandise. For example, the college students who rent microwaves or televisions, or the new tenant who needs a few weeks or a few months to save the needed cash for the washing machine or VCR. These consumers enter into the agreement knowingly and willingly paying an unspecified premium for the purpose of meeting their instant needs, gratification, or the emergency use.

Many consumers, however, who enter into these agreements do so having been attracted by the low weekly payments and eventual ownership of the merchandise. If this were not the case, we would only be dealing with rental agreements. We are, however, here, clearly dealing with retail sales agreements, since the agreements themselves, the sales presentations and advertisements, stress the ownership issues.

It has been related to the Division that salesmen throughout their sales presentations focus on the prospect of ultimate ownership, stressing that weekly payments work toward that end. While publicly the right to terminate the agreement at any time is stressed, it is not made clearly evident to the

consumers that in doing so they have established no equity at all in the merchandise. Any sales emphasis on the power of the consumer to cancel the agreement at any time diverts the consumer from the issue of total accumulation of moneys paid over that period of time, and as a sales technique, leaves the consumers with a false impression of being in control. If, in fact, the salesman would clearly advise the consumer that he or she could make 37 payments of \$12 per week for a total dollar amount of \$444 on the television they are contracting for, but at any time they can terminate the agreement and return the merchandise to the seller, I believe the next question by the consumer would not come from a sense of control over the purchase, but rather from a sense of evaluation of the realities of the situation.

The sales technique of speaking in terms of daily or weekly payments as opposed to monthly or yearly terms has long been used as a method, again, to divert the consumer from the true impact of the combined dollar amounts: \$2.50 per day or \$17.50 per week sounds much more attractive than \$70 per month or \$840 per year.

The total purchase price for merchandise at the completion of many rent-to-own contracts frequently unconscionably exceeds the normal retail selling price of the item. The difference between the two, if it were viewed as interest, would have exceeded the equivalent of 200% to 300% interest rates. Perhaps the industry asserts that this excessive dollar amount is the amount required to service typically risky consumers, or perhaps it is being presented as the premium for their services throughout the agreement.

The potential for harm to New Jersey consumers particularly the unknowing, the uneducated, the non English speaking consumers and the unsophisticated, reaches a level requiring legal review and protection.

The Retail Installment Sales Act, and the Uniform Commercial Code address identical consumer sales practices. These laws require the open disclosure of financial terms of contracts, rights under repossession, and rights of equity in merchandise being purchased.

The Division of Consumer Affairs intends to shortly join with the Passaic County Legal Aid Society in a particular fact situation which highlights the potential for abuse, deception, and misrepresentation which can occur absent those required disclosures, licensure, rights and remedies governing retail installment sales agreements.

Failure to disclose the most basic material facts in the sale of merchandise is the most evident problem of the rent-to-own agreements. In addition, the rights afforded to consumers in normal retail installment sales agreements to build equity in the merchandise during the payment period doesn't exist. Late payments, rather than governed by procedures regarding notification and process, could cause automatic termination of the rent-to-own agreement and immediate repossession without any further rights by the consumer.

The Division supports the position that the rights, remedies, and disclosures contained in the New Jersey Retail Installment Sales Act apply in the particular fact situation of the case being pursued by the Passaic County Legal Aid Society, and should apply to all sales transactions known as rent-to-own agreements.

While we expect to prevail in the individual case situation, the Division would support legislation which clearly specifies that all rent-to-own contracts come under the New Jersey Retail Installment Sales Act, and requires sellers to meet the related licensing criteria and adherence to long-ago established rights and protections for New Jersey consumers.

As Director designee of the Division of Consumer Affairs, I will confront any potential violations of the New Jersey Consumer Fraud Act with a strong enforcement position. However, the basic rights of disclosure and protection already debated within our Assembly and Senate which provide for full disclosure of actual retail selling prices, full disclosure of interest rates, clear disclosure of payment terms and schedules, limits on permissible interest rates, rights of possession and equity, rights of repossession, copies of agreements, cancellation rights, and other basic rights afforded to New Jersey consumers should be clearly reaffirmed and applicable to these sales situations identified today.

Consumers should be free to make clear purchase choices and comparisons. They should be free to select in an informed manner the terms of sales agreements which meet their particular needs at any given time in their lives. However, they deserve the protection of the laws which require and allow for fair and honest competition and fair, open, and honest sales. The basic right of choice by our consumers when spending their very hard earned dollars should be based on factual, clear, and open disclosure of information rather than terms through which hidden and confusing means take advantage of their vulnerable situations, limiting their ability to clearly evaluate and make informed decisions.

I thank you for this opportunity to speak to you on behalf of the Division of Consumer Affairs.

ASSEMBLYMAN KRONICK: Thank you, Ms. Royer. That was a very informative presentation. I would now like to ask if any of the members have questions for Ms. Royer? Assemblyman McGreevey?

ASSEMBLYMAN MCGREEVEY: Thanks. From the outset, congratulations on your appointment.

MS. ROYER: Thank you.

ASSEMBLYMAN MCGREEVEY: I admire your courage.

Just looking for a second, and you clearly indicate the need to place the industry under the Retail Installment Sales Act, could you just, if you feel comfortable and are willing to address it, address the question of the RTO as a secured transaction?

MS. ROYER: The Division has stated that it would support legislation that would place the rent-to-own agreements under the retail installment sales contract. We realize that that position is one that will necessitate a certain amount of discussion regarding the individual applications. However, we feel that the protections that are awarded to the consumers and the required disclosures and, in fact, in that instance, that secured interest in the merchandise is an important factor. We have -- or have had related to us -- situations where a consumer has made long payments under a rent-to-own agreement, has fallen behind -- which is I guess a higher percentage in the particular markets that are solicited here, may in fact, have some difficulty meeting the payments, fall behind -- and then, in fact, have had it repossessed and have absolutely nothing left for perhaps payments that went over a year, or accumulated in dollar amounts above the actual retail selling price of the item.

So, I hope that somewhat addresses your question.

ASSEMBLYMAN MCGREEVEY: Sure. Just a couple of points. So, In addition to supporting the concept of governing these transactions by the Retail Installment Sales Act, you also talked about the importance of disclosures?

MS. ROYER: Absolutely.

ASSEMBLYMAN MCGREEVEY: And, what type of disclosure would-- Would that scope also include the item merchandising, percentage rate, cash price, leasing plan?

MS. ROYER: Absolutely.

ASSEMBLYMAN MCGREEVEY: The entire gamut. One of the things that's of concern is obviously the first-in, first-out aspect of the rent-to-own industry. Recognizing the fact that individuals have separate contracts for separate items, the tragedy is after an extended period of time, and they default, even after spending considerable sums -- and unfortunately it's all too often lower-income individuals -- they walk away with nothing.

How would you address that difficulty, or that concern?

MS. ROYER: Well, I think part of that difficulty in the full, open, disclosures, where a consumer's moneys are to be expended over a period of time is clearly identified, clearly assessed, will help in that situation.

I also believe that if those are individual contracts, and the merchandise is clearly specified as to what is being purchased and the actual retail selling price and dollar amount for that purchase, a consumer perhaps, who makes payments over a year on two appliances, and in the midst goes back then and recontracts for additional items would not necessarily have those payments merged, but rather have individual specified agreements for sale on each of the items. So, if they were perhaps to fall behind on the payment on the television and VCR that they are purchasing, they would not necessarily fall behind--

ASSEMBLYMAN MCGREEVEY: Forfeit.

MS. ROYER: --on all of the other merchandise that they might be purchasing.

ASSEMBLYMAN KRONICK: Do you have another question?

ASSEMBLYMAN MCGREEVEY: Yes, Mr. Chairman.

The question of establishing an interest cap: Could you discuss that, the need for it?

MS. ROYER: Well, the reason in setting a cap is, I think, clearly evident. Without a cap set on the amount of



interest that could be charged, I would hate to see what we might be paying as consumers out in the market. So, there is a need in certain instances and, in particular, retail installment sales agreements, to have specified very clearly the percentage of interest that at maximum, could be charged.

I don't know if that answers your question. It's a very basic consumer protection issue that is well established for a very long period of time.

ASSEMBLYMAN MCGREEVEY: Thank you very much, Ms. Royer.

ASSEMBLYMAN KRONICK: Ms. Royer, I know you are new on the job, so this may not even be a fair question, but perhaps you do have some information. Does the Division receive a significant number of complaints concerning this industry, and would you happen to have any sense of what we might be talking about, say during the course of a year -- 1989 or 1988? Do you have any such figures?

MS. ROYER: I don't have specific numbers for you, Mr. Chairman. That is a particular question that I, myself, asked, in preparation for the testimony today. The response that we do have -- I don't have the exact number -- we do have a number of complaints that have been received, not just at the Division level but also at the county and municipal levels of consumer affairs. But, the interesting thing that I would like to note to the Committee, and this perhaps will come out in future agendas that you might be looking at, is that the--

When I spoke to the targeting of solicitations, that particular segment that is being targeted in this particular instance, is not necessarily the individuals who will write their letters of complaint to the Division of Consumer Affairs or to their local offices. Also, as a result of some inner city consumer affairs offices not being in existence any longer, there's no easy access available for them to approach and personally voice their complaint. And it's not an easy choice to make a complaint to the Attorney General's Office.

So, we don't, necessarily, believe that we would, in these instances, receive large numbers of consumers approaching the Division. That's perhaps one of the reasons that in our laws, it's an indication that we need not show actual harm taking place. This is the protective role, or proactive role that our laws ask us to do; to actually not necessarily have to parade 1000 harmed consumers before we realize it's an issue.

ASSEMBLYMAN KRONICK: So the number of people who have complained may not necessarily tell the whole story, because possibly these people just don't know the avenues of relief or how to go about it? That would be a very good possibility.

MS. ROYER: That's correct, and some of our avenues are fairly formal. In some cases they would have to take off from work to come and visit. Now hopefully in the future, we will be addressing some of those issues and making the ability to complain a little bit easier. But, definitely in this particular subject matter, that affects those numbers, but I don't have an exact number for you.

ASSEMBLYMAN KRONICK: You don't at this point have a specific cap on interest rates that you would want to mention? That might be appropriate.

MS. ROYER: No, I don't at this point, but I'd be happy to have that area discussed and come back to the Committee at a future date.

ASSEMBLYMAN MCGREEVEY: Mr. Chairman--

ASSEMBLYMAN KRONICK: Excuse me. Do you think the Division would want to be the enforcement agency in this regard?

MS. ROYER: Well, it depends upon which area, or what the final outcome is from the piece of legislation that is either created or your determination here. The retail installment sales agreement is enforced through the Department

of Banking and we have had, on numerous occasions, cooperative efforts between the Division of Consumer Affairs, the Attorney General's Office, and the Department of Banking.

The required disclosure of -- or protections against fraud and deceit, and misrepresentation are clearly enforced by the Division of Consumer Affairs under the Consumer Fraud Act. So, it depends upon if the legislation that does result places them under the retail installment sales agreement that is enforced through the Department of Banking, that particular aspect of it.

ASSEMBLYMAN KRONICK: Assemblyman Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Mr. Chairman, through you, for my edification. I'm not that familiar with the whole operation, although a home I own in Indiana, they have a company called Instant Interiors, where it's in a college town, you can go and rent furniture, the whole thing. I've gone there and looked at material. In fact, in anticipation of this hearing I went and purchased some furniture that I'm very pleased with.

The way they laid it out, they gave me a monthly cost, a basic monthly cost on material, and because I said I was going to pay for it there was a 10% discount. Then there was a 5% handling charge put on the top of that amount, and then a 17 times -- which they took 17 monthly payments to arrive at the purchase price, so when you break it down it was very fair. It seemed to be, if you use as an example -- and I didn't purchase that, mine was furniture -- but on a washing machine, it was-- The washer was in the \$300 range, and when you take the discount off and add it on, it came out that the purchase price on that washer came out to around \$282.

I'm wondering if we're going in the right direction here this morning? The concerns that we have, we seem to throw out the baby with the bath water on risk. These people that are making available to the consumer washer machines,

furniture, TV sets, and all, I think they have extreme risks, because they are dealing with people in most cases who have no credit. You'll put the product out; you're not sure whether you're going to get it back. You don't know what condition you're going to get it back in. There's no way to sue, because in most cases they have no net worth. It's a situation-- I'm wondering if the contract itself should be--

As far as a redirection in that area, so that maybe we could look at that in this industry to assure not only the person who is putting the product out but the person who is purchasing the product, that they know exactly where they stand. They know that during this thing they really do have ownership. If they decide-- If they have a 36-month contract, or a 24-month contract, whatever length they would decide to make their payments that would be fair and equitable to them. Then at a closing date they could say, "Okay, I purchased this washing machine. I knew it was \$300, and with the interest, it came up to 450, but now I've got so many payments, and I do have a purchase price that I can buy it for \$325." Instead of the way it seems now, we're taking and turning the whole thing around, and the person who is purchasing or renting, has little or no responsibility other than make that weekly or monthly payment, whereas the person who is supplying the product is accepting all of the risk.

MS. ROYER: Well, Assemblyman, if I could just respond on a couple of the issues. First, I, too-- And in my statement mention that there definitely is a market. There are college students renting their microwaves and VCRs, but in most cases those types of market -- either for the temporary use or for the intermittent use -- are rental agreements. Your consumers who are entering those agreements are entering into those definitely with the thoughts of a shorter term type of rental situation.

Also, throughout our retail sales history, we have had programs such as layaway programs that have existed for quite a long period of time. Stores also have taken risks in offering layaway type of programs. They have a certain dollar amount that is paid over a period of time, then the customer obtains the right of possession or the merchandise itself. There is a certain amount of business risk that has been taken in that.

I also would like to say that I'm sure that there are contracts out there that are being used, and that have been called to my attention, which make a yeoman's effort to disclose as much information as possible to consumers. I'm sure there are businesses that instruct their sales people to take extra efforts and pains to be sure the consumer understands what they are entering into. That's normally the case in any business environment or industry that's taking place. However, the abuses that have arisen far outweigh the number of indications we have seen on the other side of the issue, and call for the need for considerations such as this.

I don't necessarily see that the placing of rent-to-own agreements under the Retail Installment Sales Act would prevent anything that you have identified, and of course, you have the advantage of having entered into that agreement I'm sure, asking a number of questions, listening very carefully to what's being said, and perhaps having a much greater understanding than many of the consumers who might have entered into that.

I understand what you are saying, and I do believe the Division up to this point has taken into consideration those issues and those types of actions that are carried forth with businesses. But, again, we don't necessarily believe they award the full protections that should be there.

ASSEMBLYMAN KAVANAUGH: Mr. Chairman, one other question through you: Well, then, do you think it's fair to

people who have an investment that are doing a service to an area -- or to a group of people who have no credit -- that we should paint it with a broad brush because we have some bad actors in the group? You tell me that there are -- and with your experience in the consumer affairs area prior to being the Director, you know-- There are good people out there, and there are these contracts that could be prepared. Wouldn't we better serve the public if we would search out and seek enforcement in an area where we had contracts that were good for both the person who is supplying the product and the one who is receiving the product, rather than just painting away and saying, "Well, what we're going to do is get into another field as far as capping the interest and put rates and establish all of these things instead of expanding a market which seems to be a necessary market," that will be just drying it up? People would be able to have their money invested in better ways rather than taking products and putting them out with people with the high risk, whereas they can go and invest in more secure areas in the monetary world.

MS. ROYER: I don't necessarily feel that it's an either-or situation. I believe that the full disclosure as required under the New Jersey Retail Installment Sales Act, and the protections afforded under the existing pieces of legislation that have analyzed and reviewed over a long period of time some of the exact same sales techniques and failures to disclose, and protective rights for consumers is a position which the Division would support were this Committee to go ahead with that type of legislation.

I believe, also, that entering into as you have indicated the targeted area for solicitation also brings with it, perhaps, some extra responsibilities on behalf of the businesses who are and who have chosen to target their solicitations and target those businesses into that risky situation. They have a very definite obligation to fully

inform their customers and to deal with them in a very honest, straightforward, and upright manner. In that side of it, yes, they have taken on the risk of entering into that particular area. That's a business choice that they have made, and in doing so, then they also have to take on the burden of responsibility to ensure that they are not misleading, deceiving, withholding material facts in sales, or putting consumers in jeopardy.

ASSEMBLYMAN KAVANAUGH: No question. We have that obligation, certainly.

ASSEMBLYMAN KRONICK: I would like to assure the Assemblyman that it's indeed the function of this Committee to really just hear both sides. We have no intention of-- We know the wonderful service that they perform, and the needed service they perform for a good segment of our population, so certainly there might be some tightening up of regulations, and that's really what we're looking at.

I think we have some other questions from our Committee members. Mr. Cohen?

ASSEMBLYMAN COHEN: Director, is it possible for your staff to develop something comparable to the truth in lending statement that we have when we obtain a mortgage? To come up with a draft of a sales agreement which would encompass--

MS. ROYER: We'd be happy to work with your Committee on that, Assemblyman Cohen.

ASSEMBLYMAN COHEN: We also have a concern about self-help problems; where someone has fallen behind in their payments and it's time for the item to come back to the rent-to-own store, and at 2:00 in the afternoon someone shows up to get the television but there's no one there but two children and someone who is watching the children.

I don't know how the rest of the Committee members feel, but I do not want to see self-help as a means of the industry getting back its property, but rather through a

procedural process which is more civilized. There are too many problems inherent with individuals showing up during the day when parents aren't around, and that's happened. In many places it hasn't, but I've received information concerning it. That's not how the civil process should be. So we will also look into restricting self-help remedies.

MS. ROYER: I agree, Assemblyman.

ASSEMBLYMAN KRONICK: Assemblyman McGreevey, did you have a comment?

ASSEMBLYMAN MCGREEVEY: I had a question.

ASSEMBLYMAN KRONICK: A question.

ASSEMBLYMAN MCGREEVEY: One, I'm glad to see Assemblyman Kavanaugh is providing interior decoration for the dorms of Notre Dame. I just have a couple of questions for you.

Recognizing that there is sometimes a legitimate need for these individuals to have access to consumer goods, the problem that I fundamentally see is the interest rates, the fact that they walk out of these contractual agreements all too often without any equity. And as the industry itself notes, 80% of these individuals decide not to purchase the particular appliance. Does it make sense even to have-- Maybe what we should be moving into the direction is to frankly admit that we don't have a rent-to-own industry, and that we have in a sense, overwhelmingly, a rent-to-rent industry. Does it make sense, recognizing the capital demands of the industry-- Does it make sense to have a rent-to-own industry, and should we be moving in the direction of recognizing that a retail agreement is a retail agreement, and a rental agreement is a rental agreement and that this amorphous neuter industry that it seems isn't serving the interests -- this construction, this fiscal mechanism -- isn't serving the interests of either the industry or the consumer.



MS. ROYER: We do have a rent-to-own industry in the State of New Jersey. I don't think we can move away from that. If you're asking me to consider that perhaps that industry shouldn't exist, I don't necessarily think that that is my role. Rather, the marketplace is the driver of the industries that appear at any given time. I do understand, though, what it is that you are saying, and I would like to spend some time with the Division staff in perhaps looking at that as an issue.

ASSEMBLYMAN MCGREEVEY: Sure.

ASSEMBLYMAN KRONICK: Thank you very much, Ms. Royer, for your frank comments, and the fact that you are willing to work with us, I think we will come up with something that everyone will benefit from. Thank you very much.

MS. ROYER: Thank you.

ASSEMBLYMAN KRONICK: Our next speaker is Mr. Robert Moore, from the New Jersey Rental Dealers Association. Good morning, sir.

R O B E R T J. M O O R E, III: Good morning. I'd like to bring up with me also at this time, whom you have a sheet on, Barbara Angelo. We failed to get her name on the list ahead of time.

ASSEMBLYMAN KRONICK: Mr. Moore, is this in behalf of your presentation?

MR. MOORE: Yes, it is. She is one of our customers.

ASSEMBLYMAN KRONICK: Okay, fine. Thank you. You will not be speaking then, is that correct?

MR. MOORE: I will be speaking, and so will she.

ASSEMBLYMAN KRONICK: Have a seat. Thank you.

MR. MOORE: First off, let me tell you, my name is Robert Moore. I am a resident of New Jersey. I've been a resident of New Jersey now for 10 years.

Nine years ago I founded my company. We trade under the name of Prime Time Rentals. When I founded the company I really kind of embarked upon something that I have always wanted to do, which was to be in a business: to run it, to be able to set a set of standards, and to be able to provide a service to a consumer group.

At the time that I got into the industry, the industry was very much in flux and change. I will freely admit, up front, that in the past there have been abuses. This is an industry that has not been regulated and an industry which I would like to see regulated. I'm not only a member of the New Jersey Rental Dealers Association, I'm also a member of APRO, which is a professional organization which the rent-to-own dealers belong to, and I'm also on the board of that organization. I am concerned about the issues that are before you.

Twenty-two states, as well as the Federal Reserve Board, have recognized that this transaction is unique in itself, and that it is a rental transaction. What I'd like to explain to you is that within the last nine years we have probably written in excess of 75,000 rental contracts. We have written in excess of about 75,000 rental contracts in the tristate area which we serve. A lot of those are written in New Jersey. During this time, I've gotten to know the industry, which quite frankly, confused me, up front. I did not fully understand it, and it was only through spending a lot of time with my consumer that I really understood why the consumer thought that this industry was a natural.

When we lease a product to the consumer, we understand up front that the consumer is not obligated. When we take the product out, we have taken all of the risks. The consumer comes in and fills out something which is not a credit check. The consumer gives us some basic information as

to where they live, where they work, if they have a mortgage, an idea of their income, so that we can try to fit something within their budget.

Once we have taken this information and we have had a chance to look it over and select a product with the consumer, then we deliver the product to the consumer's house. At that time we collect, up front, anywhere between \$10 to maybe \$25, which is about the average run of a rental contract on a weekly basis. That is the limit of the customer's obligation. If the living room set that I just saw at Levitz for \$1500, and which I rent out from my stores goes into that consumer's house, what they are going to pay me is that first weekly payment.

Now, what happens after that first weekly payment? That consumer has the option to terminate that contract if they don't like the color, if they don't like the fabric, if they don't like the set, and if they don't like me. They have the right to terminate the contract at any time. What we then do is we go through a series of renewals with the customer.

I'm a businessman. My goal is to see that I have satisfied customers because that's how my business grows, and that's how I keep my employees employed, and that's how I satisfy my consumers.

When a customer has a problem, I want to be there for them. In most instances, I can help them out of virtually every problem they have. I can't provide them with a job or income, but I can certainly help them if they get into hard times. My company has not always provided, but in the revelation of the needs of the consumers over the last nine years, it has come to recognize that consumers need time out, need to get away from the program for a bit because something happens: an unexplained illness, tires for the car, whatever it is. Their cash flow goes down, and they need to be in a free situation where they can regroup, as it were -- get

themselves squared away, and get back. We advertise that. On every delivery, we give a customer a copy of what we call our "Time Out" brochure, which fully explains that, and quite frankly, I believe it should be law. A lot of the problems that you are hearing about from the consumer people are probably based around this one issue.

Well, what happens? Supposing the customer does want to own? Supposing the customer really wants to go to the end of the contract: How do you protect the customer? Any good businessman knows that you don't get rid of your customer if you plan to stay in business. I fully agree. A customer should have the right to come back. We give that customer the right to come back up to a year.

Now, I've talked to my people, and I'd like to give you some statistics on that. Generally what happens is that within the first 30 days, 25% of the customers who pull the time out program will come back to us. Generally after that, we tend to have a hiatus of up to about four to five months. Then we see a large resurgence of customers who come back to us at that point.

As a business we actively solicit those customers. We call them up and say, "Hi, Mrs. Jones, you were renting from us. We still have your Time-Out Card here. Would you like to come back and rent from us again? We'd like to start you right back up where you left off." It's something that we actively do as a company. We go on these campaigns quite regularly.

The other thing is the issue of availability and service to the customer. As we sit here I can tell you that if a freezer goes down tonight and it's a Prime Time freezer, and has food spoiling in it, a repairman will not come out to the house and take a look at it maybe sometime next week or the week after. Then he will order a part which may get here in three to six weeks -- or in one particular case I know of

in fact, six months. Our goal is to service that customer. My man gets in a van, drives to that customer's home, takes a freezer with him, pulls Mrs. Jones' freezer out of her house, plugs it in, replaces her food in the other freezer, so that she can continue on. If she's just spent \$200 on groceries, why should a part cause her a problem? It's a service that we provide. It is the very nature of our industry to provide that service.

There have been some statements made that furniture requires no service. I wish that I could say that's true, but it's not. We continually repair manufacturers' defects. Quite frankly, the manufacturers don't stand behind them. We have to stand behind them. We have to take them to our warehouse which is located in southern Jersey, and I have one of my employees who has to go through that piece of furniture and retighten the arms if that's what came loose, or redo the buttons if that's what came loose, or replace fabric, if that's the problem. If the cushions are torn and there's a problem, we'll take care of it.

The biggest thing that takes place in this industry is the consumer comes in and looks at this contract as a rental contract. They treat the merchandise like it's rental merchandise. I'm sure you've all seen the ad on TV with American Express and the kid putting oatmeal in the VCR. We've found oatmeal and a whole lot more.

When I buy a VCR from one of my manufacturers, generally it comes without the manufacturer's warranty that is normally accorded a retailer. The reason why? The manufacturer knows that I am a rental dealer. He knows that I am probably going to stiff him on the service of that warranty, and justifiably so; because quite frankly, my units come back, and they come back a lot.

I'd like to give you some costs: A video recorder that retails for about 399 on our contract, I believe comes in

at about 600--something by the time we're finished. But let me tell you the other side of that.

If my VCR goes out to a customer and that VCR comes back in two weeks later because the customer decides they didn't want it, and the hand remote is missing, and the kid managed to put a toy inside the little mouth; I can tell you first off, the hand remote is going to cost me 50 bucks. I can tell you that replacing the head can cost me anywhere from \$50 to \$100 for the part alone. I can tell you that the labor on that unit is going to cost me 50 bucks. Well, if I've paid \$200 for something, gentlemen, in two weeks, I've already now spent \$350 on that very same item. This is the real and substantial cost of doing business with that kind of an item.

I wish I could tell you that the manufacturing of VCRs has gotten better. Quite frankly, through the years, it's gotten worse. Most of what you see inside of them now is plastic. They break readily -- easily.

But let's assume that the customer wants to rent to own the item and wants to keep it and takes good care of it. Any VCR is going to require head cleaning and servicing. It's 50 bucks whether or not I do anything to the machine other than pick the unit up, give the customer a loaner for the two weeks or so that it's down in my shop -- tying up another piece of inventory, I might add, at the very same time -- and then sending it in where the technician literally pulls the machine apart, checks all the gears, takes alcohol, cleans the head off properly, puts it back on and sends it back out to the customer. This can happen simply because they rented tapes. They are a high use, high abuse, very delicate item.

You're right; they cost. I know they cost. That customer could have gone to Crazy Eddie's and bought the VCR. I will tell you that when Crazy Eddie's opened up near my house and I went down and looked at the VCRs, I wish I could have slapped down one of my Visa cards and bought my stock

from them, because they were selling them for 15 bucks under what I could pay for them. There are certain inequities out there in retail versus what I pay for.

My background prior to this is not only the rental industry, but retail, manufacturing, and wholesale. I can tell you from the manufacturing side what it costs to make a sofa -- what it costs to put it out. The profit margin is very high because-- The cost is very high, really, because the labor cost is very high. The actual cost of the material that goes into a sofa is not much at all, but it costs a lot to put it together, to warehouse it, to ship it, to get it to the customer, which is why if you look at a sofa from Levitz -- sofa, chair, and a love seat from Levitz -- and you price it at Prime Time, you'll find that actually I'm going to give you a better deal on a cash-and-carry basis, and by the time my contract is over, you're probably going to pay less than if you financed it at Levitz.

It's not that I'm a fool as a businessman. It's simply that when I look at my costs and my services, this is what I face. I price things out based upon the idea that they are going to be coming back, because in 80% of times, they do come back, and when they come back, I have to handle it. I simply can't rent a refrigerator that comes back all dirty and grungy, with food that's been left in it because somebody left it in an apartment house and decided to move and not tell us. It must be cleaned. It has to be sterilized out. It's got to be touched up. There are things that have to be done to that refrigerator that cost me as a businessman. Customers will not rereant it. It has nothing to do with whether I would want to rereant it in that condition or not. The consumer just simply won't take it.

When a consumer comes to me, they have a variety of ideas in mind as to what they want to do. The question has been put to me about the figures regarding what does a

consumer want to do? The illusion is, that every consumer who walks into our store wants to rent-to-own. The illusion also is that every consumer who walks into our store who wants to rent-to-own decides they are going to do it in the beginning of the contract. A lot of times that's not the way it happens.

When a consumer comes to us, generally they want on the spot servicing. They want something and they need it now, for whatever reason: a refrigerator broke down; it's bowl time, and it's time for a couple of extra TVs in the house; we just moved in and we just put all of our money into the mortgage and we need furniture -- whatever the reason.

The intention up front may have been, "Well, I'll just rent this for a couple of months, and then I'll turn it back in." A lot of times what happens is that intention suddenly turns around to, "Well, I've had it for a couple of months. I really do like it. Maybe I'll just keep it." And they wind up keeping it. It's not their intent up front; rather, the intent develops or disappears over the life of the contract. We have a lot of consumers who come in and say, "You know, I'd really like to rent-to-own this." And two months later they say, "Well, my aunt just gave me one. I don't need one. Take it back." And we do, because it's in the contract that we take it back. No penalties, no nothing, no, "You owe me." We simply take it back.

The way consumers handle this transaction in a lot of instances is simply they change their mind, and they change it a lot. I will tell you that there are a lot of consumers out there that want to rent-to-own. There are a lot of consumers out there that also use this service strictly for rental. I cannot possibly distinguish up front when somebody walks through the front door what they really want to do, because I've had customers tell me, "I want to rent-to-own," and wind up not. I've had customers say, "I just need it because my TV



broke down," and wind up renting to own it. I can't make that determination. It's impossible for me, and generally it's impossible for the consumer to make that determination.

When we do pick up our merchandise, we try to find out -- and I'm speaking of my company, I can only tell you about my company here-- When we pick it up, we try to find out why a consumer turned a piece of merchandise in. Invariably, we get a lot of different reasons. But if the reason is, "I can't afford it right now," we jump into action and try to give the customer some kind of protection with our rental protection plan. But if the consumer simply says to me, "Well, I really don't want it. Just come and pick it up," there's not much else I can determine about what the consumer has decided on this particular product.

I have long advocated to my employees -- because I have a set of standards and I demand those standards from my employees -- I have long demanded that they understand what the commercial credit code says about how you handle customers: how you don't break and enter, how you don't call at certain times, how you don't go out on Sunday, how if you go to a consumer's house and they are not there, you leave. In my company it is grounds for immediate dismissal if you break the law, and we consider anything in the consumer-- In the standards that are set for collections, we consider any transgression against any of that to be grounds for immediate termination.

It is specified in the handbook that the employee gets when he comes to work for me. I don't want my employee hurting my business. I want to know that my customer is well taken care of, and that if there is a reason to get out of this contract, that that customer be allowed to get out of the contract with dignity and be allowed to get back into that contract with dignity. We treat our customer purely as a rental customer who has a lot of options.

There are a couple of things that kind of disturb me about the issue of interest, and I would like to address them. When you go to a bank and you borrow money to buy a car, the bank says, "It's going to cost you 'X' amount of dollars to borrow this from me." They're not talking about the car. They're talking about the cash; a spendable commodity -- a commodity that they happen to want back, and a commodity that they happen to deal in. In a transaction like that, if you'll take a good look at the commercial lending laws, you'll find out that those transactions are one way. They are designed so that when you get into it, you take the money, you do with it as you will, and then you are required to return the same, the like, money; nothing else.

ASSEMBLYMAN KRONICK: Excuse me. Mr. Moore?

MR. MOORE: Yes.

ASSEMBLYMAN KRONICK: We have a number of speakers coming. I want to know how many more minutes will you need to sort of wrap up, because I know you want Ms. Angelo to speak, too.

MR. MOORE: I can wrap it up in a few more minutes, okay?

ASSEMBLYMAN KRONICK: Okay--

MR. MOORE: No more than five, okay?

ASSEMBLYMAN KRONICK: --because you'll be cutting into some of your other people.

MR. MOORE: In a transaction like that, the consumer is really at a disadvantage from us; that is, the consumer has to pay back with money. Our transaction, the consumer is allowed to walk away from it. There is no obligation. That's why there cannot be interest on it. To confuse the two is to confuse a fundamental difference between rental and retail transactions. If we were to come under consumer lending, you would find that virtually rental dealers simply could not do

business and offer the ownership option. It simply would not exist because of the technicalities that require on curing debt.

I believe that this industry needs to be regulated. I'm a firm supporter of it. I believe the consumer has the right to know what the total cost is on anything. I believe that the consumer has the right to know what they are paying at any one given moment. I believe the consumer has the right to get in and out of the contract at his or her own whim. That is the pure nature of rental.

For me to do business I have got to be able to have a staff on standby all the time, to meet these desires. At one point it was suggested to me that at some point I should rebate something back to the customer. My question in turn is, "How do I ask my employee to rebate his salary to me or my landlord to rebate my rent?" I have already spent it. I am in a cash flow business.

When you look at 300% interest, there is the issue of, in most people's minds that translates over to profit. Quite frankly, gentlemen -- and I'm here to tell you that in a lot of ways I've bared my soul for this -- I'm here to tell you that my company makes between 3% and 4% a year profit. My costs are to the point that I charge what I charge. I am in a competitive market. When I target my customer from an advertising standpoint, I target my customer from a \$15,000 to a \$30,000 a year income. That's the way I buy my media. I spend a quarter of a million dollars a year in that fashion.

My stores are not located in inner cities; rather, they are located in peripherals. They are located in shopping malls, in strip malls on major highways. My stores are clean, well lit, prominently displayed tags on all merchandise. My sales staff is informative. They have books which clearly specify everything and every rental rate and every price, and those we make available to the consumer when they walk through the front door.

I think that as you look at this industry and you look at it hard, you'll find that there is a real need to be met there, and the need comes and goes depending upon a variety of consumers' needs. Yes, there is a segment who wants to use this for purchasing. My cost factors must be spread over what the majority of the customers do, and that is they rent and turn it back in. A lot of my rentals are turned back in in the first 90 days.

I would like to thank you, and I would like to introduce you to one of my customers. This is Ms. Shirley Angelo.

**B A R B A R A   A N G E L O:** Barbara.

**MR. MOORE:** I'm sorry, Barbara. I'm nervous. Barbara Angelo has been with my store virtually since it opened in Trenton in 1983. I would like for you to hear from her what an educated -- and she is an educated consumer -- has to say about what we do.

**ASSEMBLYMAN KRONICK:** Good morning, Ms. Angelo.

**MS. ANGELO:** Good morning. I'm Barbara Angelo. I've lived in Trenton all my life. I was born and raised here.

I've dealt with Prime Time. The first time I dealt with them I needed a refrigerator. We had just purchased our home and didn't have the excess money to go out and buy one with cash. We went to Prime Time and explained our situation. We had our refrigerator the same day, which was a blessing.

I've dealt with Prime Time many times after that, with VCRs, TVs, stereo -- I have to think -- quite a number of other items that I have gotten. I have been satisfied wholeheartedly with every one of them.

A lot of people say that this is no good for the low-income people, the middle-class people. They're wrong, because those are the people who really need it. Some of them can't get credit cards. I know; I'm one of them. They can't

just pull the cash out of their pocket and go out and say, "Hey, I want this item," and hand over the money. It's impossible. This helps us out a great deal.

There are some people who are not satisfied, but there are many, many more who are. We need our self-respect, our self-esteem. We don't want to invite people into our house with broken down furniture, because we can't afford to go out and buy -- right at hand, handing out cash or with credit cards that we don't have.

A lot of people say watch out for the uneducated. But really, they are educated, more so than people give them credit for. They know what they want. They know what they can afford. When I went to Prime Time, we turned around and told them exactly how much my husband makes. He's a security guard and he doesn't make very much, but we found that we can afford every item that we got. We rent-to-own, with the option that it would belong to us some day, and believe me, that some day has come many times. And we've gone back, and in fact, we're going back again, to get a refrigerator side-by-side, because we need a larger refrigerator.

I've dealt with other stores. Their interest rates are outrageous. They're dealing with a product that breaks down on you or quits working. They don't do it right. They turn around and give you a date when they can come out and see it. Not with Prime Time. With Prime Time you call them up and say-- Well, my freezer broke. It wasn't freezing. I called the manager up and said, "Hey, my freezer's not working." Within a half hour I had a man out there bringing me out another freezer. They took mine back. They found out they couldn't fix it. I got a brand-new freezer out of it. I mean, a brand spanking new one. And I had this one for quite awhile. I mean, where can you get that from the other stores. They don't want to hear your problems.

These people care. They listen to you, and they help you. They don't turn around and say, "Well, hey it broke down. That's your problem, you know. Go out and buy another one."

It doesn't work that way with these people. They listen to you; they help you. They give us our respect that we deserve. A lot of people don't do that, but these people do.

ASSEMBLYMAN KRONICK: Thank you. You know, for a moment I thought we were doing a commercial here.

MS. ANGELO: No. Believe me--

ASSEMBLYMAN KRONICK: This is really-- You hear about a happy customer, you must be one of the happiest customers--

MS. ANGELO: I am. A-1, A-1, definitely.

ASSEMBLYMAN KRONICK: I think you ought to shoot a commercial, because with a fire like that, that's terrific. Thank you very much Ms. Angelo. I think we have some Committee members that have questions.

Assemblyman Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Thank you, Mr. Chairman.

Mr. Moore, what -- for example on this refrigerator that Ms. Angelo has said that she purchased -- what would the annual interest rate be on that unit? When you consider her payments, what would the annual interest rate be?

MR. MOORE: I can't speak in terms of annual interest rates, simply for the reason-- Number one, the original contract that she was talking about was 1983, and I don't have it in front of me.

ASSEMBLYMAN KAVANAUGH: Well, say in today's market, if she bought that refrigerator. She's going to buy this side-by-side refrigerator. What will her-- I don't know if you know exactly what she is going to buy, but what would she be paying on a weekly--

MR. MOORE: She'll be paying over a 78-week contract--

ASSEMBLYMAN KAVANAUGH: Seventy-eight weeks.

MR. MOORE: --and the price we quoted her was \$17.97. The retail on the unit is about 950 or 975.

ASSEMBLYMAN KAVANAUGH: Okay. So it's about 1400--

MR. MOORE: We also discount that about 10% on the monthly-- If the customer chooses to renew on a monthly basis, there's a 10% to 12% discount.

ASSEMBLYMAN KAVANAUGH: All right. So that refrigerator is costing you somewhere in the range of, depending on what you're buying \$600 or \$700, on the contract you're going to get something like \$1400 or \$1500?

MR. MOORE: Total. If that's what the math proves out to be. I'm just, you know--

ASSEMBLYMAN KAVANAUGH: Just roughly.

MR. MOORE: I'm not that good in front of me.

ASSEMBLYMAN KAVANAUGH: Right. She seems to be a very loyal customer, and if she decides that she is going to keep this side-by-side, after paying \$17.95 for maybe four or five payments, there's nothing in the agreement other than she has to pay the total contract price to have that? She couldn't come to you and say, "Why don't we--" In there, say if it's a-- Even using the 975 figure when you're purchasing it. Say it's a 600-- "All right, I'd like to buy it," and have a buy out price. Why don't you have-- You know, this rent to own seems to be a misnomer to me. You're really renting. You own it after you buy it two or three times.

MR. MOORE: We recognize the need, that the customer comes along from time to time and decides they want to buy out -- early purchase option.

The way my store is set up, every time a customer comes to us and makes a rental payment, they get a computerized receipt. On that receipt is what the item is, how much their payments are, weekly or monthly. It also

specifies some of the generics in the contract. It also tells them how much they have paid to date, how much they would pay based upon their current frequency, and that can change, because what we do, because we realize the customer can change the contract: they can either pay monthly this time and weekly the next time. Our computer system is sophisticated enough to flip-flop and calculate that.

It also discounts the contract if they decide they want to buy it out at any one time. I know that in the State of New York, there is a 55% buy out. We've already adopted that. So, Ms. Angelo, were she to come in and say, "I want to pay cash for this refrigerator." She would simply pull out her receipt at the time she made her payment and it would say on there how much she could purchase the item for.

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman. Do you have a copy of your contract that you could make available to the Committee?

MR. MOORE: Yes, sir.

ASSEMBLYMAN KAVANAUGH: Because I'm looking at what we have in here on a lease-purchase agreement. It goes down where it states the difference between the cost and the whole thing that if you elect to buy out, you just pay everything. You have to pay everything that you signed whatever the total was. Let's say it was originally \$600, it came out \$1157 and you made three payments. You have to pay \$1157, no matter what.

MR. MOORE: I have not quite seen that contract, but if that's--

ASSEMBLYMAN KAVANAUGH: This is something that's been given to us by whomever.

MR. MOORE: I do know what we do in our contract, sir, is that we ask the customer to initial every paragraph as to the terms of the agreement.



We like to have our accounts managers, as we call them, explain the agreement to the customer. They sit down and go over paragraph one, the customer initials it; paragraph two, the customer initials it. I'll get you a copy of our contract, and you'll find that in there.

One of the paragraphs that we go over is that we simply-- We state that there is an early purchase option for the agreement. That we will give them the cash price at the time that they make their last payment. I can't specify it totally in the contract, simply because the contract does not-- There is not enough room to put 78 different, plus 18 different--

I do have a copy of one of my computerized receipts, and I'll make that available to you so you can see the information that we do provide.

ASSEMBLYMAN KAVANAUGH: Okay, because there are a number of other people who want to testify, and Mr. Chairman, I appreciate the time that I have taken.

I don't know whether what you're doing is prevalent in the industry, or you're unique in the industry, at Prime Time.

MR. MOORE: No, sir. I believe that this is the way the industry is going. As customers have asked for these options, we have included them in there.

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman. This New Jersey Rental Dealers Association that you are a member of, could they possibly, through their various members, make available to the Committee some of the contracts from other people besides Prime Time?

MR. MOORE: Yes, sir. We'll be happy to give you a copy--

ASSEMBLYMAN KAVANAUGH: Or do they have a Director or someone who we could contact?

MR. MOORE: Yes, sir. We'll make that all available to you, including copies of how we do our computerized receipts, if you like.

ASSEMBLYMAN KAVANAUGH: Thank you, Mr. Moore.

ASSEMBLYMAN KRONICK: Okay. Thank you. Assemblyman McGreevey, you have a question?

ASSEMBLYMAN MCGREEVEY: Thank you. Thank you for taking the time to testify. You have a store on North Olden Avenue?

MR. MOORE: That's correct.

ASSEMBLYMAN MCGREEVEY: Okay. Some of the background information that we received, as I understand it, and perhaps, you can correct me if I'm wrong--

You take a 14-- I guess it's the Gibson 14 refrigerator. The payment price is \$17.11 over 84 weeks, resulting in a cost to own of \$1437.24. The cash price is \$450. As I figure it, it's a percent over 319%.

MR. MOORE: Well, sir, let me address those figures. Number one, are you quoting a with tax, or without tax price, because the way rental contracts are written, we collect the tax up front?

ASSEMBLYMAN MCGREEVEY: I think it's with tax.

MR. MOORE: That is with tax, so we'll take 6% sales tax off the top of that. Secondly, I will tell you that the price that you're quoting is inaccurate. Our current rental price on that item, I believe, is like, 15.97--

ASSEMBLYMAN MCGREEVEY: Okay, 15.97.

MR. MOORE: --or 16, okay? The third thing is that you are quoting a price of \$450. Is that a specifically shopped retail price on that particular unit?

ASSEMBLYMAN MCGREEVEY: It was a generally shopped retail price.

MR. MOORE: It was a generally shopped retail price.

ASSEMBLYMAN MCGREEVEY: The point is, we're talking about the range of what you don't like to call, but what I call, "interest." I guess it leads to my questions in the sense that, when you're looking at these numbers, what percentage of your customers actually ever own these particular products?

MR. MOORE: If you are talking about what percentage of customers actually take everything to term, about 20%. If you're asking how many customers come in and cash price things, buy things out early, the figure probably goes higher.

ASSEMBLYMAN MCGREEVEY: So, we're talking about approximately 20% ever achieve a substantial equity interest in the product.

MR. MOORE: What is a substantial equity interest?

ASSEMBLYMAN MCGREEVEY: Will they ever own it?

MR. MOORE: I gave you the figures of 20% to about 25%.

ASSEMBLYMAN MCGREEVEY: In terms of-- I would just like your thoughts on the Retail Installment Sales Act, and in terms of providing consumer protection, including the disclosure of an annual percentage rate and a cap on interest. What is your objection to being placed under that Act?

MR. MOORE: Well, my first objection is that you call everything above what you consider a shopped retail price, interest, and that is a complete misstatement of what the industry does. The problem is, that a retailer can have a location and have a couple of people out there selling. He knows that he is going to turn his money in four to six times, and knows that he is going to be going back to the well. He knows that when the customer walks out the door, they walk out the door, and he has the cash in his hand.

You have to remember that when I buy a product that I spend several hundred dollars for and I put it in Ms. Angelo's house over here, I don't get several hundred dollars plus profit back at that point in time. This is considered to be a high risk industry. In 1982, when prime hit 20%, my company was paying 26% interest on its outstanding inventory. Now that only leaves probably about 4% to your 30% cap. I couldn't possibly provide for all of my employees and their salaries on that 4%.

ASSEMBLYMAN MCGREEVEY: Would you see any cap as being a reasonable cap?

MR. MOORE: Of interest?

ASSEMBLYMAN MCGREEVEY: Yes.

MR. MOORE: I have a problem with the term interest right up front, because--

ASSEMBLYMAN MCGREEVEY: Call it whatever you want. Call it "X." Do you see-- Is there any particular level, a threshold level, that you would like to see -- that you would accept?

MR. MOORE: Right now, my business does about 3% to 4% a year income. That's what we make, after we spend everything.

ASSEMBLYMAN MCGREEVEY: I understand that.

MR. MOORE: At this point in time, if you say to me my-- You're trying to find out whether my prices are too high. Right now that is what the pricing of my product and my inventory returns to me. That's where I am.

ASSEMBLYMAN MCGREEVEY: I recognize you may be a legitimate and well intended and presiding of benefit, but this obviously isn't a universal situation. My concern is, do you see any potential-- Would you recognize the legitimacy of any limit on what I call interest; what you call whatever?

MR. MOORE: Again, the problem I have is that the marketplace really, a lot of times, dictates whether or not I

am going to make a profit, and it really has nothing to do with interest on me. If I buy a particular product that goes in and out of rent a lot--

ASSEMBLYMAN MCGREEVEY: So you would recognize--

MR. MOORE: --and requires a lot of service, my cost -- the cost that I must pass on to the consumer -- on that particular item is going to have to go up regardless of what the retailer thinks he can get.

ASSEMBLYMAN MCGREEVEY: I recognize all of those arguments, and you made them articulately. I'm just asking, would you recognize any limit?

MR. MOORE: From the concept of interest, I don't-- I cannot live with the concept of interest as you state. If you are talking about some kind of a cap on price, then whatever, if indeed, you would like to see some kind of a cap on price, the cap on price is going to have to be realistic; a realistic assessment of what it costs the businessman to do business.

ASSEMBLYMAN MCGREEVEY: And how would you go about determining what you would consider to be a realistic cap on price and what financial mechanism would you use to determine that cap?

MR. MOORE: I determine that cap for-- I determine my profit margin for myself based upon two factors: My cost of doing business -- and by that I mean, what it costs for me to have an employee out there in the field -- and what the item costs me and what type of a service problem I have with that item. That is the only realistic way that I know of saying, am I going to make a profit on an item or not. If you're looking for something arbitrary--

ASSEMBLYMAN MCGREEVEY: The concern that I have is, frankly, there isn't a limit on what you call price -- what I call interest. And in certain cases, there are industry abuses. You would recognize that fact, and I think any

measured person would recognize the fact that this industry isn't being monitored or regulated to the degree necessary, and in fact, there are certain times it borders on usury. I'm asking in a manner of good faith if you could, how would you determine, how would you cap, how would you provide the citizens of New Jersey, for which we have a responsibility to-- How would you monitor what seems to be excessive or unfortunate abuses by certain individuals within the industry?

And we can't do that on a case by case basis.

MR. MOORE: Well, I understand that. One of the best mechanisms, quite frankly, for handling the issue of price in any item is free enterprise. Why I say that is because when you have an item that is readily available, the price drops. When you have an item that is not readily available the price rises, and as we all know from basic economics, it's how much dollars are chasing any particular goods at any one time.

ASSEMBLYMAN MCGREEVEY: It could also have to do with representations that are made to the consumer, and we'll talk about that in a second in terms of disclosure, but I'm asking-- For the last time, I'm asking you in good faith if you have a concept of either how would you create a limit on price, and is there a fiscal mechanism -- recognizing the demands that are placed upon you, the service needs, etc. -- is there a mechanism that the Legislature could look into to guarantee that there aren't exorbitant abuses?

I mean, one, you haven't given me a threshold level of what I consider to be interest and what you consider to be price yet, whether it's 500% or 600%. I'm just asking for something in good conscience, and two, I'm asking for a mechanism that you think that would be able to monitor these excessive abuses.

MR. MOORE: Assemblyman McGreevey, I'm not trying to beg the question. I'm trying to simply give you as honest an answer from a business point of view as I can give you, and

that honest answer is that different things cost different amounts, and they require different servicing needs.

ASSEMBLYMAN MCGREEVEY: Okay. So, would you tie that to the cost per product in the retail market.

MR. MOORE: It's virtually impossible because you're dealing with a different industry.

ASSEMBLYMAN MCGREEVEY: So you're advocating that this industry continue to be unregulated--

MR. MOORE: Absolutely not. What I'm saying to you is that--

ASSEMBLYMAN MCGREEVEY: --as to the interest or as to the price?

MR. MOORE: What I am saying to you is that it is an industry that does need regulation. It is an industry that does need disclosure to the consumers. It does need consumer protection.

ASSEMBLYMAN MCGREEVEY: All right, and that's what--

MR. MOORE: If we're talking about trying to limit the price on a particular item, I can't tell you sometimes what my profit-- It is that difficult. I'm not trying to avoid your question. I'm simply telling you it is that difficult sometimes for me to give you that figure and to say to you, "Here is a magic formula that you could apply."

ASSEMBLYMAN MCGREEVEY: I recognize it's difficult sometimes to look at the cost, but there has to be a bench mark. There has to be a consensual bench mark against which something becomes excessive.

MR. MOORE: I am certainly open to discussion on it. I am certainly willing to review suggestions, and I would be more than happy to sit down, and if you have any particular formulas or thoughts in mind, to go over them on a case by case basis to see whether I as a businessman can live with them. That's why I'm here.

ASSEMBLYMAN MCGREEVEY: The second question, if I may, through the Chair, is disclosure: Would you support the concept of RTO industry being under the Truth in Lending Act and the Truth in Leasing Act?

MR. MOORE: From what standpoint?

ASSEMBLYMAN MCGREEVEY: From the standpoint of mandating it.

MR. MOORE: I am not well versed enough on those to give you a yes or no answer, truthfully.

ASSEMBLYMAN MCGREEVEY: Sure. No, I appreciate that fact. Can you discuss with me -- and I understand the concept of privity of contract, and I appreciate that -- but what seems to be for me an egregious problem is that the industry typically writes several contracts for several items. The customers' payment is divided among those separate contracts. Payments are made over an extensive period of time, and then what happens: They go into default and they lose. They forfeit all the moneys that have been paid up to that point.

In terms of providing some type of sliding scale of equity interest, could you discuss that, perhaps, as--

MR. MOORE: Classically, in a rental contract, there is not an equity position on the part of the buyer, of the renter.

ASSEMBLYMAN MCGREEVEY: But this is rent-to-own though. So, should not there be some degree of ownership that's being allocated during the course of the rental? I mean, you can't have it both ways. Either it's a rental-- I mean, I hear the arguments flip-flopping depending on whether or not we're talking about ownership, or we're talking about rental.

MR. MOORE: That's because in the middle is credit sale, and the problem with credit sale is the credit sale obligates the consumer. That's what's in the middle, and that's what the consumer is avoiding at this point in time and not choosing to deal with.



ASSEMBLYMAN MCGREEVEY: But the consumer is also not getting any equity interest at all in this.

MR. MOORE: That is correct.

ASSEMBLYMAN MCGREEVEY: Would you be willing to recognize, I mean after the fact-- I have seen cases, and they are egregious: Somebody pays over an extended period of time, and they miss the final two payments and it's washed.

MR. MOORE: Why don't we take that issue and why don't we address it from the standpoint of demanding that, and making it law, that the retailer must allow the consumer to handle the contract to the end? I agree with you. I believe that's an egregious and very flagrant misuse of a customer base.

ASSEMBLYMAN MCGREEVEY: Could you say that again, I'm sorry, slower.

MR. MOORE: My belief is--

ASSEMBLYMAN MCGREEVEY: No, no. What you would agree to.

MR. MOORE: I believe that what you should do is allow the consumer the right to complete that contract, if that is, indeed, their desire. That is my method of handling that and the reason why I believe it is the correct method of handling it. It is, in fact, the method that 22 other states have chosen--

ASSEMBLYMAN MCGREEVEY: How does that work?

MR. MOORE: --that the law provides for a mandatory reinstatement of the contract; something that we do as a business practice right now. I'd like to see as a law. That is, the customer has the legal right to go back and say, "If I want to finish this contract, or make my early purchase option, I have the right to do that." I think that would more than satisfy any complaints about, "Well, we rent to the 17th month and somebody came and took it away because we were a day

late," because, by law, the rental company would not be allowed to do that. It would be a violation, and the consumer would have rights under the law for that.

ASSEMBLYMAN MCGREEVEY: And added, say, for conceptual purposes, say out of the hypothetical, just making it simplistic so that I can follow it: The 10-week contract, how many weeks would they have to pay before that option would trigger, such that they would be able to pick up and continue?

MR. MOORE: I believe that it should be there from the very beginning. Why not? Let's make it in the beginning of the contract. Let's just simply say anytime a consumer wants to continue with the rent-to-own contract, they have the right to it. Let's go all the way.

ASSEMBLYMAN MCGREEVEY: I appreciate in terms of your particular business you're doing this, because this isn't--

MR. MOORE: And I'm surviving as a businessman, and I've got happy customers because I do do it.

ASSEMBLYMAN MCGREEVEY: You've got one sitting on your right.

The last thing is, at some point in time I would just like to take the opportunity to discuss with you -- and I appreciate your last statements as being constructive-- I would just like to sit and discuss with you the concern that I have regarding the Truth in Lending Act and the Truth in Leasing Act and also the concern that I have -- and I think a number of us have -- in creating some type of fiscal structure that would limit the interest or the costs.

Thank you, Mr. Chairman.

ASSEMBLYMAN KRONICK: Thank you. I have a few questions, Mr. Moore. Using the 14-inch Gibson refrigerator as an example -- that's in our little pamphlet here -- it says \$17.11 for 84 weeks. Does that mean that for that Gibson 14-inch refrigerator, the price will never change, or do

market changes dictate whether that becomes \$22.03, or \$13, or for the agreement that you have with Ms. "X," would it be \$17.11 for 84 weeks; that never changes?

MR. MOORE: Yes. It would be. It would-- I'm sorry.

ASSEMBLYMAN KRONICK: It would be what?

MR. MOORE: The price on that unit, the contract is written. That's the way we enter it into our computer, and that's the way it stays for the entire length of that contract. These prices, incidentally, are inaccurate, I hope you realize.

ASSEMBLYMAN KRONICK: These are fictitious numbers, then.

MR. MOORE: They are for me.

ASSEMBLYMAN KRONICK: Okay. So that, if we sold to Ms. "X" the Gibson today for 17.11 -- hypothetical, okay -- tomorrow, you go out and buy that same refrigerator-- By the way, do you buy from manufacturers or wholesalers, or does it vary?

MR. MOORE: It varies.

ASSEMBLYMAN KRONICK: It varies, so you're not always buying direct?

MR. MOORE: No. In most instances--

ASSEMBLYMAN KRONICK: Okay, so your costs could be more?

MR. MOORE: My costs, yes, are. For your information, a lot of the price structuring for a retailer depends upon what type of volume he buys. We buy nowhere near the volume of a Silo, so a lot of times -- quite frankly -- I can have products that can come in to me at a wholesale cost of \$50 to \$75 higher than what a Silo can pay for it. This is why a lot of times my cash prices are much higher: because they reflect the fact that I get charged because I'm a "onesy, twosey" dealer, if you will, for a major manufacturer.

ASSEMBLYMAN KRONICK: Okay, so let's say that you bought the Gibson from the manufacturer today. Tomorrow somebody comes into your store and you are depleted. You have nothing in stock. Is it conceivable that you could go to Caldors, pick up a 14-inch Gibson to appease -- to satisfy that customer -- and pay retail -- just as I could go in or anybody? Have you ever done that? That you might go into a retailer and buy it right--

MR. MOORE: I have been in situations where I have had to go out pull units at higher than I would normally pay price. I would not really shop a retailer. My thing about Crazy Eddies, quite frankly, I took up and burned the ear of my supplier kind of badly when I said, "Why is the VCR that you're charging me \$220 for on sale for \$190?" I kind of burned his ear up a bit about that, and he mumbled something about, well, they buy container loads, and they're going out of business anyway.

The reality is that there are a lot of times when we set our pricing and we structure something, we generally buy over a long period of time, we know that we're going to keep a product in supply in our store for three- to six-month period, and we generally tell our manufacturers that this is how we're going to-- We're looking for a price structure because then we have to figure our costs at that point.

If I get into a bind situation where I have to get a unit to my customer, yes I would go out and buy it at a higher price just to appease a customer. And in a lot of instances, quite frankly, I've done it.

ASSEMBLYMAN KRONICK: Okay, so that happens then. Is there any customer that you would not rent to? Have you ever turned down anybody?

MR. MOORE: Yes, sir, we have.

ASSEMBLYMAN KRONICK: Based on what?

MR. MOORE: My company has a problem dealing with the straight -- an absolutely straight -- welfare customer. We believe that a straight welfare customer, their income is simply too low in some instances.

ASSEMBLYMAN KRONICK: But how would you know that, Mr. Moore?

MR. MOORE: Because they tell us.

ASSEMBLYMAN KRONICK: They say, "I'm on welfare"?

MR. MOORE: Yes. They will tell us what their-- They will tell us their income. A lot of times what we get are people who are getting public assistance, as well as working, as well as, having other incomes coming into the household.

A lot of times what happens in a rental situation is that you're looking at multiple incomes, sometimes, in households to make the determination as to whether or not the customer or customers on that contract can afford it. For example, you have the situation where you have a woman who is receiving public assistance, who maybe has a small job on the side, is living with her mother who is also receiving some kind of assistance as well as has a job. They own the house, they go on the contract together because they need a refrigerator. You're looking at the combination of incomes and how that income is being spent. It's a situation where we try to determine whether or not the customer can afford it. And if you look at it from a pure business standpoint, you would understand that I really don't want to put something out that I know I'm going to have to get back next week, if the only reason why I'm getting it back is because the customer can't afford it.

It's a lose situation for me because I've already put too much money up front.

ASSEMBLYMAN KRONICK: Okay. Are there any further questions?

ASSEMBLYMAN MCGREEVEY: Yes.

ASSEMBLYMAN COHEN: Yes.

ASSEMBLYMAN KRONICK: Hold it, one second please.

Mr. Cohen?

ASSEMBLYMAN COHEN: How do you get the products back?

MR. MOORE: From the customers?

ASSEMBLYMAN COHEN: Yes.

MR. MOORE: Well, a typical store staff has a manager, a sales secretary, and what we call accounts managers, in the stores. The purpose of the accounts manager is to be able to deliver the merchandise, explain the contract to the customer, have the customer ask any questions, and the accounts manager then becomes responsible for seeing that the account is handled, either from a service standpoint or if there is a need to pick up a product, he is the one that is responsible for picking the product up or finding out if the customer wants to renew the account or not.

Generally what happens with us is that we call the customer up. We ask the customer if they are choosing to renew the agreement. If they say, "No, come get the merchandise." We go out, we knock on the door. We ask to see the customer. We have the customer sign a receipt stating that we picked the merchandise up, and we take the merchandise.

ASSEMBLYMAN COHEN: What about when the payments are delinquent? I mean, I'm sure that everything doesn't run smoothly.

MR. MOORE: You're right, sir.

ASSEMBLYMAN COHEN: And what happens when you have that type of situation? Who goes out to pick up the item? What kind of situation exists; the repossession?

MR. MOORE: Okay. Generally what happens is the accounts manager will go out to the customer's house. The man's job is to try to work out an arrangement with the customer, because we want to keep the customer, quite frankly.

ASSEMBLYMAN COHEN: Assuming you don't work out an arrangement with the customer?

MR. MOORE: Assuming that we don't work out an arrangement, we ask the customer for the merchandise back.

ASSEMBLYMAN COHEN: And assuming the customer doesn't bring it back in, what do you do?

MR. MOORE: We lose it.

ASSEMBLYMAN COHEN: You don't go get the item?

MR. MOORE: If we're not allowed in the house, my men are instructed they are not allowed to break the law and break in; and B&E.

ASSEMBLYMAN COHEN: So, in every instance that's how you handle it then. Correct?

MR. MOORE: I would certainly like to think so, because that's the way they're trained and that's the way my company policies are clearly stated in their training.

ASSEMBLYMAN COHEN: And if you can't get it back, do you go to court to get it back in small claims court?

MR. MOORE: Yes. And in those instances, I might add, when we do that, what we explain to the judge is that it is a rental contract, that what we are looking for is any rent that may be owed to us and the return of our property. We're not looking for the balance of any agreement.

ASSEMBLYMAN COHEN: A court order of the return, or order the return.

MR. MOORE: Either the return-- Generally what will happen is if a customer is far along in an agreement, the judge might say to the customer-- We will tell the judge that there is also a purchase option if he chooses to use that, if the customer wants to keep it. We tell the judge basically, "Hey, this is the contract. This is the way it's written. You know, you make your determination accordingly." A lot of times the judge will say to the customer, "Do you want to keep the merchandise?" The customer says either yes or no. If the

customer says yes, then what we do is say, "Well, here is the cash price." And if the customer agrees to it, they can keep it. The judge then just rules accordingly. That way the customer keeps it.

ASSEMBLYMAN COHEN: And you feel far more comfortable in that type of situation than if someone is behind for two weeks and someone then comes to the door and says, "You're behind, we have to have this back," and you come in and take it. You're not comfortable with that type of situation?

MR. MOORE: I'm not comfortable with the strong-arm, break and enter type arrangement.

ASSEMBLYMAN COHEN: That's good.

MR. MOORE: But, remember, in a rental agreement, and especially one that protects the consumer, with the ability to get the unit back out, repossession is not nearly the big ominous thing that it is in a Credit Sales Act, where repossession means it's sold off to settle the debt. With us, what generally we do, is we try to sell the customer on the rental freeze program. That's what my man goes equipped to do: to tell the customer, "Look, if you're having a hard time, we can hold it for you. You can get it back."

That's the way we like to handle that situation, and that's the way I really feel, under the law, it should be handled.

ASSEMBLYMAN COHEN: Well, when you get the item back -- and let's say there are two or three weeks owed -- do you file suit after getting it back?

MR. MOORE: No.

ASSEMBLYMAN COHEN: You don't? You let it go?

MR. MOORE: We generally write that off.

ASSEMBLYMAN KRONICK: Okay. I think we have-- Just so you know the format, we're going to hear the next speaker, and then we'll break for lunch because we have quite a few speakers after that.



ASSEMBLYMAN KAVANAUGH: Mr. Chairman? One question before they leave the table. A question of Ms. Angelo: Today, this morning, your testimony, was that of your own free will?

MS. ANGELO: Oh, yes.

ASSEMBLYMAN KAVANAUGH: Was there any inducement or reduction of contract offered to you to be here this morning?

MS. ANGELO: No, sir. Nobody makes me do nothing I don't want to do.

ASSEMBLYMAN KAVANAUGH: Thank you.

MS. ANGELO: I'm a very strong headed woman.

ASSEMBLYMAN KRONICK: Assemblyman McGreevey has one last question.

ASSEMBLYMAN MCGREEVEY: The welfare aspect troubles me. Is that policy of your company?

MR. MOORE: What?

ASSEMBLYMAN MCGREEVEY: That you don't rent to individuals on welfare?

MR. MOORE: That we don't rent to individuals? We very carefully look at it, because quite frankly, we're in a business, and like all businesses we have to make money.

If a customer has an economic situation where they quite frankly can't afford to rent, I do not want to be in that situation, from a pure business standpoint.

ASSEMBLYMAN MCGREEVEY: But, at one point you're telling us that the reason for these exorbitant costs are because of the risk that's out there, and then concurrent with that, you're telling me that you limit your risks by not renting to certain individuals.

MR. MOORE: Only from a standpoint of whether or not they can afford the rental payment.

ASSEMBLYMAN MCGREEVEY: But then doesn't--

MR. MOORE: That's what I tried to explain to you. In those instances, what we do is that we try to find out if

there is more than one person in the household and to see if we have a suitable income -- a combined income available to us so that we are not hurting the customer. I don't want to hurt the customer. I don't want the customer renting a large-screen TV when they're not feeding their kids. It's not good business.

ASSEMBLYMAN MCGREEVEY: But, the point is, that you as an intelligent, rational businessman, want to eliminate certain outstanding risks, and I can understand that, but you can't have it both ways; where you want to eliminate the risks and at the same time have no regulation on the costs of the interest utilizing the justification that you have significant risks, when you, yourself, are eliminating certain risks in the marketplace by virtue of your business decisions.

MR. MOORE: The risks that I am eliminating are the very, very, small; very bottom end. And the ones that I am talking about, quite frankly, couldn't afford to keep up the payments, truthfully.

ASSEMBLYMAN MCGREEVEY: Well, then, you are--

MR. MOORE: If, as a businessman, how can I rent to someone who simply cannot afford the payments?

ASSEMBLYMAN MCGREEVEY: But that goes to the heart of the justification of these -- what I, to my mind -- are these excessive costs, interest, or whatever the word is, of the hour.

MR. MOORE: Assemblyman McGreevey, if a customer cannot afford \$10 a week, how can I rent to that customer? Literally, sometimes that is the case.

ASSEMBLYMAN MCGREEVEY: But that goes to the heart of your argument for the need for these excessive interest rates. Because you are saying you are incurring a risk, and concurrent with that, you are telling me that you are making a rational business decision not to rent to certain individuals

because of their ability to pay. Therefore, if you're going to make those rational decisions, that goes against the grain of these excessive interest rates.

MR. MOORE: Well, Assemblyman McGreevey, what you're suggesting to me is that I should take a unit out and put it in a customer's house and leave it there simply because that is a customer and that I should not ask for rent, because what I am saying is, is that when we start -- when we get to the point of limiting -- it's merely a fact of whether the customer can afford the weekly rent and nothing beyond that point. I'm not asking for hundreds of dollars. I'm asking whether or not that customer can afford that specific \$10 or \$15 a week rent. If they're not able to pay it, how can I rent to them? It's an economic limitation, not a socioeconomic limit.

ASSEMBLYMAN MCGREEVEY: Agreed, agreed. But that goes to percentages of 319%, 500%, etc. That goes to the heart of that argument that perhaps there is excessive profit making.

MR. MOORE: What percentage of profit would I make on a customer that I don't collect from?

ASSEMBLYMAN MCGREEVEY: No, no, no. The point is--

MR. MOORE: Because that's what I'm saying.

ASSEMBLYMAN MCGREEVEY: Okay, and agreed. So, if you're going to eliminate that customer, then you ought to also limit the percentage over that which you are incurring, because you have a free determination in terms of deciding which markets you are going to be able to rent to, then also your justification for going beyond the 30% of the Retail Installment Sales Act, the Uniform Commercial Code, doesn't bode well, because you yourself are determining, in certain cases, the percentage over, as you just submitted to this Committee on the sales item that you utilize is far beyond the 30% that the Retail Installment Sales Act would afford.

The point that I'm making is, that at one point in the marketplace you're saying that you're not renting because these individuals aren't going to be able to pay, but on the other end of the spectrum, you also want no limitations on your interest because you're saying that there's a risk. My point being is you're eliminating certain risks because of certain decisions, so you ought not be able to have a free and unending ability to charge whatever percentage you deem appropriate.

MR. MOORE: My statement to you was the fact that if a customer simply can't even make the minimum weekly rental and survive, I don't have a customer. That was my point, and that is where I limit.

ASSEMBLYMAN KAVANAUGH: Mr. Chairman? Mr. Chairman, the contract is weekly. If he can make a weekly payment--

ASSEMBLYMAN KRONICK: The point I wanted to make is--

ASSEMBLYMAN MCGREEVEY: Yeah, but my point is, I don't-- Mr. Chairman, if I could finish?

MR. MOORE: That's really where I limit. I'm looking to see whether the customer can afford to make a weekly rental payment.

ASSEMBLYMAN MCGREEVEY: And I'm saying--

MR. MOORE: If they can't afford to even make the payments, how can I rent?

ASSEMBLYMAN MCGREEVEY: And no one's disagreeing. My point is, that's a rational business decision. But then concurrent with that you can't have the ability to make interest rates bordering on, between excessive of 300%, 400%, 500%. Because if inherent in your argument -- and I won't belabor the issue more -- if inherent in your argument that these to my mind-- I mean, the Retail Installment Act looks at 30%. We have cases here where I'm looking at percentages over: 350, 328, 255, 170. The point that you were making is, the reason why those percentages were necessitated, was

because you have an open market. But when you're saying you're discriminating against welfare patients because-- You're discriminating against welfare recipients because of fiscal arguments, then that negates the need for what I consider to be these excessive percentage overs, as against the percentages that's deemed appropriate be the Retail Installment Act.

MR. MOORE: I believe that you are misconstruing what I am saying about welfare recipients. I didn't tell you that I did not rent to them. I simply said--

ASSEMBLYMAN MCGREEVEY: Okay.

MR. MOORE: --that there comes a point, where, quite frankly, the customer can't even afford to make the weekly payment, and that's where we have to stop, because we're not in business at that point.

ASSEMBLYMAN KRONICK: We have to stop, too, and I just want to ask one thing before we stop. If I come into you, and I've got \$11, and that's what it costs, and I pay by the week -- here's my \$11 -- you're not going to rent to me?

MR. MOORE: Absolutely.

ASSEMBLYMAN KRONICK: Absolutely, yes?

MR. MOORE: Yes.

ASSEMBLYMAN KRONICK: You will?

MR. MOORE: I will rent to you.

ASSEMBLYMAN KRONICK: So, if I'm the welfare person, I cashed my check and I give you \$11, you're going to rent to me, right?

MR. MOORE: I can rent to you.

ASSEMBLYMAN KRONICK: Okay. Thank you very much for the testimony, Ms. Angelo. Thank you very much. It's a pleasure having you.

We have one more speaker, and then we're going to take a break. This next speaker will be Mr. Wilfredo

Caraballo, Commissioner, Department of Public Advocate. Thank you very much for being here today, and thank you for your patience, Mr. Caraballo.

C O M M. W I L F R E D O C A R A B A L L O: My pleasure. John? (referring to member of staff accompanying him)

Mr. Chairman, members of the Committee: My name is Wilfredo Caraballo. I am the Public Advocate. With me is John Thurber. John is an attorney in my office who has been working quite extensively in this area.

As Public Advocate of the State of New Jersey, I am appearing to present my views today on the critical issues raised by the practices of the rent-to-own industry in New Jersey. As a result of a joint investigation into what we believe are this industry's abusive and deceptive practices, by the Divisions of Public Interest Advocacy and Citizen Complaints, I have concluded that there is a strong need for legislation that will unambiguously provide both standards of conduct for the industry, and adequate protection for consumers.

The Department of the Public Advocate has been concerned about the practices of the rent-to-own industry for some time. Over the last three years, we have become acutely aware of the sharply increasing number of rent-to-own stores across New Jersey and of the pattern of unconscionable sales practices occurring in those stores. We have also become aware that a large percentage of the customers of these rent-to-own stores were people who, because of their personal and financial circumstances, are particularly vulnerable to overreaching by these merchants.

Because of the significant public interest in protecting our State's vulnerable consumers, the Department recently conducted an investigation of the rent-to-own industry in New Jersey. Specifically, Public Advocate staff examined the sales practices, pricing, and effective interest

rates charged by six rent-to-own stores. These stores represented five of the major rent-to-own chains operating in New Jersey, and one independent rent-to-own store.

All of the stores we visited employed practices that significantly exploited consumers. Among the findings are the following:

All of the rent-to-own stores investigated charged effective rates of interest well in excess of the 30% maximum permitted by New Jersey statutes. Indeed, the stores consistently priced their merchandise so as to charge effective interest rates of between 150% and 300%. Remarkably, we even found one rent-to-own microwave offered at a price that exceeded an effective interest rate of 440%.

At all of the stores, missing the final payment left consumers with nothing to show for all their investment. Even if they had already paid \$1000 for a \$300 television, the rent-to-own store would repossess the TV and leave the consumers with nothing.

The stores uniformly failed to fully inform consumers about the nature of the rent-to-own transaction. Remarkably, it was the larger rent-to-own chain stores that were the most deceptive in this regard. Only the small non-chain store provided information about the total amount of the payments and the method by which individual payments were credited towards the purchase price.

There were a number of other findings which we have made available to you, with respect to the conclusions that were reached by our investigators.

This litany of deceptive practices underlines the need for legislative action to control and regulate the rent-to-own industry in New Jersey. Clearly, the industry must be required to conform its conduct to the norms of acceptable business practices. Moreover, consumers must be provided with adequate safeguards and remedies to protect them when the industry fails to abide by those standards.

We don't allow loan sharks to say that they are only providing a service to those who need instant credit. We should not allow the rent-to-own industry to claim that they are providing a service to the poor who might not get credit elsewhere.

I have carefully reviewed the nature of the rent-to-own transactions and have concluded that they are nothing more than what we in the past would have called a conditional sales transaction. The only difference is that, here the industry has attempted to disguise the sales part of the transaction by breaking up the overall payment obligation into smaller weekly or monthly payments. They also conveniently, for their own marketing purposes, divide the total purchase price into smaller pieces in that same manner. Thus, a \$15 per week VCR becomes a \$1200 VCR.

They then argue that this weekly or monthly charge is not an installment payment on the purchase of the merchandise, but merely a rental payment for its use. According to them, the ownership side of the rent-to-own transaction is nonexistent until after the final payment, after 78 or 104 weeks. Of course, this is nonsense, and is certainly not the way the transaction is viewed by consumers.

The attempts by this industry to portray their transactions as a unique hybrid, designed to help lower income consumers are neither accurate nor new. Indeed, as others have pointed out, the Singer Sewing Machine Company used the same rent-to-own concept over a hundred years ago. Then, as now, many consumers made extended and substantial payments on their merchandise only to have those items repossessed for missing a single payment.

In my view, this Committee should not buy this scheme to evade our State's laws governing secured transactions, usury, retail installment sales, and the protection of consumers. Indeed, the drafters of the Uniform Commercial



Code anticipated creative efforts such as this to evade its provisions regarding secured transactions. The UCC stresses substance over form.

In layman's language, what New Jersey statute says is that, no matter what they are called, if they look like a duck, walk like a duck, and sound like a duck, they are a security interest.

Similarly, the UCC says that an installment contract is one that requires or authorizes the delivery of goods in separate lots to be separately accepted, even though the contract contains clauses such as, "each delivery is a separate contract," or its equivalent. If we intend one contract, we will not be allowed to call the transaction by some other term. If we intend a security device, we will not be allowed to call it a new transaction.

Here, the fact that title to the goods remains with the rent-to-own store until the completion of the payments stamps the agreement as a secured transaction. Consequently, all of the default protections established by article 9 of our Uniform Commercial Code must be made applicable.

I view these transactions as properly coming within the terms of the Retail Installment Sales Act, and our Criminal Usury Act. The Retail Installment Act includes a definitional section which is designed to prevent credit sales disguised as leases from escaping the Act's important consumer protections. Certainly, rent-to-own transactions should be made more expressly subject to this statute. The same should hold true for our criminal usury law. The interest charges over and above the rental value of the goods which are currently masked by the rental payments must comply with our State's extremely generous 30% usury ceiling.

Finally, there should be absolutely no doubt that our Consumer Fraud Act applies to these transactions. When rent-to-own transactions are unconscionable or fraudulent,

consumers should have a remedy through this statute. Finally, a consumer should have protections if there is a repossession of the goods under article 9 of the UCC.

It is a telling fact about the rent-to-own business that, according to its representatives, only about 20% of all clients ever get to actually own the item for which they often paid two to three times the cash value. Therefore, in order to unambiguously protect consumers, I urge this Committee to consider legislation which would clarify the applicability of these statutory provisions to rent-to-own transactions.

Furthermore, I urge the Committee to approve legislation which would affirmatively protect consumers from the kinds of abuses documented by my Department's investigation. To effectively accomplish this goal, I would be happy to provide the assistance of my staff to facilitate the drafting of appropriate legislation.

In conclusion, I want to emphasize that the strongest conclusion of our investigation into the rent-to-own industry is the compelling need for legislation to force this industry to adhere to the existing statutory framework governing sales transactions and protecting consumers. Our State's vulnerable consumers are currently being victimized by this industry. At the very least, the industry must certainly be required to abide by the standards and practices we expect all of our retail merchants to follow.

Thank you.

ASSEMBLYMAN KRONICK: Thank you very much, Mr. Caraballo for a very succinct and thorough presentation. I'll ask any of the members--

ASSEMBLYMAN KAVANAUGH: Through you, Mr. Chairman?

ASSEMBLYMAN KRONICK: Assemblyman Kavanaugh?

ASSEMBLYMAN KAVANAUGH: Mr. Advocate, can you explain to me how, in a business manner, if for example as Mr. Moore, who was just here -- you heard his testimony -- with prime

being whatever it is today, 9% or 10%, and if he is going out as a business, a loan maybe paying 12%, and he has the costs of doing business on top of that, if we would cap him at 30%, how would we allow him to stay in business?

COMMISSIONER CARABALLO: Assemblyman Kavanaugh, I don't know how to answer that question except by saying that I don't see why we need to treat him and his business any differently than we treat other retail vendors. We've capped other vendors. We've required them to comply with certain laws. The risks that many others take are just as great as the risks that are being taken by this industry. If there are legitimate costs that are incurred, certainly the interest would not be oblivious to those extra costs.

I think there are enough protections to give him a fair return.

ASSEMBLYMAN KAVANAUGH: Well, through the Chairman, To use Ms. Angelo: She was saying that she didn't have the money to come up now with this twin refrigerator. It's got to cost \$1000. It's going to cost her maybe \$15 a week or whatever it is, to do it now. She's satisfied in that way. Mr. Moore is going out to buy that refrigerator, let's say, at \$700. He is going to have to pay for it, whatever his terms are; 1% or whatever it might be. That money is going to be out there. He's going to be paying interest for the period of time. The only thing that excites me when I look there is it looks like a seven-year contract. That's a long time to pay for a refrigerator.

If, since at the beginning of this program this morning, when I had mentioned that if there is some way that we could develop a method to give the opportunity to people such as Ms. Angelo who at the moment doesn't have the cash available or the credit available, so we can continue that type operation, or for those, for example, students who are at Rutgers who rent in an off campus housing project, who may

want to come in and may want to rent furniture for six months. I think that we have to keep in mind, and be very cautious, the rules and regulations that we would implement as a Legislature, and through your branch. It may be to the point that we would stifle the industry to such a degree as it would have to go out. We would take away something that is much needed in our society today.

COMMISSIONER CARABALLO: I don't disagree. I think the last thing I would want to do is to create disincentives to business to, in fact, provide services which our people need. The problem I have with the basic proposition is that, they're not doing anything that isn't being done by other businesspeople.

When a car dealer seeks to sell cars, quite often the car dealer does not have the money to be able to buy cars to put on his floor or her floor in order to sell them. He has to finance them just as this industry has to finance them. Financing is a part of all retail businesses. To provide some extra incentive-- I don't know, you may want to consider something that could be built in with respect to an extra week's payment as a down payment. I don't know. There might be something, but I don't see what this industry has to do with respect to purchasing its inventory to be any different from any other industry.

ASSEMBLYMAN KAVANAUGH: Well, thanks for making your staff available to us. Thank you, Mr. Chairman.

ASSEMBLYMAN KRONICK: Thank you. Assemblyman McGreevey, you have a question?

ASSEMBLYMAN MCGREEVEY: I just want to thank the Public Advocate for taking the time. I just was curious. Would it be possible to see the information that was gathered by the field -- the data report -- as to which chains, at some later point in time?

COMMISSIONER CARABALLO: Sure, absolutely.

ASSEMBLYMAN MCGREEVEY: Thank you. Thank you very much for your testimony.

COMMISSIONER CARABALLO: Sure.

ASSEMBLYMAN KRONICK: Mr. Caraballo, I want to assure you that we will be looking forward to working with you, and thank you very much for the input. It is much appreciated.

We have decided to hear one more presentation, if it's okay with everybody. We're going to hear from the next speaker, who will be Patricia Dorsey from the New Jersey Public Interest Research Group.

This would then sort of break up the program in half. It will be the midway point.

Thank you very much.

ASSEMBLYMAN KAVANAUGH: Which one-- Which one is Ms. Dorsey?

ASSEMBLYMAN KRONICK: Who is going on first?

R O B S T U A R T: This is a tag team act, Mr. Chairman. Thank you very much for the opportunity to testify. My name is Rob Stuart. I'm Program Director for New Jersey PIRG. New Jersey PIRG is a consumer and environmental, research, and advocacy organization with 70,000 members throughout the State.

We've been long involved in the whole issue of consumer protection laws. We see this as an opportunity to come forward and say that we believe the rent-to-own industry has been operating outside those laws. We think that's very unfortunate, and we congratulate the Committee for taking up this issue.

We believe that the current rent-to-own practices and the attempt to legalize that through proposed legislation is really a blatant attack on consumer protection laws and the consuming public. We believe that the current practices operating are more aptly put, "right-to-ripoff," as opposed to rent-to-own.

You have before you, a guide that we produced. We wanted to keep our presentation very short. Patty will go through the aspect of the guide, which was a survey conducted at just the beginning of this week, so that the prices that were quoted by merchants were, in fact, accurate as of Monday. But I wanted to highlight, and just underscore our support for the recommendations that were made by both Ms. Royer -- Consumer Director Royer -- as well as the Public Advocate, that we believe that the rent-to-own industry must be required to follow the consumer protection laws that concern all businesses offering merchandise for sale. We believe disclosures must be mandatory; that prominent cost tags should be displayed on the items, in particular, as are required of other retail items, the annual percentage rate, such that a consumer who understands percentage rates -- that's something that they are familiar with -- actually sees, and thus is a more informed consumer and can make a more accurate determination as to whether or not this is a deal that they want to get involved in.

We also believe that if, in fact, service is something that a consumer desires -- and there are some items that may require more service than others -- that that be separated out, as it often is in other retail sales. I know when I purchased my refrigerator, I purchased a service contract. It was an additional fee on top of it and thus, in these sales, they should also have that option.

I just wanted to respond. We got into this issue most recently because of the push for the industry to regulate themselves. We are opposed to Assembly Bill No. 2721 because all it basically does is disclose the abuses that would go on, as opposed to curtailing them and stopping them. We don't believe that it's fair to say that a consumer can get out of it at any time, without necessarily providing some equity that has been built up.

Again, to respond to the issue of service -- that really all a consumer is getting is service -- we point out that many of the products do, in fact, have warranties that are good for a year or two -- 90 days-- If, in fact, there is any kind of damage, if it doesn't work right, you can return your VCR. You can get it fixed. You can get a new one. To say that the exorbitant rates are really due to the high service costs is really, we believe, unfounded.

Why don't I pause there and introduce Patty to run through how we did the survey and some of our findings.

**P A T R I C I A D O R S E Y:** All right. Basically what we did was we went to five different rent-to-own establishments in the Trenton area. Myself and another individual went in as prospective customers and we asked for information. We looked particularly at refrigerators and washers.

We did not go in and ask any specific questions. More, we wanted to hear what the sales pitch was. Each and every time, the sales pitch was a low-weekly payment. That's really the way that customers get brought in. It seems easy to only pay 7.99 a week or 16.99 a week, but when you're finished, and you've paid two or three times the cash price of the item. That's where the consumer ripoff happens. That's far too late for the consumer to acknowledge that they really didn't get a deal and that they really shouldn't have gotten into this contract to begin with.

You can see over here, this is the first chart. (refers to chart; speaking off microphone) We looked at a refrigerator. We got the same price quote. It wasn't a double one, it was the (indiscernible) at the time. The price quote in a normal store such as Sears or Mrs. G's -- any appliance store -- was \$450 for a refrigerator. If you went into a rent-to-own establishment -- this was actually Prime Time Rentals, this is the case that we were discussing earlier -- the consumer would have been able to buy 3.1 refrigerators

in order to finally own it. So obviously, it's not a good deal. It's 319% interest. One thousand-four-hundred dollars for a \$450 refrigerator is a ripoff, and consumers are being duped into thinking it's a bargain by such low-weekly payments.

The other demonstration for the washers that we found was a \$329 -- basically a \$330 washer. You could have bought three-and-a-half washers for the cost of rent-to-own. So that's 354% or \$1100 for a washer that you could have bought at \$300.

MR. SALLACH: Could you hold the mike?

MS. DORSEY: Oh. The microphone?

MR. SALLACH: I'm sorry.

MS. DORSEY: Oh, that's all right. That's all I have to say at our charts.

Basically what we found were that interest rates were anywhere from over about \$119 up to 354% overcharges. Obviously this is not something that should be going on. We have a high-- As the Public Advocate said, we already have a high usury ceiling of 30%. Consumers should be able to be protected by this interest cap, and should not have to be able to buy a washer four times before they actually own it.

ASSEMBLYMAN KAVANAUGH: Mr. Chairman?

ASSEMBLYMAN KRONICK: Does that conclude your presentation?

MS. DORSEY: Yes, unless you have something you want to add to it. (witness is speaking to Mr. Stuart)

ASSEMBLYMAN KAVANAUGH: Question: What happens if you haven't got the \$329, or if you haven't got a mother or father or uncle or aunt. You have no way to get that \$329. What do you use: an old steel tub and a washboard?

MS. DORSEY: Well, there are used furniture stores and used appliance stores, as well as there are layaway systems.

ASSEMBLYMAN KAVANAUGH: You've got available \$20 a week to take care of this.



MS. DORSEY: What we would recommend then, is that the consumer go for a loan from like, Avco, Beneficial, such as that, or set aside the money for the weeks until they can make a down payment.

ASSEMBLYMAN KAVANAUGH: I think that's being unrealistic. But in conclusion, I can't believe that Rob, who is such an expert in this field, would have bought a refrigerator, and one of the biggest ripoffs is getting an extended warranty. I can't believe that. (laughter)

MR. STUART: It was a really good sales pitch.

ASSEMBLYMAN KRONICK: He makes mistakes, too. What can I tell you? I have a question: Perhaps you can answer it. What did people do before this industry evolved?

MS. DORSEY: Well, they used layaway plans, they used used furniture and appliance stores, and they saved money. To some extent, you know, you can see that people want to go right out and immediately buy a VCR or a television set, but you know, in those instances it's a much better deal to save up the money and be able to pay \$329 than to pay \$1400. You know we can talk about all these different what ifs, but the fact of the matter is that consumers are paying three-and-a-half times the cash price of an item. This is unconscionable and it should be stopped.

ASSEMBLYMAN KRONICK: Assemblyman McGreevey?

ASSEMBLYMAN MCGREEVEY: Thanks. Rob, Neil has some beachfront property in Union County, if you're interested.

Patty, if it was placed under the Retail Installment Act, would that satisfy your philosophical concern with first-in, first-out?

MS. DORSEY: I'm sorry. I really can't answer that. I'm not-- I'm fairly familiar with the law, but I really couldn't answer that.

ASSEMBLYMAN MCGREEVEY: Okay. The point was, if you conceptually limit it to 30% as mandated by the Retail

Installment Act -- and I realize your historical concern with first-in, first-out, the several contracts for the several items -- but if you limited it, if you controlled the interest rate, would that satisfy your need, your concerns?

MS. DORSEY: I'm not really sure how to address it, and that's why we would look to the Public Advocate and the Division of Consumer Affairs to come up the actual legal response to that. What we're concerned about is the instance in the Passaic case, where the consumer did pay out \$3000. That money could have purchased at least one or two of the items that they got into.

ASSEMBLYMAN MCGREEVEY: I agree with you, but the point being though, if you limited by statute -- and I think this is what the Public Advocate was calling for -- if you limited by statute the annual percentage rate, then you would not have such an egregious rate, and wouldn't that, in part, address the issue?

MS. DORSEY: I believe in part it would address the issue, but I'm concerned that still there might be instances where a consumer could be brought into four or five, maybe even ten contracts at a time, and be paying out -- you know, making the payments as best as they can, yet still missing out on one or two of them and then forfeiting all of their merchandise.

ASSEMBLYMAN MCGREEVEY: We go back to problems that we have a privity of contract. Would you call for some creation of an equity interest in a particular product?

MS. DORSEY: Yes. I think there needs to be a way to protect consumers who are paying out a certain amount of money and then forfeiting; that they shouldn't be losing all of the merchandise. There should be a way that they can be protected in some ways to at least own some of that merchandise, if they've paid out enough to own it.

ASSEMBLYMAN MCGREEVEY: What did you think of Mr. Moore's comment and, you know, the willingness that he provides that if an individual, say, forfeits, he gives the customer the right to pay for those remaining payments such that they can acquire ownership?

MS. DORSEY: Well, first of all, when we went to the store, we didn't really hear about that option, so I really don't want to comment specifically on it, since I haven't seen what the actual plan is or whether there is an additional charge to join that option, or whatever. You know, sure, it would be great if the consumers had a grace period or something where they could catch up on their payments. That would be a wonderful thing.

ASSEMBLYMAN MCGREEVEY: Okay. Thank you.

ASSEMBLYMAN KRONICK: Thank you. If there are no further questions we are going to break for lunch. We'll be back at 1:15, and we will have about four or five more presentations. Thank you very much.

Is Madeline here?

M A D E L I N E L. H O U S T O N, ESQ.: Yes.

ASSEMBLYMAN KRONICK: Thank you.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN KRONICK: Even though we're short two members-- Our next presenter, Ms. Madeline Houston, Litigation Director, Passaic County Legal Aid Society.

Good afternoon, and I'm sorry we're starting late.

MS. HOUSTON: Good afternoon. That's okay. I appreciate the chance to testify.

As the framework for my comments, I would like to present a set of facts which are real facts. The customer purchased some items, the cash price of which as stated by the rent-to-own company is \$499. The items were furniture.

The customer, however, is asked to pay \$1157.22 in order to become the owner of these items: \$64.29 for 18 months. This does not include tax. It does not include all of the various other fees that are generally tacked on and were, in this case, such as what is called a waiver fee, late fees, etc. This 1157 is the basic purchase price. In other words, the customer is being asked to pay \$658.22 in addition to the cash price of \$499 in order to purchase this furniture.

The question which must be asked is this: What is this additional money for? Is it a finance charge, interest?

The rent-to-own industry adamantly denies this. They say they don't charge interest. Indeed, if the extra cost in this case was interest, it would constitute criminal usury. The annual percentage rate of interest based on these figures comes to 130%.

It might also be noted that if the same \$499 item were purchased with the same monthly payments of \$64.29, and the top legal interest of 30% were paid, it would be paid off in approximately eight-and-a-half months, whereas under the RTO plan, these same payments would have to continue for almost an additional year beyond this.

Is the extra charge there because low-income consumers cannot get credit elsewhere? In the first place, this is simply not true. There are many stores, including local neighborhood stores -- including the city I work in, Paterson -- that do provide credit to low-income persons, including people receiving various public entitlements such as what is commonly known as welfare and SSI.

People can also buy on layaway plans. Even if they do not get their couch or television on day one, they will ultimately own the couch for the price of one couch. Under rent-to-own, the client will most likely pay for three TVs or

couches before she owns one. And what is even more likely is that she will pay at least 150% of the cash price and end up owning nothing.

In addition, there are companies such as Beneficial Finance, etc. who will make loans at what I consider to be high-interest rates, but they do cater to the low-income population and therefore, they can buy these things cash, while paying back the loan at 30% interest, or less.

Even assuming it were true that low-income persons have few credit choices available -- and I do not agree with this -- this still does not give the rent-to-own industry the right to charge 130% interest or 150% as was the case with some of the contracts with the client that I started my presentation with, or even 33% interest for credit. The law in New Jersey states that 30% is the maximum acceptable rate. It does not say, "Well, if the consumer is having difficulty getting credit elsewhere; the sky's the limit."

So, this huge extra cost is not a credit charge. The question remains: What is it?

Rent-to-own stores are very fond of stating that the customer is paying for service. The industry has people believing that when a rent-to-own store says, "If the item is no good, we will repair or replace it," that they are providing some sort of exceptional benefit to the customer.

Just two days ago I was walking by a rent-to-own store in Paterson. A sign in the window said, "Why pay high finance charges when you can rent to own? No finance charge. Free service. Get excited." That's exactly what the sign said, plus more.

The contract from which I gave the figures in the beginning says, that the cost above the cash price is, "the cost of service to you."

The notion that the high extra cost to rent-to-own consumers is for service, repair and replace, is totally false and fraudulent.

In the first place, the rent-to-own industry is providing absolutely nothing that a consumer would not be legally entitled to free of charge in any installment sale. Both new and used merchandise are covered by express and implied warranties. In the transaction I gave facts on, the merchandise was allegedly new. There was absolutely no need for the customer to pay \$658 for warranty protection.

Second, a great deal of rent-to-own merchandise is furniture. How does one service furniture?

Third, even assuming -- and this is a huge assumption -- there was no such thing in the State of New Jersey as warranties, that still does not give the right to the industry to demand that people pay huge amounts for warranty coverage. Such items should be a matter of choice to be purchased or rejected by the consumer.

The rent-to-own industry next says: "Well, a consumer is paying for the right, the privilege, to back out of the transaction whenever they want to." An ad for the store that wrote the contract I started my comments with says, "No long-term obligation." That was also mentioned in the sign in the other rent-to-own store in Paterson.

The problem with paying \$650, or some other exorbitant amount, for this "privilege" is that it is not a privilege anyone wants. People who go to rent-to-own are not renting a party tent or a weekend lawn mower or a snowblower. They don't plan on returning their bed or couch or washing machine. What does happen, as happens with all installment purchasers, is that sometimes they default. This is an unintentional falling behind in payments, not, "Why don't you come and take my bed? I sort of decided I like sleeping on the floor."

There are, however, two differences between the defaulting of a rent-to-owner and what is recognized as an installment purchaser. In the first place, the odds are

stacked in favor of the rent-to-owners ultimately defaulting. If you have to pay \$1200 for something, instead of \$499, there is a greater chance of default. If you have to pay for 18 months instead of eight-and-a-half, there is a greater chance of default; and if the rent-to-own industry says just \$7 a week and keeps getting you to enter into more contracts, then the chances of default, once again, go up.

The ad run by the store which wrote the contract I started my comments with says, "From \$1 a day," and they had the consumer, in that case, enter into another transaction, despite the fact that a prior account was in default. She was not aware of this, and it took me hours of adding up figures to determine that she was in default. The receipts are not easy to read. But it is easy to forgive defaults and collect late payments and very high late charges until well over 100% of the cash price has then been paid, and then repossess.

And this is where the second difference between rent-to-own purchasers and those who are recognized as installment purchasers comes into play. Pursuant to the Uniform Commercial Code, a creditor that repossesses must give notice of how the merchandise is being disposed of and must account for surpluses; that is, money obtained by the creditor for the merchandise over and above the amount that was still owed on the contract by the defaulting consumer.

For example, if \$100 is left owing on the rent-to-own contract -- and this could be the case, even if the cash price was already twice paid for -- and the rent-to-own company repossesses and sells or rerents this merchandise and gets over \$100 for this, then in the case of all installment purchases -- except rent-to-own -- the surplus would go to the consumer.

There was a question before regarding whether or not -- and here I'm discussing the UCC Provision 9-504 -- there is at least one Appellate Division case, which clearly, beyond

any question, would indicate that that Provision, 9-504, does now apply to rent-to-own transactions. It is not abided by, but the law in New Jersey, as interpreted by the Appellate Division, clearly indicates that it now should apply and that the companies are violating the law in not complying.

Putting themselves outside of the law in this way, reaps huge profits for the rent-to-own industry and huge losses which amount to penalties and forfeitures for the consumers.

In the case I started my comments with, the client paid almost \$4000 -- \$3949, to be exact -- to the rent-to-own company, and she ended up with nothing. Every single piece of merchandise was removed from her home.

The industry gets more than the cash price plus interest for these items and are surely making a profit, once again, by its rerental.

So, what is this extra cost: Interest? "Certainly not," says the rent-to-own industry. Service? It can't be. Warranties are already required by law. The right to back out? Sure, the right to give your bed back whenever you decide to sleep on the floor is well worth a few extra hundred dollars, and the loss of the right to have surplus accounted for.

So, if all of this is true, why is rent-to-own doing well? They must be conferring a benefit or they wouldn't be successful. That's nonsense.

I know that I've been cheated, and I imagine that at least some of you have, as well. Why did you enter into this transaction in which you were cheated? Because it was a good deal? Obviously, you did it because you thought it was a good deal. You were deceived.

People who rent to own are also deceived, mainly by a technique that is not unique and not new, but extremely effective. Discuss the low daily, weekly, or even monthly



rate. Never discuss the fact that the customer is paying \$1200 for a \$499 item. People do not understand what they are paying. They are convinced by "friendly" salespersons to believe that they are getting a bargain: a TV for \$65, rather than \$65 a month. That is how they are asked to think about it. One rent-to-own ad says, "Just straight talk and friendly service, at a price you can afford, from people who care." This is the same store that says, "No finance charge. Get excited."

I have seen huge numbers of senior citizens on fixed incomes, sign \$20,000 contracts under the same type scam. The friendly salesman promises the world. And what will it cost: \$20,000? Don't be silly; just dollars a month.

A discussion in the legislative history of the Truth in Lending Act in the 1960s shows that when people were told a weekly or monthly rate of interest, no questions were asked. When the annual rate was disclosed, it was questioned. Furthermore, the creditors that disclosed only the weekly or monthly rates had a competitive advantage.

So, why is rent-to-own doing well? Because what they do best is deceive people. Friendly service, straight talk and get them excited.

The rent-to-own industry says everything will be fine if we just make some disclosures. Disclosure is certainly a very important part of many of our laws, but neither law nor ethics in general -- which law, to some extent, tries to follow -- has ever been based on the maxim, "Disclose and anything goes."

Robbery is not okay, as long as you give a written statement to the victim before you do it. Interest over 30% is not okay even if it is disclosed. Unconscionable prices or other commercial practices are expressly prohibited by the Consumer Fraud Act. Disclosure does not legalize them.

The New Jersey Supreme Court has repeatedly in recent years said that caveat emptor, and buyer beware, are dead. That, "Good faith and fair dealing are required in all commercial transactions." This is the highest court in our State speaking.

Furthermore, although disclosure as a means of providing information of legal practices is surely to be encouraged, it has its limitations. For example, I would ask -- and perhaps you're different from I -- how many people have read their homeowners insurance policy? You trust the salesman and you read it, if at all, when it's too late. When you buy a car, and you get ten papers to sign, do the majority of people read them all? I think not. It's almost considered impolite to ask for the time to read them. "What's the matter, do you think I'm trying to cheat you?" is the express or veiled response of the salesman.

And don't forget about people with limited education. Rent-to-own allegedly helps the low income, and thus less educated in our society. How much will written disclosures help them?

Furthermore, the disclosures the rent-to-own industry suggests, are extremely limited. No interest disclosure, since, of course, rent-to-own has no finance charge. No requirement that the cash price versus the total amount to be paid be disclosed next to or even anywhere near each other, and no requirement that these two items be any more prominent than any more numerous disclosures the contract may contain: "Let's disclose, but don't be too conspicuous about it."

Certain practices are unconscionable and simply should not be allowed. Disclosure or not, usury is surely one of these practices. When the rent-to-own industry gets an inexplicable \$658 charge over and above the cost of a \$499 piece of furniture, this is usury, this is unconscionable, and this should be clearly illegal.

One last miscellaneous comment which I have. The bill proposed by the rent-to-own industry would have the New Jersey Legislature exempting rent-to-own transactions from the Federal Truth in Lending Act. It is not within the power of a State Legislature to write exemptions into Federal law or to write definitions to Federal statutes, and I respectfully submit that this Legislature should refuse to be the pawn of the industry in such a blatantly illegal effort.

ASSEMBLYMAN KRONICK: Thank you very much, Ms. Houston.

MS. HOUSTON: Thank you.

ASSEMBLYMAN KRONICK: I would like to ask you one thing. I understand that in -- I think it's Pennsylvania -- where changes were made that they did not permit, say, interest, or whatever the term we had trouble with earlier, above 30%, they would no longer sell. You could not buy. In other words, it would be strictly rental. Would you like to see that take place in New Jersey, if, indeed, that were the case? In other words, straight rentals only. There would be no opportunity for the consumer to buy.

MS. HOUSTON: Well, I think that we almost are dealing with a linguistic problem here. The fact of the matter is, yes, I would like to see that. I see no reason for any cap higher than 30%, and I think that there should be no such thing as rent-to-own. If you want to rent, then it should be strictly rent. People will buy, and they will buy in other ways, and they will not be cheated. They will get loans, they will buy on layaway, and they will buy from other stores which do provide credit to these people, and I think there should be--

Clearly people do rent. Now, most typically I think they rent lawn mowers or whatever, but if a college student wants to rent for six months, and that's really what they want, then fine, let there be a true rental business. But

having a rent-to-own allows what is not a true rental to evade all of the protections, etc. which should apply to installment sales, so my statement would be, "Yes." That would create a clear line, a clear definition. There would be true rental. Everything that was not truly a rental would go under the installment sales law, and I think that would be a step in the right direction.

ASSEMBLYMAN KRONICK: Of course, then we would have the people like Ms. Angelo, who was here earlier today, who apparently, from what we heard, has bought a number of items, and she falls into that 20% of the people who do get to own. So, in a sense, they would not be able to do that any longer.

MS. HOUSTON: Well, I don't think it's correct to say that she would not be able to own. I think she would be able to own at a far cheaper rate. She would not-- She would be deprived of the privilege of paying three times more than she should have to, to own the item.

It's clear that she would no longer be able to purchase under that scheme, but I do not see that as a detriment. I see that as being positive.

And I also think that if something is not done, then because of the incredible job they do at deception, that rent-to-own is going to drive legitimate stores out of business, and I think it's already begun.

ASSEMBLYMAN KRONICK: Thank you. Assemblyman McGreevey?

ASSEMBLYMAN MCGREEVEY: Thanks for your testimony. Conceptually, if you did away with the concept of rent-to-own, and you went to rent-to-rent and you looked at all of the transactions under the Retail Act or the Uniform Commercial Code, how would you regulate? What would be the regulatory structure to ensure that there was a-- To properly monitor, and say for rental contracts between renters and consumers--

MS. HOUSTON: Well, quite honestly, I haven't-- You know, disclosure, as I said-- I think that they are limited, but I think disclosures are one way of doing it. I think that the disclosures that are suggested in the Act presented here today are totally inadequate. I think that if you look at almost any disclosure law, they always require that certain items be more conspicuous than others, that they be segregated from others.

ASSEMBLYMAN MCGREEVEY: I'm sorry, I didn't make myself clear. As I understand it, and in looking at the title, is there any particular State law that presently regulates and monitors rental contracts, in and of themselves?

MS. HOUSTON: Other than the very generic Consumer Fraud Act, which broadly proscribes any unconscionable commercial practice--

ASSEMBLYMAN MCGREEVEY: Contract, exactly.

MS. HOUSTON: --off the top of my head, I don't believe that there is anything specific. I would also point out, that although I think that subjecting rent-to-own to Retail Installment etc., would be a step in the right direction, I think even that is not adequate, because if you look at the Retail Installment Sales Act, it, in fact, does not require an actual APR disclosure, and I think it should. Also, I think-- One of the gentlemen here, perhaps yourself, inquired about the FIFO -- the first-in, first-out provision -- and I think that the rent-to-own industry has also-- Even if they are required to comply with it, their practice is they have learned very well how to deal with it.

For example, in the case that I have presented facts from, there were five different transactions. That's extremely common. The problem there is, let's say the first item is a \$2000 item. The next one is \$400, \$300, \$200, etc. In this particular case, the woman was making payments and they were very faithfully keeping them as separate contracts,

and that in itself was a problem. They were orchestrating the payments to the separate contracts. In fact, when she made this \$200 payment, before they took everything back, they should have said to her, "Look, if you allocate that to contracts II, III, and IV, you own them free and clear."

ASSEMBLYMAN MCGREEVEY: So, if in the past you included these transactions under the Retail Installment Act, you wouldn't consider that sufficient enough in terms of monitoring? I mean, especially with the cap on interest or whatever we want to call it, that 30%--

MS. HOUSTON: Well, I would consider it a major step in the right direction. The two things that I would just point out, as I said, is that RISA does not actually state that you must expressly--

ASSEMBLYMAN MCGREEVEY: Well that, you know, could be addressed through legislation.

MS. HOUSTON: Right. Well, you're saying, "Is it adequate?" I'm saying I think it would be a major step in the right direction. I think there are some additional steps that should be taken, but it would go very far.

ASSEMBLYMAN MCGREEVEY: You see, I have the same concern that you have in terms of first-in, first-out, but we also have to respect the concept of privity of contract.

MS. HOUSTON: I understand, and it's a difficult-- I'm not saying that I have the answer all worked out.

ASSEMBLYMAN MCGREEVEY: Sure.

MS. HOUSTON: I'm saying that I think the industry practice of these numerous contracts plays on the first-in, first-out very well.

ASSEMBLYMAN MCGREEVEY: Agreed.

MS. HOUSTON: And while trying to respect the right to contract, I think that at least some consideration can be given to whether or not some limitations can be put on it to control the practice.

ASSEMBLYMAN MCGREEVEY: Just one last question, Mr. Chairman?

Philosophically I appreciate significantly what you're stating. It's just that if we don't do it through this mechanism, then we would have to ostensibly create another body of law, another statutory framework to monitor rentals, per se.

MS. HOUSTON: Well, quite honestly, my interest in being here today is, any of the people who I have seen with this problem have not gone in to rent. You know, they're really not interested in actual rental. So the person who really wants to go in to rent that TV, to rent the microwave for two months while they're in college-- The truth of the matter is that I haven't extensively considered that, because nobody that I know of who signed a rent-to-own was a renter. To me they were installment purchasers, and therefore my concern is, how do you control and regulate installment purchases?

ASSEMBLYMAN MCGREEVEY: But you do, responsibly, have to provide for a certain aspect of rental?

MS. HOUSTON: Correct.

ASSEMBLYMAN MCGREEVEY: And then I think it's of a point, if you have any information or any thoughts in that regard, I would appreciate it.

Thank you very much for your testimony and your leadership.

ASSEMBLYMAN KRONICK: Assemblyman Cohen? (negative response)

I do have a question. Maybe you can answer it. Do you know what happens to people who are of another ethnic background -- they just came to the country, and they don't have that knowledge of English: I mean Spanish, or whatever, French, German. What do they do? How is that done? Do you have any idea? I mean, they're given, I guess, a contract in

English, and they don't even know what they're reading, so there is no protection. They don't even know what they're doing. The people who don't have a familiarity with English.

MS. HOUSTON: Well, that's true, too. I think part of the point that I was making was that disclosures are fine, but they can only go so far, and therefore, this legislative body has to make a determination of what's acceptable and what's not, and say, "Even if you disclose it, we're just not going to allow you to deal with people that way."

Now, that would be my primary point on that. Beyond that, certainly there are various laws including-- There's a three-day cooling off law in the New Jersey statute, which would indicate, if you're dealing with someone Spanish speaking, that you must give the contract in Spanish, as well. That certainly is an appropriate provision.

Other laws say that if the population in a certain specified area -- a percentage of that population is above a certain level, then contracts and signs must always be available in that language. Unfortunately, you probably can't make adequate disclosures to every possible ethnic person who comes in, but provisions are made in other laws, and they can be made here.

But, again, I think that it is dangerous to think that disclosure solves everything. Disclosure cannot and should not legalize everything, and disclosure is of limited value, even to people who are educated. Not everything is read.

ASSEMBLYMAN KRONICK: That's for sure.

MS. HOUSTON: I would reiterate what the Supreme Court has said: "We've got to have good faith and fair dealing," not, you know, "It's your tough luck. You didn't look at it." If it's not a good faith, fair dealing provision, then disclosure should not legitimize it.



ASSEMBLYMAN KRONICK: Thank you very much, Ms. Houston, for your very thorough, competent presentation.

Our next presenter will be John Cannel, Executive Director-- (Chairman Kronick confers with Aide)

I'm sorry. I just learned that there is something going on at the Governor's Office. We're going to have to disappear for 15 minutes, so we'll take a 15-minute recess. Get a cup of coffee, and I'm sorry. This just came up. We'll be back.

J O H N M. C A N N E L, ESQ.: No problem.

ASSEMBLYMAN KRONICK: You'll still be on call, right?

MR. CANNEL: Thank you.

(RECESS)

AFTER RECESS:

ASSEMBLYMAN KRONICK: We'll resume with Mr. John Cannel, Executive Director, New Jersey Law Revision Commission. Am I pronouncing that right, sir?

MR. CANNEL: Cannel is the way I pronounce it. (pronounces name)

ASSEMBLYMAN KRONICK: Cannel, (pronounces name) I'm sorry.

MR. CANNEL: You're with the majority on Cannel anyway. It doesn't matter.

ASSEMBLYMAN KRONICK: I have the same problem with my name: Kronick and Kronick. (pronounces name differently)

MR. CANNEL: The Law Revision Commission got into the area, generally, of leases, because it was called upon to review a new chapter of the Uniform Commercial Code, specifically on leases. In that process it was faced with certain consumer issues that were not dealt with in the Uniform Commercial Code and needed to be dealt with

separately. As the result of rather a long period of work, the Commission produced a report which is a General Lease Consumer Lessee Protection Act, which deals with a number of kinds of leases in a variety of ways. It's rather more complicated than the issues before the Committee here today.

I state that by way of preface. In fact, when we analyzed the lease issue, we found that there were two kinds of problem areas in leasing: One was the big-ticket item lease, like the lease of a car. The other one was rent-to-own. The solution to the two seemed very different, and as a result, at the end of the report -- which is the Consumer Lessee Protection Act -- the Commission suggested some amendments to the Retail Installment Sales Act, that would bring rent-to-own within that Act.

Basically what the Commission said was, unlike certain other more complicated issues in leasing, that really rent-to-own looked so much like a sale to begin with. That that was the right place to take care of it. It didn't need to be taken care of separately.

First, let me give you the reasons, and then I'll tell you what it would do. The reason is that our study seemed to indicate that the overwhelming majority of people who come in to deal with a rent-to-own company believe they are going to acquire ownership of the goods. That alone is important. Secondly, a lot of the advertising is based on the to-own aspect.

There are companies which deal primarily with rental. Let's say that you want to-- As one of the Assemblymen this morning talked about, what do you do about somebody who wants to rent furniture for two or three months because he has a temporary apartment at college? There are businesses that are very much in the rental business, and many of them do have options to buy, because the consumers want

options to buy. But, they are very much geared to rental, and their whole structure of fees comes out very differently than what RTO does.

Given that set of expectations and the pattern of dealings, we thought that really, historically, rent-to-own looked very much like where the old mortgage situation had begun. If you go back in land mortgages -- into the 18th and 19th century -- they look like what rent-to-own now does. I mean, you remember the last scene in the melodrama, where there is the guy hiding behind the tree who is about to take over the family farm because they missed a payment on the mortgage. The way a mortgage used to work was if you missed a payment, you lost the land. And you could always just yield up the land and that was the end of the mortgage. There was no deficiency judgment either.

So really, rent-to-own looks the way all of our old debt arrangements looked back at one point or another. One by one, we've closed them off and channeled them in a different direction. This is really just the last one that this needs to be done with.

Now, the two things -- two major things -- that putting rent-to-own under the Retail Installment Sales Act would do are: One, it would cap the charge, which we consider, really, in a sense, just as the rent-to-own is a disguise-- And I don't mean that in the pejorative sense of disguised. I mean, it is in reality and in the economic understandings of the parties, it is a purchase transaction, even though it is often -- in fact usually -- not consummated. But the charges would be capped at what the interest rate ceiling now is, which is 30%. Secondly, by the Retail Installment Sales Act, a person would acquire equity in the goods by partial payments.

Now, that strikes me as closing off the two major problems. There are some other problems like the add-on

contracts and other things of that sort, but, in fact, those problems exist just as clearly in retail installment agreements of other sorts. If I buy three appliances on retail installment contracts from a single dealer, I may have exactly the same problems that would exist if I were to do three rent-to-own transactions with the same dealer.

As a result, we felt that as a Commission, it was not for us to make an across-the-board suggestion of dealing with generalized problems of this sort. That doesn't mean they shouldn't be dealt with. There may be many changes which would be wise to do in terms of the Retail Installment Sales Act. Our only recommendation as a Commission was that these things really look like retail installment sales. Therefore, they should be treated as retail installment sales.

One other thing I wanted to comment on in terms of-- Two things, one of which is closing people out of the business. The dealing of-- Anytime you put a cap on a charge that a person can pay, you may be closing down a part of the business and some people may not have an option to buy at another place. Yes, that's possible. It is certainly true that the State, by putting the 30% cap on interest rates has closed people out of the business of borrowing money. It might be that if the State were to raise the lawful charge for money from 30% to 130%, banks would be willing to take greater risks; or loan companies would be willing to take greater risks for lending money.

For very sound reasons, the State has not done that. It is always a balancing decision as to how much restriction do you put on something, even though it closes down the market? I have no reason to doubt the wisdom of the 30% cap. I would not recommend raising it. But it has effects.

The other thing is, we spun out one transaction based upon hypotheticals. They're only partly hypothetical, as with all other things. We dealt with ads as a way to deal with it;

as a way to spin them out. A \$200 appliance which we found, an 87 weekly payment of 11.55 a week for an RTO transaction; that is, this is one we found. Which was a \$200 appliance, which was our judgment as to what its real cost was in the average place, at 11.55 a week yielded a \$1004-and-change cost, for a 298% interest rate.

Now, parenthetically, you saw some examples here of more than 298%, so this isn't extreme. If the person were to have gotten that same item for 20 monthly payments, the difference in price only goes from 11.55 a week to 12.83 a week. In a real sense, if there are legitimate businesses in this who will extend -- even in this case -- meager credit, which is low-end credit for relatively short periods of time, we may find that we close relatively few people out of the market; that most people can afford the extra dollar if somebody is willing to write the 20 weeks of credit on \$200. I think in many cases, people are willing to write a fair amount of the credit which is now done by RTO, probably not all of it.

If there is any way that I can be of assistance, please feel free to call on me. As I say, we've drafted this up as a Commission. It's free for anybody to use in any way that is deemed desirable.

ASSEMBLYMAN KRONICK: You don't have any more sets available, do you?

MR. CANNEL: I have great numbers of them back in my office. How many more of our full set of reports do you want? I was able to give you three, plus I submitted as written testimony the report on the Consumer Lessee Protection Act as a single unit.

ASSEMBLYMAN KRONICK: If you could spare another three or four, that would be good.

MR. CANNEL: No problem. It will go out tomorrow.

ASSEMBLYMAN KRONICK: Thank you very much.

Do you have any questions?

ASSEMBLYMAN COHEN: No. Thank you, John.

ASSEMBLYMAN KRONICK: Thank you very much for staying with us.

MR. CANNEL: You're welcome.

ASSEMBLYMAN KRONICK: Is Mr. Eaddy (phonetic spelling) still here? Joseph Eaddy? (no response) I guess he's one of our departed ones.

Sam Choate? Is he gone?

UNIDENTIFIED SPEAKER FROM AUDIENCE: He just stepped out. Do you want me to get him? (no response)

ASSEMBLYMAN KRONICK: Are you all from the industry?

UNIDENTIFIED SPEAKER FROM AUDIENCE: Yes, we are.

ASSEMBLYMAN KRONICK: You're on stage.

SAMUEL CHOATE, ESQ.: Thank you, Mr. Chairman.

Mr. Chairman, members of the Committee, my name is Sam Choate. I'm an attorney, and I represent the New Jersey Rental Dealers Association in connection with their interests in regulating their industry in New Jersey.

I think the issue has been thrashed out fairly well. It's been a long day. I would like to make a few points and perhaps clear up a couple of misunderstandings.

To begin with, this industry supports the type of legislation that has been enacted in 22 other states at this time. All 22 of these states take the position that the lease-purchase, or rent-to-own transaction, is not an installment credit sale because the people who enter into these transactions are not in debt. For that reason they felt that "interest" is an inappropriate term to use when describing the costs of renting to own.

One of the problems that has been discussed here today is the possibility of purchasing early -- buying property early. All 22 statutes that have been previously enacted create early buy out provisions. Five of those do it by mathematical formula; that is, a certain percentage of the

remaining rental payments. The remaining 17 state statutes simply mandate that there must be an early purchase option from day one in a rental agreement, and have allowed the market to dictate what that provision would be.

To date, there has been no effort in any state to come back in and to change any of those laws, with the possible exception of Iowa, which did, in fact, put in a mathematical formula, but it previously had a market formula.

It is the opinion of the Federal Reserve Board -- the organ charged by Congress with interpreting the Truth in Lending Act -- that rent-to-own transactions should not properly be covered by the Truth in Lending Act. The reports that were issued in 1983, and an amendment to the Consumer Leasing Act, has been before Congress on a couple of occasions, and, in fact, passed the Senate in 1986. That issue is being redebated in Congress, but the position taken by the Federal Reserve Board in interpreting the Truth in Lending Act, which is the overall debt protection statute in this country, is that these are not debt instruments, and they should not be treated as debt instruments.

In like manner, the Consumer Leasing Act, which has been referred to, does not cover these transactions because there is a minimum four-month requirement.

If I might, Mr. Chairman, I have only recently seen the Law Revision Commission's report, but I would point out a couple of problems with the approach they take:

- 1) There is a question as to whether if these transactions are, in fact, covered, whether they might then be preempted under the Consumer Leasing Act if a rental company was to go to a minimum five-month lease?

- 2) The language that Mr. Cannel has submitted to this Committee indicates that a lease that provides an option to purchase, and at the time the option may be exercised, the lessee has paid an amount greater than or equal to the cash

price of the goods plus interest at prevailing commercial rates, will probably not cover most rent-to-own transactions when they're entered into initially, because the option to own exists in most rent-to-own transactions from day one in terms of early purchase option. So, in fact, if you can purchase the option after a month, you have not paid an amount of money equal to the cash value of the property, and you are not covered under this statute.

It's problematic. I'm sorry that the industry wasn't consulted by the Commission prior to the drafting of this particular statute. It has some problems, and I'm going to work with them and try to see if I can show them some of the problems that I see with the statute.

With regard to the bill that the industry would support -- which as I said, is similar to the bill in 22 other states -- we think that this bill takes a balanced approach to this issue. It recognizes that rent-to-own customers are not in debt, but also recognizes that they have a significant interest in protecting the payments they've made if what they want to do is acquire ownership. As Mr. Moore said is his standard practice, this bill would make law, a mandatory reinstatement provision, so that the customer that Ms. Houston represented could, in fact, come back in if she wanted to, and start up one, two, three, or all of her contracts once she got her feet under her financially. Or, if she didn't want to, she wouldn't have to.

She indicated that this customer is not now given the protection of Article 9 of the UCC dealing with default recovery; repossession. Mr. Cannel and I, in conversation-- Mr. Cannel indicated that he did not think that rent-to-own transactions, even if covered by the Installment Sales Act, with this amendment, would be "security interest" under the Uniform Commercial Code. Now, that's important, because what Ms. Houston talked about was, when rental property is



recovered, it should be sold and any surplus that is retained should be given to the renter. What she fails to mention, is that in an installment sale, the buyer who defaults, does, in fact, have the right to obtain surplus if they can't make the payments on their installment debt, and the property is picked up and proper notice is given, proper resale; if the amount of money taken from the sale exceeds the amount of the debt owing, then the buyer does, in fact, get the surplus. But, there is balance built into that for the seller in a debt relationship because if the amount of money from the sale is not enough to pay the debt, then the buyer owes the money.

Now, what they seem to be asking for is for people who want to rent-to-own, want to have the right to cancel at any time, to be given the right to get a surplus if property is picked up and sold, without having the responsibility of paying any deficiency if it doesn't meet the amount of the remaining rental payments.

The reason that anomaly exists is because rent-to-own customers are not in debt. The Installment Sales Act, Article 9, Chapter 5 of the Uniform Commercial Code, are designed to protect debtors, not necessarily installment buyers; debt-installment buyers. If you're in debt and you've got to make a payment, then the Installment Sales Act and Article 9 of the Uniform Commercial Code make a lot of sense. They don't make sense if you're not in debt.

What we have is a hybrid here, and we think a hybrid sort of approach is appropriate, as 22 other states-- And I wouldn't ask this Committee or the Assembly or the Legislature of New Jersey to defer to anyone, but I think it would be somewhat out of sync to suggest that 22 states have done something completely irrational and off-the-wall and that the consumer affairs staff and the Consumer Advisory Council of the Federal Reserve Board and the U.S. Senate have taken a position that is completely at odds with the interests of

consumers in those states. I suggest to you that this is not a scam designed to help anyone cheat anybody. This is an appropriate way to deal with a situation that is different.

Ms. Houston indicated that she didn't think there was any value to the service provided by rental companies because everybody gets a warranty. We provided some materials to you that show manufacturers' warranties on goods that we rent are severely limited. What there is a difference between, is warranty and full service. I think you all heard Mr. Moore and his customer describe the nature of that full service. A warranty and service are different.

With regard to how do you service furniture? Furniture breaks. Kids jump up and down on beds. Kids stand on tables. Furniture breaks, and you service it. That's how you service it.

I think there are some important questions that have been asked by a number of members of the Committee from time to time today; that is, what do you do if you make rent-to-own an installment sale? Do you regulate it just like an installment sale? Well, the core issue here is the amount of money that can be recovered on property that capital is spent on. I think that's the issue here. If you only allow a rent-to-own company to recover cash price plus allowable interest, then you are saying, "If your cost to supply your current services to your current customers exceed that, then you can't do business like you want to."

Now, the rent-to-own industry has a couple of options. One, they can become retailers. If they become retailers they will do exactly like Mr. Cannel indicated. They will make the same kind of decisions that other retailers will. My question is, if the retail industry will service this market, why aren't they? They're not out there doing it.

Now, it's been suggested that what we have to do here with rent-to-own is level the playing field between

rent-to-own and installment buying. Well, everybody wants to do that by making rent-to-own subject to installment sale rules. Why don't we consider the possibility of changing the Installment Sales Act to say that every installment buyer in New Jersey can pay off every installment contract by simply surrendering the goods to the seller, and he therefore owes no more money? That's like rent-to-own.

Why don't we give New Jersey consumers the best of all possible worlds: cash price, 30%, and no debt? I don't have to explain to you why that won't work, because the retailers will come in here and tell you why it won't work. They're in the debt business. They extend credit. They allow you to take property, but they want you to promise to pay for it, because they do things we can't do such as take their installment debt instruments down to a bank and discount them. That's how they get their operating capital. You can't discount a rent-to-own agreement. Nobody will buy it.

None of the witnesses up here, if they were counsel to a bank, would advise their client to buy that instrument, because at any given time, even though the customer may pay you \$1000, he can turn the property back in to you, and he doesn't owe you anything. So, how much are you going to pay for that instrument? Is that like an installment sale contract? Is it like any installment sale contract that you have ever seen? They say it's like a loan. Suppose you go to Avco and borrow \$400, and you go out and buy a television, and six months later you can't make the payments to Avco. Can you give the television back, and be relieved from the debt? If you know a company like that, let me know. We'll send them a lot of customers. In point of fact, you can't.

The final point about this making rent-to-own installment sales is this, and Ms. Angelo said it very eloquently when she said, "I'm unemployed. I'm disabled. My husband works. We don't have the cash to buy, and we can't

get credit." Now, if you make this an installment sale, you're telling Ms. Angelo, a person with a limited amount of cash, "You've got to operate in a cash market, Ms. Angelo." I think that's discrimination, to say that the people with the least amount of cash in our society are restricted to a cash economy.

Now, debt-- It is suggested up here that we have the right to go into debt and buy things. Debt in this country is not a right, it's a privilege; unless this Committee sees fit to instruct that every retail seller must grant credit to everyone who comes in and applies. You're not going to do that because the retailers are not going to allow it. The economy wouldn't work. You don't have the right to go in debt; it's a privilege. And that privilege is only extended to you if you meet certain credit requirements. Ms. Angelo doesn't meet those requirements. She doesn't have cash. What are you going to do for Ms. Angelo if she can't come to rent-to-own?

Mr. Chairman, you suggested a possibility. She'll rent forever. And there's not going to be any limitation on rental rates at that point, because at that point in time, you are going to have to say, "Well, we are going to have to limit every right. We are going to tell Avis what they can charge for a car. We're going to tell Taylor what they can charge for a hoe." Those are the real issues in this. This is a segment of society that need, and wants, I think you understand, these services.

This industry takes the following position: That the consuming public in New Jersey is not stupid. They understand what they are getting into. They understand the nature of the transaction, and the bill passed in 22 other states says:

Tell these people, in numbers, what rental payments are. Tell them in numbers how many weeks or months they must rent if they want to own. Do the math and tell them how much

that costs. Tell them up front. If you're renting them new merchandise, tell them. If you're renting them used merchandise, tell them. Give them a right to an early payout if they get income tax returns, or if Aunt Mary dies and leaves them \$500, or if they come into money. Give them an early buy out right. Make sure that if they have a temporary financial interruption, that they can come in within a designated period of time. Some states make it as long as 180 days, some states make it as long as one year to come back in and to start over where you stopped. Fulfill those expectations.

There have been instances -- and I'm not proud, as a representative of this industry -- where people have picked up rental units after 15 or 16 months, and made people start over again. That should not be allowed to exist. But, there have also been instances where people have had financial circumstances overwhelm them after renting for 14 or 15 months, and they were very happy that they could turn the rental property in and didn't have another unsecured or secured debt to deal with. We think that if the citizens of New Jersey are informed about this transaction that they will, in fact, make a decision based on their own best interests.

One final point about making decisions based on your own best interests. It has been mentioned here today that there is a lawsuit pending, and I think Ms. Houston is handling it on behalf of Ms. Green in Passaic, or Paterson. I've seen a copy of that lawsuit, and in a great number of pages Ms. Green tells why she thinks this is a bad deal; why she thinks she was defrauded. After listening to Ms. Houston, I'm sure that she and Ms. Houston have had considerable conversation about the nature of rent-to-own, and that Ms. Green has been given the benefit of Ms. Houston's opinion about rent-to-own. This Committee might be interested in knowing that three weeks ago Ms. Green went to another rental company and entered into two or three other rental agreements.

Now, I'm sorry Ms. Green is not here to tell us why she apparently doesn't agree with her lawyer. Why Ms. Green--

ASSEMBLYMAN COHEN: Do you think that's appropriate?

MR. CHOATE: Well, I think it is. I think it is, Mr. Cohen, if it please the Committee. Because it has been insinuated in the papers that I have seen that Ms. Green would never rent-to-own again and that she was defrauded, and but for the interjection of Ms. Houston she would have. Ms. Houston certainly takes that position. I just want the Committee to know the rest of the story about Ms. Green, because Ms. Green is currently a rental customer with another store. I won't elaborate or take that any further.

This industry is not an industry that doesn't want to be regulated. But if you regulate it out of business, Mr. Chairman, we simply do not think that you have benefited the thousands of customers who we do business within New Jersey. Ms. Angelo is typical of that group.

ASSEMBLYMAN KRONICK: Thank you very much.

ASSEMBLYMAN COHEN: What about price controls? What other states have-- Some states haven't imposed limitations, some have--

MR. CHOATE: Yes.

ASSEMBLYMAN COHEN: --either based upon "X" amount of money and a percentage over that. What's the position of the industry in terms of that?

MR. CHOATE: Four out of the twenty-two states that have addressed the issue have enacted price controls. New York is one. The New York formula is the formula with one variation only in the number, that all four states have adopted. That is, once the cash price of property is set, the most that can be paid to rent-to-own is two times that cash price. New York has that. Michigan allows 2.1 times. Their number is 45 instead of 50. Iowa has 50%; what's referred to generally as the 50% rule. Ohio has the 50% rule. Those are the only states that limit price.

ASSEMBLYMAN COHEN: Do you know the reason why the other states haven't come up with cash price plus percentage limitations? You don't have many states doing it. I'm just curious as to whether it was a successful lobbying effort or whether there was some kind of public policy which is trying to be set or not set in those other jurisdictions.

MR. CHOATE: No, I think that-- In the 22 states you're talking about?

I have been present in most of those states and participated in meetings such as this and the debates, and I think the legislatures have decided, after hearing both sides, that this is not a debt relationship. And that while in four states there should be some price limitation-- I will tell you that in the other 18 states, the consensus of the members of the legislature has been that the market was probably going to keep the prices down. What you have is a fairly fractured industry here; you know, a lot of three-, and four-, and five-store dealers. There is a lot of competition. In our economy, in that sort of a position where you have a fractured industry, you tend to get very low prices where there is a lot of competition.

I will tell you one place where there is not a lot of competition and the prices still remain fairly high, and that's Pennsylvania. Because you can't rent-to-own over there; you only rent. There are not many-- There are a very, very few rent-to-own dealers in Pennsylvania, simply because no one wants to go in business over there. So the ones that are there, are renting. They're not renting to own, and the prices are higher.

Whereas, we find out that in New Jersey, for example, as the industry has grown here, rental rates have gone down. We were looking at some information in Mr. Moore's company a couple of weeks ago, and over the last two years his rental rates have uniformly gone down about 20%, based on

competition. If you make this an installment sale, you don't encourage competition except with the retailers. There is no more rent-to-own anymore. There may be rent-to-rent, but there is no rent-to-own.

I think the basic decision has been made. There is a market out there. We didn't create it; we're servicing it. We've justified the fact that the difference between cash price and total-to-own is not interest. There are valuable services. There is value to availability. There is value to service. There is value to a lack of obligation. There is value to not having to survive a credit check before you get something. There is a value in the marketplace there, and I think they have decided to let the marketplace control it.

ASSEMBLYMAN COHEN: Is there, as mentioned before by Mr. Moore, I believe, that there is some information that is taken down as part of a credit check? Beyond taking down that information, are there further credit checks done, like with any type of consumer situation? Mr. Moore shakes his head, no.

MR. CHOATE: The typical situation, as I understand it and experienced it at a rental store, is that information concerning residence and employment is taken down for the purpose of verifying that the person is who they say. You have to understand, 90% of the people who rent, call up by phone. They give their information over the phone, so certain basic information is verified by phone, and then if that information proves to be accurate: they live in an apartment, they've had a job for a certain amount of time, to make sure they are not just a transient--

I have to tell you that part of the pricing in this industry is based on losses. Some of the material we provide shows that Mr. Moore went back 20 months and looked at a shipment of 100 VCRs that he bought to rent. Twenty-four of those have already been stolen from him. Now, who's going to pay the cost of that? That's an incremental part of the pricing structure.



ASSEMBLYMAN COHEN: You also get that back in terms of insurance, I would imagine.

MR. CHOATE: Well, you also pay for insurance.

ASSEMBLYMAN COHEN: Correct, but the insurance is spread out over 50 states, and it's spread out among different lines of insurance, not just one line.

Two things I have a question on: First, in terms of loss of income from bad deals, based on information that we've received, it looks like you're not in any worse position -- in fact, you're in a better position than some of the credit card companies where people purchase their purchase on a Visa card and wind up not paying for it. They get to retain the property and the card loses out. Just based on information that's been provided, you're in less of a loss of income than some other areas.

The other thing is that I understand 20% of the customers who do go through this process -- only 20% ultimately own, which is unusual, since the highlight of this is rent-to-own. But it doesn't seem that many people are owning, for whatever reason. I don't know.

MR. CHOATE: Right. And I don't, either. That impacts on pricing, because what that means is 80% of our people, in fact, are short-term renters; three to six months, our statistics show.

Here's the problem: You never know who's going to rent to term, or who's going to turn it in in two months, so your pricing has to be geared to your cost of operating 80% of your business, not 20% of your business.

Now, if you limit our prices, once again, but you don't limit our costs, you know-- What if gasoline goes to \$2 a gallon? What if minimum wage goes to \$5 an hour? What if G.E. puts--

ASSEMBLYMAN COHEN: It will in a couple of years.

MR. CHOATE: Yes. Of course it will. What are you going to do?

ASSEMBLYMAN COHEN: I'm sure you're paying your people more than \$5 an hour.

MR. CHOATE: Well, I'm not in the rental business, but we certainly do pay a lot of wages in Pennsylvania. The highest single item of overhead for Mr. Moore are wages. His company last year grossed \$3 million, and he paid over \$1 million in wages in New Jersey.

ASSEMBLYMAN COHEN: The question basically comes back to: Why is your industry for some reason-- And it may have been you have slipped through the loophole. You have done well for many years. Everyone was creative. What is the distinction between your organization in that kind of business and any other kind of business--

MR. CHOATE: Well, fundamentally, we have revenues--

ASSEMBLYMAN COHEN: --where we have costs that exceed 200%, 300%, and are we drawing fine distinctions in terms of the Retail Installment Credit Act? I don't know. You center on the debt issue which distinguishes it as opposed to the conditional sales aspect of it; that is, you can have this and it's yours after a period of time. I'm wondering who is right, or whether the distinctions are too finely drawn?

MR. CHOATE: Well, I'm assuming that 22 state legislatures were right, once they acted. Twenty-two state legislatures have--

ASSEMBLYMAN COHEN: Simply because 22 state legislatures acted doesn't mean that they are correct. I'm not going to go into laws that existed in the 1950s and 1940s, where certain acts were enacted by various states. It didn't mean that they were correct.

MR. CHOATE: Well, I think that, once again, the issue is debt. A debt instrument has a lot of uses and a lot of benefits. These people are not in debt. I think it's interesting -- and Mr. Moore touched on it -- the single largest item of overhead is related to the lack of

obligation. If people want to turn the property in, he's got to go get it. He's got to bring it back. He's got to refurbish it. He's got to have trucks to do that. He's got to have people to do that. He's got to incur costs.

ASSEMBLYMAN COHEN: I understand, but he also has the ability to take that product that's been used over a period of time and continue and continue to use it.

MR. CHOATE: That's exactly right.

ASSEMBLYMAN COHEN: That's lucrative, and that's fine. It's no crime to make money in business.

MR. CHOATE: Right. The point is, you're taking a microscopic look at a macro problem for him as a businessman. You are looking at one person and saying, "I find it offensive that this person is paying \$1000 for a \$500 item of property." Mr. Moore is in a business, and because of the prices, he makes a living -- a 3% to 4% profit margin. Now, after he pays his cost of doing business-- I haven't seen anyone submit any statistics that show it doesn't cost him that much extra money to stay in business. He would probably like for you to tell him how to save money. That's what it costs him.

We have looked at his books. He is prepared to let you see his financials, to see what he pays the revenue for. He's paying bills. He's not paying money for employees that he doesn't need. He's not paying money for equipment he doesn't need. He's not a fool, and I'm sure this Committee doesn't think he is. He's got overhead to operate a business, and the thing that's left is his profit.

So, while you may focus in on one individual and find that offensive, he's renting to a group of people and giving them a number of services, and a bundle of rights, and the cost of giving those reduces -- makes his business return fair; not exorbitant, fair.

ASSEMBLYMAN COHEN: The question of whether it's 2% or 3%, that can mean a lot of things in terms of what's taken into consideration. The money that you are putting aside into a pension program, money you are putting aside into a profit sharing program, ultimately, before you find out exactly what your profit is-- So, that may not necessarily be true.

I'm just trying to-- In terms of reviewing this, it's obvious that we're going to need notices and warranties, and many of the things that Mr. Moore has addressed today, that he seemed -- that they seemed very willing to have regulated. We've discussed certain issues in terms of what has to be provided. That is a valuable service provided by the industry to those who have credit card problems or have been involved with bankruptcy, and still want to obtain consumer goods. That's positive; no one disputes that.

There just seems to be a problem in terms of what may or may not be fair with 200% or 300% interest. If you look at it as just rent-to-rent, then we're not talking about interest or cost, but the justification -- as Assemblyman McGreevey was trying to point out with Mr. Moore in his discussion -- is that if you indicate that because we have questionable clientele in terms of ability to pay, therefore we have to make it up on the other end, that those are mutually exclusive because apparently, they're not renting to welfare recipients, and on that level. Those two points are mutually exclusive.

MR. CHOATE: I agree with you. It could be. Although it could be just as expensive to be in the rent-to-own business and not rent to public assistance people. I think Mr. Moore, at the end of his testimony indicated that-- And I think he was as confused as I was when he answered it. I think what he said at the end, in answer to a question by Assemblyman Kavanaugh was: If someone comes in and they've got the money to make the rental payment, he'll rent to them. People who come in without the money don't get rented to. But the point is--

ASSEMBLYMAN COHEN: I know, but the justification for-- In the materials that we've read, irrespective of what's been testified to, I've read publications pro and con from industry, from outside industry, from neutral consumer groups, and legislative proposals. There is a constant theme that because it is a high-risk business, because of loss of goods -- not being able to get the goods back, so you're losing the revenue that you would have had, plus you're losing the property -- that there is a constant theme that because it is a high-risk area, that is what, in part, justifies such high returns. What I'm saying is that based upon what I heard today, that's not necessarily so.

MR. CHOATE: I don't think-- If I might, I think that's a part of the pricing, and I don't think it's ever been-- I certainly have never expressed it as a justification for a high return, because I don't think there is a high return. The total prices are higher than, certainly, cash. They're higher than installment debt, but losses are, in fact, a component of the overall pricing.

But I will say this: If this Committee feels that you can offer all of the valuable services that you have recognized, and that you can still do business in the rent-to-own business for a cash price plus an allowable interest rate under current State law, than that's where you should put them. But, be very sure that that will happen, because the people who are going to suffer are not Mr. Moore. He's going to go into another business, because he's a businessman. He's either going to be a retailer, or he's going to be a rent-to-rent person, but we're not going to be doing business the way this lady wants to do business, and we're not going to be serving that market.

We didn't create the market, Assemblyman. We responded to the market. If the retailers want the market, let them serve the market. I have heard no one tell me today

from this table; if this is such an obviously egregious and outrageous transaction, why these people don't go to installment sellers? It's been suggested that they can, but I've heard no one say why they're not doing it. Certainly Ms. Green didn't decide to do that.

Now if the retail installment sellers will serve this market at cash plus 30%, let's hear from them. I've got 500 customers I'll give a retailer, right now, if he'll sell them all property at cash plus 30%. Where are they? They're not serving this--

ASSEMBLYMAN COHEN: You have limits imposed on credit card interest rates, do you not--

MR. CHOATE: Sure.

ASSEMBLYMAN COHEN: --where they can't charge more than 18%, or 17%, or 15%?

MR. CHOATE: Well, you can import-- Some states allow you to import interest rates. That's where--

ASSEMBLYMAN COHEN: Well, you can get a card in New Jersey from--

MR. CHOATE: South Dakota.

ASSEMBLYMAN COHEN: --Bank Ohio, for 14%, which is less than what's being given. But, I mean, it is not a nonlegislative-- It's a legislative function.

MR. CHOATE: Once again, you can't pay your credit card bill by sending the property back, though.

ASSEMBLYMAN COHEN: No. I'm talking about in terms of the general concept of limiting certain costs. You can limit-- You can cap interest rates on credit cards.

MR. CHOATE: Sure.

ASSEMBLYMAN COHEN: They've been upheld. You can cap mortgages. You can cap second mortgages. You can cap how many points somebody can charge before it can be deemed usurious. So, you can cap anything in the marketplace. It

depends on what you do that with, do you destroy the business community, and do you destroy the possible consumer who wants to have access?

I think that's an area that we're going to need input from you in terms of how your industry feels not only in New Jersey, but nationwide in terms of that.

MR. CHOATE: If I can respond: As I said, and it's difficult sometimes to be precise when you talk about free enterprise, but this is a--

ASSEMBLYMAN COHEN: You have free enterprise, and we're bailing out the savings and loans, so free enterprise in the United States is a myth.

MR. CHOATE: But competition in terms of its effect on--

ASSEMBLYMAN COHEN: We're paying out billions of dollars to S&Ls so--

MR. CHOATE: I agree. I agree. But competition in terms of its effect on price in a fractured industry is verifiable, and I'm suggesting to you the implicit-- The statement implicit in the fact that these rates are too high -- these prices are too high -- is that you can operate this business like it's being operated with the customer base it has for less money.

Now, it seems to me that if you could do it for drastically less money, Mr. Moore -- who is obviously a good businessman -- would be doing it, because he would beat his competition out. And if he could do it, then his competition is going to have to meet his price in order to stay in business.

Now, there is no scheming among the rent-to-own industry to keep prices high. In fact, the opposite is the case. It's a vigorously contested industry. The industry in Ohio is-- There are something like 700 rent-to-own stores in Ohio.

ASSEMBLYMAN COHEN: How many do we have in New Jersey?

MR. CHOATE: I think we have about 80.

ASSEMBLYMAN COHEN: Eighty stores?

MR. CHOATE: It's between 70 and 100 stores. The pricing in Ohio is the lowest in the country. People are going out of business in Ohio because some of the larger companies who can buy at discounted prices, who can borrow money for less money, are cutting prices below the point where a small dealer can stay in business.

Now, I'm telling you that before you decide that you're going to limit prices, be sure that there's a lot of fat there you're cutting away. Be absolutely sure, because otherwise you're going to change this business.

I will not come up here and suggest to this Committee or this Legislature that you will put Mr. Moore out of business. He's a good businessman. But I will suggest to you that you can alter his business significantly.

Now, because if you do as suggested by Ms. Houston and others today: make his transaction an installment sale -- and you can do that; this Legislature can do that. You can make my clients installment sellers. You cannot make their customers creditworthy.

Now, if that happens, and you're not right, and there isn't that fat to cut out of the pricing in rent-to-own, then that's what's going to happen. He is going to be a renter. He is going to be a retailer, or maybe he will go out of business. I don't know, maybe he'll get fed up. But, those are the alternatives, and that's the effect, and let's don't act like there's this huge pool of money in Bob Moore's bank account, that he can do without. He's told you that he is making a decent living.

ASSEMBLYMAN COHEN: Is there a sales tax associated with the rental?

MR. CHOATE: Yes. As you're aware, New Jersey, last summer, amended the sales tax law.



ASSEMBLYMAN COHEN: Up front?

MR. CHOATE: Well, it depends. The new sales tax law in New Jersey says, if you rent-- If the term of the lease is 28 days or less, then you pay on each lease payment. However, if the term of the lease is more than 28 days, then it's a lease as opposed to renting, and the lessor has to pay sales tax on his purchase price, and cannot then collect it -- or cannot charge it, as a separate item from the monthly renter.

So, in fact, on monthly rentals in New Jersey now, the sales tax has to be paid by Mr. Moore up front, and then he cannot "collect" sales tax from his monthly renters. In fact, the New Jersey law requires that he give a certificate to each monthly renter stating that the sales tax has been paid for them via the new law.

ASSEMBLYMAN KRONICK: Assemblyman, may I ask a few questions?

ASSEMBLYMAN COHEN: Sure.

ASSEMBLYMAN KRONICK: We heard that in the case of Mr. Moore -- and I don't know if that would be representative of the other people from the industry who are here -- that your net is somewhere around 3% or 4%. Is that correct? (no audible response) Could you tell me, Mr. Choate, what is it for retail stores in a similar business, vis-a-vis furniture or electronics. What do they net out?

MR. CHOATE: Let me give you this caveat. This is rank hearsay, but for a comparable freestanding store, it's about the same.

ASSEMBLYMAN KRONICK: About the same.

MR. CHOATE: Now, I've tried to do some analyses between retailers. It's very difficult to do.

For example: Sears and Roebuck sells appliances and televisions, but they have a consolidated statement, so they don't tell you what the overhead and cost associated with all these other things are. I am led to believe by comparable retailers who I have talked to that that's within the range.

ASSEMBLYMAN KRONICK: So, you're within the same ballpark?

MR. CHOATE: I think so.

ASSEMBLYMAN KRONICK: Okay. When it comes to your accounting practices, when you amortize -- I guess it would vary from what piece of merchandise; let's just say, we've been talking refrigerators and we've been talking washers -- how many years is that amortized over? I assume it isn't the usual because of the nature of the business. You might have an advantage here from a tax point of view.

MR. CHOATE: Well, the property is depreciated, over -- I think the current tax law requires a seven-year modified ACRS. But it also provides that if the property goes out of inventory -- that is, is rented to own -- at that time, the remaining depreciation can be picked up by the company. So, to that extent there is a tax benefit. But you must understand, if I may caveat this, depreciation--

ASSEMBLYMAN COHEN: Caveat?

MR. CHOATE: Excuse me. It's my background.

You must understand what depreciation is. It's a reflection of money that the businessman has to put back into his business.

For example: We looked at Mr. Moore's books. His depreciable allowance in 1989 was about \$1.1 million. He put \$1.002 million back into inventory purchases. So, although-- And because he's in leasing, he can't take cost of goods as a cost of doing business, so while he did have that tax savings, he also had a real expense on the other side in order to keep his inventory up.

You understand, if somebody buys a television, and you don't replace it in your inventory and keep renting again, your revenue goes down. So, it looks at first blush as though there is a tremendous tax saving because of the depreciation. In point of fact, that simply represents a cost of doing business. You've got to keep your inventory restocked.

ASSEMBLYMAN KRONICK: I think as a result of this Committee hearing, we may have the "Moore Theory." You know, the "Peter Principle," the "Moore Theory," or something. You don't mind us doing this, do you Mr. Moore? (no response) But I guess you were representative of the industry, and you were the pick of the litter.

What would you say, Mr. Choate, the operational losses due to theft -- for the industry, the industry average? What is the number you have for that?

MR. CHOATE: The best number I have is between 5% and 7% of inventory. Now, some companies do better than that, but those have been--

ASSEMBLYMAN KRONICK: That's your nationwide average? Because I've heard somewhere around 2%.

MR. CHOATE: No, no. They're higher than that.

ASSEMBLYMAN KRONICK: Higher than that.

MR. CHOATE: Once again, Mr. Moore has some statistics that he and I worked on. In 1989, Mr. Moore delivered 7500 units. Various pieces of rental merchandise were delivered. Of that 7500, he picked up 5000. In other words, 5000 of those 7500 people decided they didn't want to rent-to-own, and he picked it up. Eight-hundred-and-fifty-two units were stolen from him that year, or 11%.

Now, that's what his records from last year showed; that he lost 852 units that he paid for, and that he paid 16% to 17% interest on the money that he borrowed to buy those, which were stolen from him, taken out of his inventory. I don't know of a retailer who could survive that.

Now, you have to pass that cost along in the form of pricing.

ASSEMBLYMAN KRONICK: Right.

MR. CHOATE: That's from Mr. Moore's records, and we'll be more than happy to supply the Committee with those. He's a very brave man. He's allowed-- He's decided, "I'm not

going to convince the Assembly that my business is legitimate, and my prices are a reflection of cost if I don't show them my numbers." So, we're going to do it.

ASSEMBLYMAN KRONICK: Mr. Choate, there are about 80 RTOs in New Jersey.

MR. CHOATE: Approximately.

ASSEMBLYMAN KRONICK: Approximately, yes.

MR. CHOATE: Let me say something, Mr. Chairman?

ASSEMBLYMAN KRONICK: Well, let me ask a question?

MR. CHOATE: Yes, sir.

ASSEMBLYMAN KRONICK: My question is: What is the average number of stores owned by any one retailer, or RTO, I should say?

MR. CHOATE: I don't know. I do not know. I'll try to get that information.

ASSEMBLYMAN KRONICK: Would you say that in the RTOs in New Jersey who-- Is Mr. Moore-- Let me back off. Three to four percent net: Is he representative of the industry in New Jersey?

MR. CHOATE: I don't know. I have not talked to other New Jersey dealers.

ASSEMBLYMAN KRONICK: Okay. Then you must know for the nation, since you're involved on a nationwide basis, right? What is the average? Is he high, low?

MR. CHOATE: I think he falls somewhere right in the-- You know, on the low side, actually.

ASSEMBLYMAN KRONICK: On the low side?

MR. CHOATE: I think the national average that I've heard is between 5% and 7% to 8%. Once again, that's a pretax profit. I'm not sure that I consider that exorbitant.

ASSEMBLYMAN KRONICK: Right. Well, as Assemblyman Cohen said, you know, it depends on what we've got in there, and it's hard to say, certainly.

MR. CHOATE: And in all honesty, I think to talk about profit is somewhat misleading. If you think you can cap prices, then we need to point-- If you want to limit profits-- I don't think you want to do that. Notwithstanding the glitches in our system, I don't think we want to sit here and say, "If you make more than 5% profit, you have to cut your prices," to any businessman. But, I don't think you're going to find those profits exorbitant. And I don't think you're going to find, in looking at the financial records of this company, that there is anyplace that you can grossly cut back and say, "Ah hah!"

You talk about profit sharing. The profit sharing laws in this country require that the profits that are put into that be spread among all the employees. Health care costs; they're spread among all the employees. All of the items that Assemblyman Cohen mentioned, by Federal law have to be given equally to all people. Mr. Moore is not capable of setting up a pension and profit sharing plan that discriminates.

ASSEMBLYMAN KRONICK: We understand that.

MR. CHOATE: Congress has changed all that.

ASSEMBLYMAN KRONICK: Just in closing, I'd say, Mr. Choate, maybe it would be helpful for this Committee to receive from you some statistics. For example, in New Jersey, the 80 or so-- How many are there? How many employees does this comprise? How many people? Do we have all that?

MR. CHOATE: Well, we're in the process of trying to get that information.

Let me mention one thing about that. There is a homogeneous rent-to-own industry, and Mr. Moore is a representative of that. There are a lot of highbred rent-to-own transactions; for example, the furniture industry. Typically the furniture rental industry will allow you to rent from month to month, and own at the end of a

certain period of time. Typically, they have a minimum initial rental, and in some cases that's six months. That brings them under the coverage of the Consumer Leasing Act, but that doesn't limit what they can charge.

There are a number of leases that are currently not considered installment sales when they are made to consumers, that in my opinion, if this suggested language from Mr. Cannel is made law, would now be installment sales. If a consumer rents a telephone with an option to own it, it would be covered. Automobile leases, in my opinion, would be covered because the Installment Sales Act in New Jersey would provide more protection than the Consumer Leasing Act, so the Consumer Leasing Act would not preempt the New Jersey Act, at that point.

So, I think that-- There are also a number-- There are some retailers who are beginning to get into rent-to-own, because they are realizing that a lot of their customers to whom they will not -- or because of the restrictions they have -- they can't extend credit to, are, in fact, going to go to rent-to-own. So, they'll open a rent-to-own operation themselves and say, "Well, I'm going to provide this customer with the product, if I can."

I only say that because statistics can be somewhat misleading. There are two national trade groups, for example. The Furniture Rental Association of America, and the Association of Progressive Rental Organizations. We will tell you, to the best of our ability, who the straight rent-to-own dealers are: the number of stores, the employees, the revenues, the sales taxes, and that sort of meaningful information.

ASSEMBLYMAN KRONICK: Mr. Choate? How many stores belong to the New Jersey Rental Dealers Association?

MR. CHOATE: We think about 80.

ASSEMBLYMAN KRONICK: Eighty?

MR. CHOATE: I'm sorry, I'm sorry. Excuse me. It's 50.

ASSEMBLYMAN KRONICK: Fifty?

MR. CHOATE: Yes, sir. We think we represent most of the rent-to-own dealers, but it's very difficult because a lot of-- When the organization was put together, the use of the national trade association lists were used. Everyone doesn't belong to that. People are in business and don't know about the national trade association. You open up one store and you're renting to own, and you're trying to make a living. You don't worry about joining a national trade association.

The gentleman who was sued by Ms. Houston did not know he was sued until a reporter came to ask him about the question. Then, based upon that, he called my office, and I told him about the New Jersey Rental Dealers Association, which he had not heard about because he was a one-store dealer and we simply did not know who he was, and so, we found out about him. We're constantly finding out new people and telling them about the organization, but we'll do the best we can to give you--

ASSEMBLYMAN KRONICK: Assemblyman Cohen, do you have anything further?

ASSEMBLYMAN COHEN: No.

ASSEMBLYMAN KRONICK: I could say, if we had a full contingent here, I think we would be going on and on. But I want to thank you, Mr. Choate, for your wonderful explanations.

MR. CHOATE: Thank you, Mr. Chairman.

ASSEMBLYMAN KRONICK: We will now close with one last presenter, Mr. Neil Fogarty, President of the Consumers League of New Jersey.

N E I L J. F O G A R T Y: I'm Neil Fogarty, President, Consumers League of New Jersey. I have to admit, Mr. Choate is one slick guy, but let's just get back to the consumer perspective.

Rent-to-own is disguised interest. Rent-to-own is typically at interest rates over 100%. The lowest rent-to-own contract we've seen in New Jersey was 75%. The Public Advocate told us this morning that they have found one in Trenton within the last week at 440%.

I find it hard to buy the theory that, you know, just a few rotten apples. We haven't found any good apples in this barrel.

Rent-to-own is a good scam. You remember the movie "The Sting." Redford and Newman are trying to take money away from the villain. At the end they do take him, and they pretend to die and be arrested so he doesn't know he's been taken. The best scam is the one where the victim doesn't know he's been taken, and that describes rent-to-own, because in rent-to-own there is never a disclosure of the interest rate, even when you're sitting in the Assembly, and Assemblyman Kavanaugh asked, "Well, you know, if you're selling a \$700 refrigerator for \$1400, what's the interest?" And they said, "Well, it's not interest." Well, I happened to bring a calculator this morning, and the answer to that question is, 105% interest.

These high-powered lobbyists are trying to sell you 100%, 200%, 300% interest with a straight face, but it's elementary law that when there's cash price and a higher time price, the difference is the interest.

Rent-to-own exploits the poor. It robs them of extra money. They have to pay more money for the same appliances. It doesn't make any sense.

Let me give you a simple example. Perhaps your head is swimming after a day of arithmetic, you know? You know, you asked before, Chairman, you know, why don't more people complain? The answer is: Nobody can do this arithmetic in their head. You can't; I can't. I need a calculator or a



program or a book. It's real easy to confuse people on interest. That's why we have usury laws. Usury laws are 300 years old. They were the first consumer protections.

All right. Let me give you a simple example to close off today. If you want to buy a \$200 appliance, you could go to a retail merchant. Here's one from Philadelphia. We've been hearing terrible things about how everyone in Pennsylvania is suffering because Pennsylvania did the right thing and passed the right law.

The Philadelphia Electric Company sells appliances. I happened to be in Philadelphia last week, and here. Here's a \$200 appliance: It's a color TV. They also offer a lot of different credit plans. They offer their own charge account, or General Electric Credit, or Sears Discover, or Visa and Mastercard, or Whirlpool. You've got about six different choices.

But anyway, on the Philadelphia Electric contract, to sell this \$200 19-inch, color TV, they sell it for \$11 a month, and the total of payments is about \$235.

Now, let's try New Jersey, rent-to-own. This is a real New Jersey rent-to-own contract made by Rental World in Jersey City. They were selling a \$200 appliance, too. Only at Rental World, instead of the price being approximately \$12 a month, here the price is \$12 a week. Twelve dollars a month; twelve dollars a week. If you remember nothing else, please remember that. That sums up why this is really awful.

I'll give you more later. This is the rent-to-own contract. I'll make copies of this thing from Philadelphia. They're offering all sorts of-- I called them this morning and I said, "Well, what's your credit criteria?" They said, "Basically, do you pay your electric bill on time? We do do a credit check." But they want to sell electric appliances, and so people in Philadelphia--

And they've got offices all over. They've got offices in North Philadelphia, West Philadelphia, poor neighborhoods, rich neighborhoods. They're selling appliances. Sears sells appliances.

The question is: Are we doing the poor any favors by allowing rent-to-own? I submit we are not doing them one favor at all, because, if a poor person can afford to pay \$12 a week -- that's about \$50 a month -- certainly they can afford to pay \$12 a month. Certainly they're creditworthy.

ASSEMBLYMAN COHEN: Is that necessarily true?

ASSEMBLYMAN KRONICK: Through the Chair.

ASSEMBLYMAN COHEN: I'm sorry.

MR. FOGARTY: What are you getting? Basically, you're paying four times as much. Rent-to-own is exploitation because it makes the poor pay four times as much for one appliance. That's why you've heard about everything under the sun today, from tax depreciation to how much it costs to fix it. It's ridiculous. It's just--

The scam is quite simple. The scam is that they are pretending that interest is not interest. And, if, you know-- We have a legal question, which fortunately, the Consumers League, the Public Interest Research Group, and the State government -- the Public Advocate and the Consumer Affairs Division -- are agreed upon; that rent-to-own ought to be a retail installment sale.

You might ask, "Has any rental-- Is it a credit sale or not?" If you look in my materials you'll see this ad, "E/Z CREDIT." It has no name on it, but it has an 800 number. I've called that number last year, and also recently. It's still a good number, and it's Rental World. I asked them, "I'd like to buy a 19-inch color TV" -- which, by the by, you know can be bought for \$200 cash, or \$11 a month from Philadelphia Electric Company.

So, what did they say? Well, they said, "You can buy it for \$16.80 a week for 87 weeks. That's over \$1400 for a color TV that should cost \$200 cash. I submit that's highway robbery. That should not be allowed. That is morally wrong.

You wouldn't let your mother pay 300% interest-- Oh, yeah, it's 349% interest, if you assume that the TV costs \$250. If you assume that the TV costs \$200, it's more than that.

You wouldn't let your mother borrow at 300% interest. You shouldn't let anybody else's mother be trapped by that scheme.

Now, I'd like to address myself to some of the questions that have been brought up over the afternoon. The first is this 80% statistic. Consumer groups don't necessarily agree that 80% return the goods. The National Consumer Law Center told us that 60% buy, and 40% return the goods. I personally couldn't give-- I'm not in the industry; I don't know the truth. But, you should know that there are two sides to that story, and I'll try to get you more information on that question, since you were very interested in it.

There is also this question of, isn't it a convenience to be able to rent something and then give it back? The contract I just passed out was the \$200 appliance rented for-- It would cost \$1000 to buy it. Suppose the lady, in her great convenience, had given the washer back in the middle, for whatever reason? Maybe she couldn't afford to pay it anymore. She would have paid \$500 for a \$200 machine and given it back and had nothing to show for it. That is not a convenience. That's a ripoff.

Also, I'd like to address, since the industry does have a track record-- If they are unable to get their Plan "A" law, which is Bill No. 2721, which we think is awful because basically it simply-- It clears up the legal question

of whether this is a credit sale. It gives a legislative absolution and says that the consumer protection laws don't apply. We think A-2721 is really awful. It's sort of like a pardon, you know? We don't have to-- Go out and sin. Go out and charge 200% or 300%. If the New Jersey Legislature says interest is not interest, then it will be okay. But I don't think you are going to do that.

You've heard-- Now, their Plan "B," which was discussed a little bit, is the New York statute, and let me comment on the New York statute. Mr. Choate was right. It says that, basically, half of each payment goes toward ownership. In other words, if the item is \$200 retail, then they could charge \$400 for it over the life of the rental.

Now, there's only one problem with that. If you subject that to the little calculator, you find that that can be interest at over 150%. If you're thinking of some kind of statute like New York's, instead of 50% being applied towards ownership, think of a more pro consumer number like 90%, or 85%, because then you would have an interest rate which would be a lot fairer and underneath New Jersey's 30% criminal usury statute.

Pennsylvania's legislature got it right. And by the by, this electric company charges 18% interest. That is the cap in Pennsylvania for retail installment sales; 18%. New Jersey is vastly more generous to the retailers at 30%. We think 30% ought to be lowered, but we sure think that allowing anything more than 30% interest is simply legalizing loan-sharking.

So, we ask the State government to investigate rent-to-own, not to legalize it.

ASSEMBLYMAN KRONICK: Thank you very much for your testimony. Do you have any comments?

ASSEMBLYMAN COHEN: No.

ASSEMBLYMAN KRONICK: I want to thank everybody for hanging in for this length of time. To be honest, I thought we were going to be out at 12:00. I had an appointment for 2:00, but it was well worth it.

I want to say that I think we all on this Committee -- those who are left -- learned a lot. I would just say that, at this point in time, I'm sure this industry performs a service to some people in our society. I think it's, to me personally, clear that there is a need for something to be done to protect the consumers from some of the flagrant violations that apparently have come to our attention through various governmental agencies.

What that will be, when it will be, I don't know. But certainly we are going to be looking at this. Any additional information or documentation that you wish to submit, I think you could send to Mr. Dave Sallach, here. (indicating Committee aide) We'll certainly consider it.

Thank you very much for staying with us until this late hour in the afternoon.

There being no further comments, this meeting is adjourned. Thank you. Have a good day.

(HEARING CONCLUDED)

2000-2001

## **APPENDIX**





STATEMENT OF  
THE PUBLIC ADVOCATE OF  
THE STATE OF NEW JERSEY  
BEFORE  
THE ASSEMBLY CONSUMER AFFAIRS COMMITTEE  
ON THE  
RENT-TO-OWN INDUSTRY  
IN NEW JERSEY

MAY 10, 1990

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MR. CHAIRMAN AND MEMBERS OF THE ASSEMBLY CONSUMER AFFAIRS COMMITTEE:

AS PUBLIC ADVOCATE OF THE STATE OF NEW JERSEY, I AM APPEARING TO PRESENT MY VIEWS TODAY ON THE CRITICAL ISSUES RAISED BY THE PRACTICES OF THE RENT-TO-OWN INDUSTRY IN NEW JERSEY. AS A RESULT OF THE JOINT INVESTIGATION INTO THIS INDUSTRY'S ABUSIVE AND DECEPTIVE PRACTICES BY THE DIVISIONS OF PUBLIC INTEREST ADVOCACY AND CITIZEN COMPLAINTS, I HAVE CONCLUDED THAT THERE IS A STRONG NEED FOR LEGISLATION THAT WILL UNAMBIGUOUSLY PROVIDE BOTH STANDARDS OF CONDUCT FOR THE INDUSTRY AND ADEQUATE PROTECTIONS FOR CONSUMERS.

THE DEPARTMENT OF THE PUBLIC ADVOCATE HAS BEEN CONCERNED ABOUT THE PRACTICES OF THE RENT-TO-OWN INDUSTRY FOR SOME TIME. OVER THE PAST THREE YEARS, WE HAVE BECOME ACUTELY AWARE OF THE SHARPLY INCREASING NUMBER OF RENT-TO-OWN STORES ACROSS NEW JERSEY AND OF THE PATTERN OF UNCONSCIONABLE SALES PRACTICES OCCURRING IN THOSE STORES. WE HAVE ALSO BECOME AWARE THAT A LARGE PERCENTAGE OF THE CUSTOMERS OF THESE RENT-TO-OWN STORES WERE PEOPLE WHO, BECAUSE OF THEIR PERSONAL AND FINANCIAL CIRCUMSTANCES, ARE PARTICULARLY VULNERABLE TO OVER-REACHING BY THESE MERCHANTS.

BECAUSE OF THE SIGNIFICANT PUBLIC INTEREST IN PROTECTING OUR STATE'S VULNERABLE CONSUMERS, THE DEPARTMENT RECENTLY CONDUCTED AN INVESTIGATION OF THE RENT-TO-OWN INDUSTRY IN NEW JERSEY. SPECIFICALLY, PUBLIC ADVOCATE STAFF EXAMINED THE SALES

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PRACTICES, PRICING, AND EFFECTIVE INTEREST RATES CHARGED BY SIX RENT-TO-OWN STORES. THESE STORES REPRESENTED FIVE OF THE MAJOR RENT-TO-OWN CHAINS OPERATING IN NEW JERSEY AND ONE INDEPENDENT RENT-TO-OWN STORE.

ALL OF THE STORES WE VISITED EMPLOYED PRACTICES THAT SIGNIFICANTLY EXPLOITED CONSUMERS. AMONG THE FINDINGS ARE THE FOLLOWING:

- ALL OF THE RENT-TO-OWN STORES INVESTIGATED CHARGED EFFECTIVE RATES OF INTEREST WELL IN EXCESS OF THE 30% MAXIMUM PERMITTED BY N.J.S.A. 2C:21-19.
- INDEED, THE STORES CONSISTENTLY PRICED THEIR MERCHANDISE SO AS TO CHARGE EFFECTIVE INTEREST RATES OF BETWEEN 150% AND 300%. REMARKABLY, WE EVEN FOUND ONE RENT-TO-OWN MICROWAVE OFFERED AT A PRICE THAT REFLECTED AN EFFECTIVE INTEREST RATE OF 440%.
- AT ALL OF THE STORES, MISSING THE FINAL PAYMENT LEFT CONSUMERS WITH NOTHING TO SHOW FOR ALL THEIR INVESTMENT. EVEN IF THEY HAD ALREADY PAID \$1,000 FOR A \$300 TELEVISION, THE RENT-TO-OWN STORE WOULD REPOSSESS THE TV AND LEAVE THE CONSUMERS WITH NOTHING.
- THE STORES UNIFORMLY FAILED TO FULLY INFORM CONSUMERS ABOUT THE NATURE OF THE RENT-TO-OWN TRANSACTION.

- REMARKABLY, IT WAS THE LARGER RENT-TO-OWN CHAIN STORES THAT WERE THE MOST DECEPTIVE IN THIS REGARD. ONLY THE SMALL NON-CHAIN STORE PROVIDED INFORMATION ABOUT THE TOTAL AMOUNT OF THE PAYMENTS AND THE METHOD BY WHICH INDIVIDUAL PAYMENTS WERE CREDITED TOWARDS THE PURCHASE PRICE.
- MUCH OF THE MERCHANDISE AT EVERY STORE HAD NO PRICE LABELS. CUSTOMERS HAD TO RELY ON SALES STAFF TO PROVIDE THIS INFORMATION.
- WHERE PRICE LABELS EXISTED, THE ONLY INFORMATION ON THE LABELS WAS THE AMOUNT OF THE WEEKLY (OR MONTHLY) PAYMENT, AND THE TOTAL NUMBER OF WEEKS (OR MONTHS). FOR EXAMPLE, A PRICE TAG FOR A TELEVISION MIGHT STATE \$12.99 PER WEEK FOR 78 WEEKS.
- ALTHOUGH ALL STORES SOLD BOTH NEW AND PREVIOUSLY RENTED GOODS, NONE OF THE STORES PROVIDED ANY OVERT INDICATION REGARDING WHICH WAS WHICH. ONLY THOSE CONSUMERS WHO KNEW THAT THE USED GOODS HAD A SHORTER "RENTAL" PERIOD COULD ACCURATELY DISTINGUISH OLD FROM NEW.
- CONTRARY TO THE INDUSTRY'S SUGGESTION, REPAIR SERVICE IS NOT PROVIDED BY ALL RENT-TO-OWN STORES. SOME RELY SOLELY ON MANUFACTURER'S WARRANTIES.
- INDEED, SOME RENT-TO-OWN CHAIN STORES IMPOSE A SURCHARGE ON CONSUMERS WHO SEEK TO PROTECT THEMSELVES FROM LIABILITY FOR THEFT OR OTHER LOSS.

THIS LITANY OF DECEPTIVE PRACTICES UNDERLINES THE NEED FOR LEGISLATIVE ACTION TO CONTROL AND REGULATE THE RENT-TO-OWN INDUSTRY IN NEW JERSEY. CLEARLY, THE INDUSTRY MUST BE REQUIRED TO CONFORM ITS CONDUCT TO THE NORMS OF ACCEPTABLE BUSINESS PRACTICES. MOREOVER, CONSUMERS MUST BE PROVIDED WITH ADEQUATE SAFEGUARDS AND REMEDIES TO PROTECT THEM WHEN THE INDUSTRY FAILS TO ABIDE BY THOSE STANDARDS.

WE HAVE CAREFULLY REVIEWED THE NATURE OF RENT-TO-OWN TRANSACTIONS AND HAVE CONCLUDED THAT THEY ARE NOTHING MORE THAN WHAT WE IN THE PAST WOULD HAVE CALLED A CONDITIONAL SALES TRANSACTION. THE ONLY DIFFERENCE IS THAT HERE THE INDUSTRY HAS ATTEMPTED TO DISGUISE THE SALES PART OF THE TRANSACTION BY BREAKING UP THE OVERALL PAYMENT OBLIGATION INTO SMALLER WEEKLY OR MONTHLY PIECES. THEY ALSO CONVENIENTLY -- FOR THEIR OWN MARKETING PURPOSES -- DIVIDE THE TOTAL PURCHASE PRICE INTO SMALLER PIECES IN THAT SAME MANNER. THUS A \$15.00 PER WEEK VCR BECOMES A \$1,200 VCR. THEY THEN ARGUE THAT THIS WEEKLY OR MONTHLY CHARGE IS NOT AN INSTALLMENT PAYMENT ON THE PURCHASE OF THE MERCHANDISE BUT MERELY A RENTAL PAYMENT FOR ITS USE. ACCORDING TO THEM, THE "OWNERSHIP" SIDE OF THE RENT-TO-OWN TRANSACTION IS NON-EXISTENT UNTIL AFTER THE FINAL PAYMENT -- AFTER 78 OR 104 WEEKS. OF COURSE, THIS IS NONSENSE, AND IT CERTAINLY IS NOT THE WAY THE TRANSACTION IS VIEWED BY CONSUMERS.

THE ATTEMPTS BY THIS INDUSTRY TO PORTRAY THEIR TRANSACTIONS AS A UNIQUE HYBRID DESIGNED TO HELP LOWER INCOME

CONSUMERS ARE NEITHER ACCURATE NOR NEW. INDEED, AS OTHERS HAVE POINTED OUT, THE SINGER SEWING MACHINE COMPANY USED THE SAME RENT-TO-OWN CONCEPT OVER A HUNDRED YEARS AGO. THEN, AS NOW, MANY CONSUMERS MADE EXTENDED AND SUBSTANTIAL PAYMENTS ON THEIR MERCHANDISE ONLY TO HAVE THOSE ITEMS REPOSSESSED FOR MISSING A SINGLE PAYMENT. THESE NINETEENTH CENTURY PRACTICES LED TO THE ENACTMENT OF CONSUMER PROTECTION LEGISLATION.

IN MY VIEW, THIS COMMITTEE SHOULD NOT "BUY" ANY SCHEME TO EVADE OUR STATE'S LAWS GOVERNING SECURED TRANSACTIONS, USURY, RETAIL INSTALLMENT SALES, AND THE PROTECTION OF CONSUMERS. INDEED, THE DRAFTERS OF THE UNIFORM COMMERCIAL CODE ANTICIPATED CREATIVE EFFORTS SUCH AS THIS TO EVADE ITS PROVISIONS REGARDING SECURED TRANSACTIONS. IN LAYMEN'S LANGUAGE, WHAT OUR NEW JERSEY'S STATUTE (N.J.S.A. 12A:9-102) SAYS IS THAT, NO MATTER WHAT THEY ARE CALLED, IF THEY LOOK LIKE A DUCK, WALK LIKE A DUCK, AND SOUND LIKE A DUCK, THEY ARE A SECURITY INTEREST. HERE, THE FACT THAT TITLE TO THE GOODS REMAINS WITH THE RENT-TO-OWN STORE UNTIL THE COMPLETION OF THE PAYMENTS STAMPS THE AGREEMENT AS A SECURED TRANSACTION. CONSEQUENTLY, ALL OF THE DEFAULT PROTECTIONS ESTABLISHED BY ARTICLE 9 OF OUR UNIFORM COMMERCIAL CODE MUST BE MADE APPLICABLE.

SIMILARLY, I VIEW THESE TRANSACTIONS AS PROPERLY COMING WITHIN THE TERMS OF THE RETAIL INSTALLMENT SALES ACT, AND OUR CRIMINAL USURY ACT. THE RETAIL INSTALLMENT SALES ACT, N.J.S.A. 17:16C-1 ET SEQ., INCLUDES A DEFINITIONAL SECTION WHICH IS

DESIGNED TO PREVENT CREDIT SALES DISGUISED AS LEASES FROM ESCAPING THE ACT'S IMPORTANT CONSUMER PROTECTIONS. CERTAINLY, RENT-TO-OWN TRANSACTIONS SHOULD BE MADE EXPRESSLY SUBJECT TO THIS STATUTE. THE SAME SHOULD HOLD TRUE FOR OUR CRIMINAL USURY LAW, N.J.S.A. 2C:21-19. THE INTEREST CHARGES OVER AND ABOVE THE ACTUAL VALUE OF THE GOODS WHICH ARE CURRENTLY MASKED BY THE "RENTAL" PAYMENTS MUST COMPLY WITH OUR STATE'S EXTREMELY GENEROUS 30% USURY CEILING. FINALLY, THERE SHOULD BE ABSOLUTELY NO DOUBT THAT OUR CONSUMER FRAUD ACT, N.J.S.A. 56:8-1 ET SEQ., APPLIES TO THESE TRANSACTIONS. WHEN RENT-TO-OWN TRANSACTIONS ARE UNCONSCIONABLE OR FRAUDULENT, CONSUMERS SHOULD HAVE A REMEDY THROUGH THIS STATUTE. FINALLY, A CONSUMER SHOULD HAVE PROTECTIONS IF THERE IS A REPOSSESSION OF THE GOODS UNDER N.J.S.A. 12A:9-501 ET SEQ.

IT IS A TELLING FACT ABOUT THE RENT-TO-OWN BUSINESS THAT, ACCORDING TO ITS REPRESENTATIVES, ONLY ABOUT TWENTY PERCENT OF ALL CLIENTS EVER GET TO ACTUALLY OWN THE ITEM FOR WHICH THEY OFTEN PAID TWO TO THREE TIMES THE CASH VALUE. THEREFORE, IN ORDER TO UNAMBIGUOUSLY PROTECT CONSUMERS, I URGE THIS COMMITTEE TO CONSIDER LEGISLATION WHICH WOULD CLARIFY THE APPLICABILITY OF THESE STATUTORY PROVISIONS TO RENT-TO-OWN TRANSACTIONS. FURTHERMORE, I URGE THE COMMITTEE TO APPROVE LEGISLATION WHICH WOULD AFFIRMATIVELY PROTECT CONSUMERS FROM THE KINDS OF ABUSES DOCUMENTED BY MY DEPARTMENT'S INVESTIGATION. TO EFFECTIVELY ACCOMPLISH THIS GOAL, I WOULD BE HAPPY TO PROVIDE THE ASSISTANCE

OF MY STAFF TO FACILITATE THE DRAFTING OF APPROPRIATE  
LEGISLATION.

IN CONCLUSION, I WANT TO EMPHASIZE THAT THE STRONGEST  
CONCLUSION OF OUR INVESTIGATION INTO THE RENT-TO-OWN INDUSTRY IS  
THE COMPELLING NEED FOR LEGISLATION TO FORCE THIS INDUSTRY TO  
ADHERE TO THE EXISTING STATUTORY FRAMEWORK GOVERNING SALES  
TRANSACTIONS AND PROTECTING CONSUMERS. OUR STATE'S VULNERABLE  
CONSUMERS ARE CURRENTLY BEING VICTIMIZED BY THIS INDUSTRY. AT  
THE VERY LEAST, THE INDUSTRY MUST CERTAINLY BE REQUIRED TO ABIDE  
BY THE STANDARDS AND PRACTICES WE EXPECT ALL OUR RETAIL MERCHANTS  
TO FOLLOW.

THANK YOU.



# CONSUMERS LEAGUE OF NEW JERSEY

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3

Contact: Neil Fogarty  
President

## NJ BILL A2721 WOULD LEGALIZE LOANSHARK RATES IN RENT TO OWN

No bank would ever make a loan at 150% interest. You wouldn't think that any lobbyist would ever ask the NJ Legislature to legalize 150% interest with a straight face. Yet that's in effect what high-priced, rent to own lobbyists are doing now in Trenton. It's not interest, they say, only rental fees. This dodge ignores the basic principle that when one sells goods on time, the difference between the cash price and the credit price is the interest. The NJ Public Advocate has issued an opinion that week to week "leases" in which the consumer can buy the goods by making all the regular payments, are really credit sales, and are covered by New Jersey's Retail Installment Sales Act. The RTO operators are worried that New Jersey's courts will enforce this law against them. So the RTO lobbyists have a simple solution: bill A2721 will declare that RTO interest is not interest! that the Retail Installment Sales Act does not apply! that RTO operators can do what they want, and charge unlimited rates, because that's what A2721 would let them do! Bill A2721 is like a "pardon," absolving the RTO operators from the need to follow current laws.

CLNJ has seen a RTO sale of a \$200 washer for \$1004 at 298% interest. There is no place in a civilized society for such loanshark rates. Yet undisclosed rates of 150% and up are the norm in RTO around the country. RTO operators say consumers want the "freedom" to give back the furniture in the middle of the contract, without further obligation. But if the washer is repossessed after you paid \$500 for a \$200 washer, you have been swindled. No consumer wants to pay double for goods, then lose them. RTO exists because consumers don't know they are being charged loanshark rates (it's impossible to calculate the annual percentage rate unless you have a special calculator or computer).

Besides usurious interest and unconscionable prices, other problems with RTO include re-renting used goods as new, and heavy-handed collection tactics, such as threatening the consumer victims with arrest if they do not return the goods. RTO victims have had problems getting "service" on appliances. In sales, the consumer gets a free implied warranty that the goods will work. A good number of RTO contracts are for furniture-- one does not "service" furniture. RTO lobbyists falsely say that they are creditors of last resort to the poor. But the poor can buy five \$200 TVs on layaway, or one TV for \$1,000 on RTO. Local merchants lend at 20%-30% to the poor (RTO may drive legitimate stores out of business, with its 150% rate of interest). Credit cards are widely available. Would you let your mom borrow at 300%?

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# SUIT ALLEGES "RENT TO OWN" SCAM WAS ILLEGAL AND UNCONSCIONABLE:

A suit has been filed in Passaic County, "Iris Green v. Continental Rentals," which challenges the "rent to own" game. Rent to own lobbyists say that RTO benefits consumers-- you be the judge! The suit alleges that Iris Green entered five so-called rental purchase contracts. The complaint says that Ms. Green believed that she was buying furniture in RTO contracts. The suit alleges that the following items were involved (the Annual Percentage Rates of interest were calculated by Ms. Green's attorney-- the contracts disclosed no interest rate):

Date	Items	Cash Price	Total of Payments to buy item	Annual Percentage Rate
4-30	Living room	\$499	\$1157	130% APR
6-2	2 end tables	\$234	\$ 390	74.45%
9-30	stereo/freezer	\$808	\$2020	147.99%
10-14	wash machine	\$404	\$1010	147.99%
3-31	dinette/hutch	\$840	\$2102	155.62%
		<u>\$2785</u>	<u>\$6679</u>	(No APR disclosed)

The suit alleges that Ms. Green actually paid \$3950 toward these bills, which was enough to purchase many of the items, and is of course much more than the cash price of all items. Nonetheless, after Ms. Green returned from a stay in the hospital, Continental Rentals repossessed all the furniture, after Ms. Green had paid \$3950 for it.

Ms. Green's suit alleges that the interest rates of 75% to 156% violated New Jersey's usury law (which is NJSA 2C: 21-19) by charging more than 30% interest, which is NJ's ceiling. She alleges that the prices were unconscionably high, and that the transactions violated the NJ Consumer Fraud Act. The suit alleges that the so-called rentals are really credit sales covered by the NJ Retail Installment Sales Act.

Hence now the New Jersey courts will get an opportunity to rule on the legality of the rent to own game. If you were the judge what would you say? Ms. Green is represented by Madeline Houston and David Santos of Passaic County Legal Aid Society in Paterson. CLNJ comment: if bill A.2721 passes, then practices such as those described in the suit may become legal in New Jersey.

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Which is more affordable:

RENT TO OWN SALE AT \$12 PER WEEK? or  
DEPARTMENT STORE SALE AT \$12 PER MONTH?

If you buy a \$200 appliance on credit at a department store, you'll pay:

Payment:	\$12 per month
Months:	20 months (equals 87 weeks)
Total of Payments:	\$240
Annual Percentage Rate:	21.6%

But if you buy the same \$200 appliance through rent to own, you'll pay over four times as much:

Payment:	\$12 per <u>week</u>
Weeks:	87 weeks
Total of Payments:	\$1044
Annual Percentage Rate:	310%-three hundred ten percent!

Anyone who can afford to pay \$12 per week (\$52/month) can afford to pay \$12 per month at a department store. RTO operators offer no benefits to consumers by charging them five times the value of the goods. Such practices are simply wrong and should be outlawed.

11 x

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# Buying a sofa the hard way

A hearing is scheduled this week in Trenton on a bill that would legitimize the practices of the "rent-to-own" industry. Such businesses lease all kinds of furniture and appliances to their customers, who pay for them by the week. That means a person with limited ready cash and no credit cards can pay as little as \$11 a week and have the immediate use of such necessities as a washing machine or a refrigerator or a couch. Eventually, if enough payments are made, the renter owns the couch. It sounds reasonable so far.

But the trouble is, so many weekly payments are required that it often ends up costing two, three, or four times as much as it would if purchased in a retail store. If even one payment is missed, the rent-to-own people may suddenly show up and take back the television or freezer or living room set. At that point, the customer's whole investment, hundreds or even thousands of dollars, may be lost — even if enough had been paid to own the merchandise twice over.

A Paterson woman says she paid almost \$4,000 over time for furniture and appliances to fill her apartment after a fire. When her payments fell behind because she was hospitalized for a heart condition, it was all taken away — on the day she came home from the hospital. The total retail value of the furniture was almost \$2,800, the woman says. Had she made all the required payments, however, she would have paid almost \$6,700 for it. She is suing the

rent-to-own company to recoup some of her investment.

The Consumers League of New Jersey says rent-to-own customers are in effect paying interest rates of 100 to 200 percent or more. Under New Jersey law, the most interest a retailer can charge is 30 percent a year. The industry claims the payments represent rental fees, not interest, and are therefore not subject to state usury law.

The bill now in the Assembly, co-sponsored by Assemblyman Robert J. Martin, R-Morris Plains, would still exclude the industry from the 30 percent interest ceiling. Although it would also require divulging the actual cash cost of an item and the final cost once all payments are made — information hard to come by at present — the measure shouldn't pass. Much stronger regulation of the rent-to-own industry is needed.

Located largely in low-income neighborhoods, rent-to-own dealers say they provide merchandise to people who couldn't otherwise afford it. That's true. It's also true they cruelly penalize the poor, who end up paying far more for their furniture and appliances than other consumers. The Consumers League says a bill is in the works that would classify rent-to-own as a retail industry, subject to the state interest-rate ceiling and to repossession rules that protect consumers' investments. Such a bill would deserve support.

# CONSUMERS LEAGUE OF NEW JERSEY

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3

Contact: Neil Fogarty  
President

For only \$1,000 you can "Rent to Own" a \$200 appliance!  
CONSUMERS LEAGUE OPPOSES A2721- WOULD LEGALIZE "RENT TO OWN" SALES

CLNJ calls on the Legislature to veto A.2721(1990). This bill would legalize the "rent-to-own" loophole, in which so-called "leases" are used to sell \$200 appliances for more than \$1,000.

Rent to own preys on poor people who don't have a credit card or enough cash to buy an appliance. New Jersey has the Retail Installment Sales Act, permitting 30% credit sales. But the rent to own operators want even more--astronomical interest rates of 300% and up (see below). The New York Times did an expose about a NJ rent to own contract for a portable washer, which should sell for about \$200. The fee was \$11.55/week for 87 weeks. The \$200 washer thus cost \$1004! Compare that with a retail installment sale at 30%:

RENT TO OWN CONTRACT		INSTALLMENT SALE (30%)
\$200	Amount Financed	\$200
\$11.55/week	Payment	\$12.83/month
87 (weeks)	No. of Payments	20 (months)
\$1004.85	Total of Payments	\$256.60
298%	Annual Percentage Rate	30% APR

In rent to own, consumers aren't told the effective interest rate. A loophole in the Truth in Lending Act means that there is no disclosure of the Annual Percentage Rate. The industry claims that their "rental" fee is not interest. Bill A.2721(1990) (Martin and Penn) would actually legalize the rent to own game.

The bill would deny to people with RTO contracts the protections of NJ's Retail Installment Sales Act and the Uniform Commercial Code. While disclosing the total cost of the contract, the consumer would not be told the annual percentage rate. The bill has no limit on the rental fees. A.2721 might well legalize the 298% example given above. For normal credit sales, NJ has a 30% criminal usury law. CLNJ thinks that A.2721 is designed to give the RTO operators an unwarranted exemption from the usury law and the Retail Installment Sales Act. New Jersey government ought to protect its consumers, and go after the RTO operators, not sell them down the river by legalizing this shameful practice!

There is no place in a civilized society for \$200 appliances to be sold for \$1,000 at 298% interest!

13x

# CONSUMERS LEAGUE OF NEW JERSEY

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## CONSUMERS LEAGUE OPPOSES A.2721(1990)

If A.2721 is enacted, NJ consumers will lose the following consumer protections in rent to own transactions:

Criminal usury ceiling of 30% in NJSA 2C:21-19 (rent to own transaction at 300% effective interest has occurred in NJ)

Uniform Commercial Code protections NJSA 12A:9-501 et seq

- \*consumer's right to notice after repossession,
- \*right to redeem goods after repo,
- \*right to have goods sold in commercially reasonable manner,
- \*right to surplus after resale,
- \*statutory penalty for improper repossession (finance charge plus 10% of cash price)

Retail Installment Sales Act(RISA) NJSA 17:16C-1 et seq.

- \*Retail sellers must get a license from Banking Dept rent to own (RTO) seller will be unregulated
- \*Installment sales are subject to 30% ceiling in criminal usury law, see Laws of 1981, c.103 and 104
- \*Retail installment buyers get federal Truth in Lending disclosures:
  - NO disclosure of Annual Percentage Rate in RTO
  - NO federal credit or leasing disclosures in RTO
- \*RISA prohibits seller from taking mortgage in sale of goods, this bill doesn't
- \*Penalty for violation of RISA (forfeiture of all interest) is stronger than A 2721
- \*RISA buyers get credit for unearned interest if contract ended early,
- \*RISA prohibits all "additional charges" if not authorized by law
- \*A 2721 contains no limitation on amount of fees, charges or interest

PENNSYLVANIA amended its RISA to specify that rent to own is a retail installment sale

DELAWARE has a recent court decision, that RTO is a RISA sale

NEW JERSEY's RISA, NJSA 17:16C-1(b) already includes as sales:

"Retail installment contract ...includes...any contract for the leasing of goods by which the lessee or bailee agrees to pay as compensation a sum substantially equivalent to or in excess of the value of the goods, and by which...the lessee...has the option of becoming the owner of the goods upon full compliance with the terms of such retail installment contract."

(This sounds exactly like a RTO to us.)

NEW JERSEY's Retail Installment Sales Act covers RTO now. A2721 would let these credit sellers avoid the law. CLNJ thinks that passing A2721 will legalize practices which should be banned.

14x

Is rent to own really a form of credit sale?



CLNJ called this number on April 14, 1989. The operator identified the company as RENTAL WORLD. She offered a "rent to own" transaction in which one could become the owner of a 19 inch color television by paying \$16.83 per week for 87 weeks. That adds up to \$1,464 for a 19 inch TV! If you assume that the fair market value of a 19 inch color TV is no more than \$250, then the effective Annual Percentage Rate is 349%!

In May 1990, Rental World was still "renting to own" 19 inch televisions for \$16.85 to \$19.85 per week, for 87 weeks.

15 X

# THE HUDSON DISPATCH

MONDAY, APRIL 30, 1990

25 CENTS

Page 1

But poor keep coming

## Rent-to-purchase deals no bargain

By BETH KUHLES

The Hudson Dispatch

Consumers can buy a small washing machine at a retail store in New Jersey for about \$200. But for only \$11.55 a week, they can own that same washer in just 18 months.

It sounds like a great deal. But when you add it all up, you could buy four washers for the price of one — a whopping \$900.90 — and still have money left.

Rent-to-own stores are popping up all over New Jersey, offering consumers a quick source for furniture or appliances. But this alternative way of buying merchandise — which usually doubles or triples the cost of furniture or appliances — is stir-

ring debate in the state.

The question of whether the rent-to-own industry is a legal form of loansharking, or the supplier of last resort for the poor, may be decided by the state Legislature or a state court.

The rent-to-own business offers customers a choice: They can simply rent merchandise, or rent it with an option to eventually own it over a period of weeks.

The concept is not new; Singer used the method to help finance sewing machines in the early 1900s, case law reveals. Consumer advocates say the industry preys upon the poor, who cannot get credit and are misled by the low weekly prices. In many cases, the cash price and the final pay-

Please see RENT Page 12

ments are not divulged, they charge.

"Would you let your mother borrow at 300 percent interest?" asked Neil Fogarty, president of the Consumer League of New Jersey. "It is really an easy trick.

They don't disclose interest.

"Consumers are told a very low payment, a weekly payment that they mistakenly think they can afford," Fogarty said. "Less than \$12 a week sounds small. They concentrate on the payment

when they decide if they can afford a credit transaction."

Sam Choate, a Washington attorney who represents the New Jersey Rental Dealers Association, countered: "We don't make exorbitant profits."

But Kathleen Keest, an attorney for the National Consumer Law Center in Boston, maintains that while traditional retail outlets operate at 4 percent profit, rent-to-own industries are showing a 7.5 percent yield.

There is one major difference between the way the two kinds of businesses operate: All retail stores are bound by a law that prohibits interest charges of more than 30 percent on any merchandise. But up until now, the rent-to-own industries — a hybrid of rental and retail — have not been subject to that law.

A bill sponsored by Assemblymen Robert J. Martin, R-Morris, and John S. Penn, R-Somerset, would legally exclude rent-to-own businesses from the Uniform Commercial Code and the 30 percent interest cap. Instead, they would require these businesses to divulge the cash price of items and the accumulated payment at the end.

"It makes me sick," said Fogarty. "Charging 100 to 300 percent interest, and they would be exempt from consumer protection law. It would be like the New Jersey Legislature putting a blessing on a scam."

16x



# PRESS BUSINESS MONDAY

Section D

Asbury Park Press

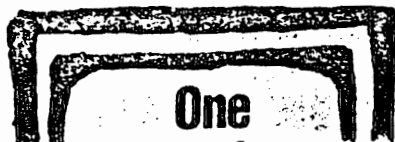
Monday, Sept. 18, 1989

## ADDING IT UP

17x  
Stores that rent home furnishings with an option to own are becoming popular, but critics claim they don't make sense for consumers.

By Robert Hordt, Page D5

This chart compares how much the same Zenith 27-inch color console television set would cost if purchased with one cash payment, on an installment credit plan, and a rent-to-own plan.



### Installment plan

\$34.57	\$34.57	\$34.57
\$34.57	\$34.57	\$34.57
\$34.57	\$34.57	\$34.57
\$34.57	\$34.57	\$34.57

### Rent-to-own

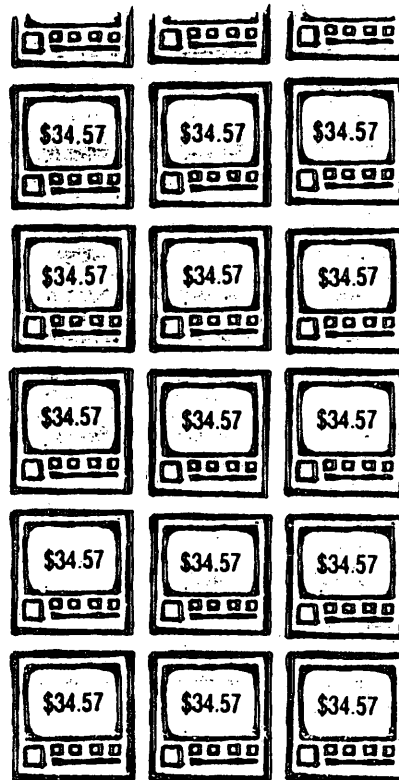
\$83.95	\$83.95	\$83.95
\$83.95	\$83.95	\$83.95
\$83.95	\$83.95	\$83.95
\$83.95	\$83.95	\$83.95

This chart compares how much the same Zenith 27-inch color console television set would cost if purchased with one cash payment, on an installment credit plan, and a rent-to-own plan.



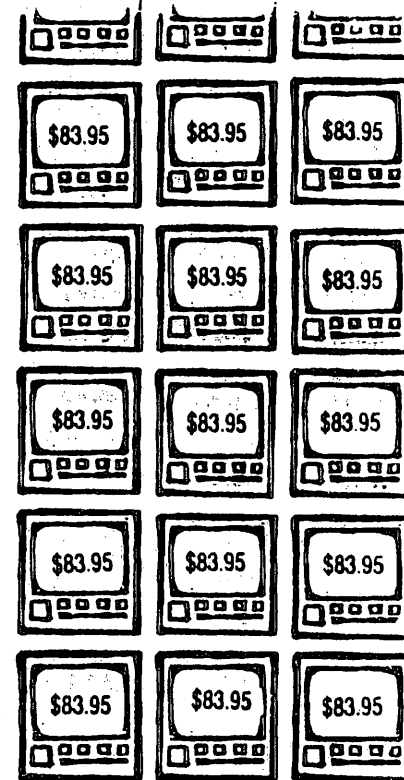
payment in full totaling  
**\$530.00**

Brick Church, Tinton Falls



18 monthly payments of \$34.57 totaling  
**\$622.26**

Avco Financial Services, Manasquan



21 monthly payments of \$83.95 totaling  
**\$1,762.95**

Vista Rent-to-own



*Ted Kraus figures the nation's retailers are in a lot worse shape than figures on consumer spending lead economists to believe. He should know. Page D6*



*Joan Camera believes Pacific Rim nations will become America's best export customers. She's staking her company on that premise. Page D7*

# Rent-to-own companies profit by skirting law

By ROBERT HORDT  
Press Business Writer

Most people wouldn't dream of paying more than \$1,700 for a television set they could buy for \$530. Yet many people across the nation, mainly poor and low-income consumers, are doing just that.

Through so-called rent-to-own stores, people are paying two to five times the purchase price for TVs, video cassette recorders, stereos, washing machines, and other appliances and home furnishings.

These rent-to-own stores — three have opened in Monmouth County in the past 18 months — operate in a gray area of the law in most states. In New Jersey, a consumer group is pushing for tougher regulation of the industry.

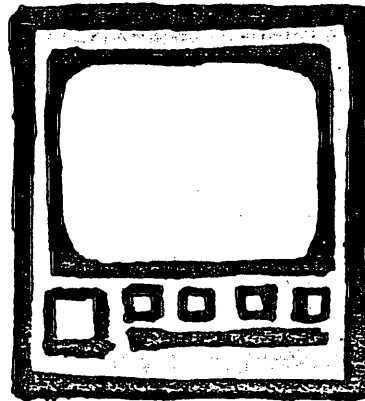
"Rent-to-own preys on poor people who don't have a credit card or enough cash to buy an appliance," explains Neil J. Fogarty, president of the Consumers League of New Jersey.

The rent-to-own industry denies that charge, claiming it gives poor and low-income consumers, who traditional retailers shun, an opportunity to buy the same merchandise most Americans enjoy.

Most rent-to-own stores operate the same way: for a weekly or monthly fee they will rent a customer new items such as TVs or appliances. As long as the customer continues to pay the rental fee, he can keep the merchandise. At the end of the rental period, usually 18 months, the consumer takes ownership of the item.

For example, at the Colortyme rent-to-own store in Asbury Park, a person could rent a Whirlpool 14-cubic-foot refrigerator for \$16.99 a week or \$67.99 a month. At the end of 18 months, he would own the refrigerator.

What disturbs consumer activists such as Fogarty, however, is that a consumer would have paid \$1,325 on



## COVER STORY

purchase, rent-to-own is costly.

Under a typical installment plan charging an annual interest rate of 21 percent, the same Whirlpool refrigerator would have cost \$616. That would have included \$96 in finance charges over an 18-month period.

Although the rent-to-own industry traces its roots back to the 1950s when the first stores opened in Wichita, Kan., its growth was slow for the first three decades. Even as of 1982, there were only about 500 stores nationwide.

But the industry expanded more quickly in the 1980s, and according to the latest estimates, there are now about 6,500 rent-to-own outlets throughout the nation, including about 100 in New Jersey.

D.J. Thomas, a spokesman for the Association of Progressive Rental Organizations, an industry trade group, calls rent-to-own a "very profitable industry." Although no industry sales figures are available, Thorn EMI, a British company, paid \$594 million in 1987 for the 100-store Rent-a-Center chain. The chain has since been expanded to 850 stores, including one in Neptune City. Stephen Bishop, manager of Vista Rent-

most other credit plans, consumers don't have that option.

Rent-to-own stores also give low-income people a chance to own or rent merchandise they normally may not have access to, according to Christopher A. Korst, a lawyer and lobbyist for the Wichita-based Rent-a-Center. Many low-income people have a bad credit history or have trouble even establishing credit, he said.

Rent-to-own stores generally don't conduct credit checks and are satisfied if you can show an income and can supply three personal references. Industry studies indicate that the typical rent-to-own customer has a median income of less than \$30,000.

"We deal with what I call the working class and lower-middle class," Korst said.

"People from the rich areas don't come in here," admits Thomas McNamara, account manager of Colortyme in Asbury Park. "They go to Sears and use their credit card."

But Fogarty of the Consumers League says rent-to-own stores charge excessive fees, and that consumers who can't get credit would be better off using a lay-away plan. Under such a plan, the merchandise is held by the retailer until a consumer can pay it off.

Many rent-to-own stores take advantage of uneducated consumers who don't realize how much the rent-to-own transaction is really costing them, Fogarty charges. He said some rent-to-own stores don't disclose the retail price of the merchandise or the total cost of the purchase option.

Fogarty thinks the rent-to-own industry should be covered under New Jersey's retail installment sales act. The only reason it isn't, he believes, is that the industry has found a loophole in the law.

In New Jersey, finance companies that extend credit in an installment sale must disclose the annual rate of interest over the payback period and cannot charge more than 30 percent annual

sion of the merchandise at the end of the rental contract.

"We can't live under that atmosphere," he said. "It's a situation we're not pleased with."

Korst defends the prices rent-to-own stores charge, claiming they reflect their cost of business and the increased risks they take. Typically, he said 4 to 5 percent of their inventory is written off each year because so many customers skip out on their payments and never return the merchandise. By comparison, retailers write off only 1 or 2 percent of

their inventory.

The rent-to-own industry has taken the offensive on regulation and several states, including Michigan, Massachusetts and New York, have laws which draw a distinction between rent-to-own agreements and installment sales contracts. However, some states impose their own interest caps on rental agreements.

A similar law was proposed by the industry for New Jersey last year, but the bill was never posted for a vote in the

See RENT, page D8

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## Rent

From page D5

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Legislature after the Consumers League mounted a last-minute campaign against it.

Fogarty is now trying to get New Jersey officials to crack down on rent-to-own stores. The New Jersey public advocate's office, like Fogarty, believes rent-to-own agreements should be governed by the retail installment sales act. The attorney general's office is now reviewing rent-to-own practices to see if the law can be applied to limit their activities.

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income consumers, who traditional retailers shun, an opportunity to buy the same merchandise most Americans enjoy.

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What disturbs consumer activists such as Fogarty, however, is that a consumer would have paid \$1,325 on the weekly plan or \$1,223 on the monthly plan. If the consumer had paid cash, he could have bought the same refrigerator at an appliance store for \$520.

Even compared to an installment

traces its roots back to the 1950s when the first stores opened in Wichita, Kan., its growth was slow for the first three decades. Even as of 1982, there were only about 500 stores nationwide.

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way plan. Under such a plan, the merchandise is held by the retailer until a consumer can pay it off.

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In New Jersey, finance companies that extend credit in an installment sale must disclose the annual rate of interest over the payback period and cannot charge more than 30 percent annual interest.

If their agreements are viewed as installment sales, as Fogarty and others believe, rent-to-own stores are charging astronomical interest. Interest rates between 100 percent and 300 percent above the retail cost of the merchandise are not uncommon, he said.

But rent-to-own representatives contend their agreements are not retail sales contracts. They claim they are renting merchandise one week or one month at a time and are renewing the contract at each interval. Korst said the industry has been upheld on this point at least six times in state courts when this issue has been raised.

However, a Delaware state court last year ruled against a rent-to-own store when it tried to repossess a set of living room furniture. The court said the store's rental agreements were, in fact, retail credit sales, and the store had to observe the state law regarding installment contracts.

In Pennsylvania last year, the rent-to-own industry suffered a severe setback when that state's legislature amended its retail installment law to specifically include rent-to-own agreements. Rent-to-own stores are now subject to the same 18 percent ceiling on interest that applies to retail credit sales in that state.

Korst said some rent-to-own stores in Pennsylvania closed after the law was passed. Rent-a-Center has kept its Pennsylvania stores open, but they no longer allow customers to take posses-

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rent-to-own stores, like Fogarty, believes rent-to-own agreements should be governed by the retail installment sales act. The attorney general's office is now reviewing rent-to-own practices to see if the law can be applied to limit their activities.

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## COSTLY PURCHASE

### Whirlpool 14-cubic foot refrigerator

	Monthly Payment	No. of Payments	Total Payments
Cash price	n/a	n/a	* \$520.00
Installment sale	\$33.92	18	** 610.56
Rent-to-own	67.99	18	*** 1,223.82

\* Home Appliance Store, Freehold; \*\* Avco Financial Services, Manasquan;  
\*\*\* Colortyme Rent-to-Own, Asbury Park

### Kenmore full-size microwave oven

	Monthly Payment	No. of Payments	Total Payments
Cash price	n/a	n/a	* \$280.00
Installment sale	\$18.26	18	** 328.68
Rent-to-own:	\$39.99	18	*** 719.82

\* Sears Roebuck & Co., Ocean Township; \*\* Avco Financial Services, Manasquan;  
\*\*\* Rent-a-Center, Neptune City

n/a = not applicable

# CONSUMERS LEAGUE OF NEW JERSEY

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## NEW YORK'S RENT TO OWN LAW ALLOWS LOANSHARK RATES

New York's law legalizing "rental purchase" agreements allows an effective interest rate of 3% per week, or 157% annual percentage rate. Three percent per week is a loanshark rate, and should not be copied in New Jersey.

### New Jersey credit sale at 30% interest:

The maximum interest rate in New Jersey is 30% APR. To buy a \$200 appliance at 30% APR interest, would cost \$4.46 per week for 52 weeks, a total of \$232.

Amount financed:	\$200
Weekly payment:	\$4.46
Total of payments:	\$232
Annual percentage rate:	30%

### New York rent to own law

New York's law on rental purchases says that the merchant may charge double the cash price of the goods. So a New York rent to own dealer may charge \$400 for a \$200 TV. Spread out over 52 weeks, that would be a weekly payment of \$7.69/week. The annual percentage rate for financing \$200 at \$7.69/week for 52 weeks is 157.62% APR.

Amount financed:	\$200
Weekly payment:	\$7.69
Total of payments:	\$400
Annual percentage rate:	157.62%

New York's law also has a loophole in which the "cash price" of the goods is defined as the price the rent to own dealer charges-- not the prevailing cash price which real merchants such as Sears are charging for the same goods. So if the NY RTO dealer inflated the "cash price" of a \$200 item to \$400, then he could charge \$800 and collect 300%APR.

The only solution which protects the consumer is that RTO contracts must be properly included as retail installment sales. Rent to own can conceal unconscionable rates in the credit math.

21x





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