

Lesson 9: To Rent-to-Own or Not to Rent-to-Own?

Standards and Benchmarks (see page C-61)

Lesson Description

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

Grade Level

6-12

Concepts

Annual percentage rate (APR)

Contract

Elements of a contract

Rent-to-own contract

Objectives

Students will

- define contract and annual percentage rate (APR),
 - explain the elements of a contract,
 - evaluate the terms and costs of a rent-to-own contract, and
 - compare rent-to-own costs with outright purchases.
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Time Required

60 minutes

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Materials

- Visual 9.1
 - Handouts 9.1, 9.2, and 9.3, one copy of each for each student
 - Handout 9.2—Answer Key for the teacher
 - Handout 9.4, one copy for each student (optional)
 - Handout 9.4—Answer Key for the teacher
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Procedure

1. Explain that a **contract** is an exchange, promise, or agreement between two parties that is enforceable by law. Ask the following:
 - What are examples of contracts you have heard about? (*Answers will vary but may include contracts between professional athletes and team owners, union workers and management, or cell phone users and providers.*)
2. Distribute *Handout 9.1: Key Elements of a Contract* and ask for student volunteers to read each element aloud.
3. Discuss the following:
 - What consideration might a professional athlete give a team owner? (*Answers will vary but may include how long he or she will play for the team or the minimum level of performance the player will provide.*)
 - What consideration might a team owner give a professional athlete? (*Answers will vary but may include a salary, the guaranteed length of the contract, or performance bonuses.*)
 - Describe some conditions of a contract you might have with your parents to mow the lawn every two weeks. (*Answers will vary but may include how much you will be paid, the day or time the lawn must be mowed, or additional tasks required [for example, edging or sweeping].*)
 - What conditions might make a contract void? (*One of the parties is mentally impaired and does not understand the conditions of the contract, one of the parties is a minor, or the contract involves an illegal act.*)
4. Explain that consumers may enter into a contract with a business when they make a purchase. Discuss the following:
 - Have you seen or heard advertisements for rent-to-own stores? (*Answers will vary.*)
 - What types of products do rent-to-own ads usually offer? (*Answers will vary but may include furniture, appliances, or televisions.*)

5. Display *Visual 9.1: Rent-to-Own Contract Facts* and review (as follows):

A lease is a legal contract that outlines the terms under which one party agrees to rent property from another party. A **rent-to-own contract** is a basic lease contract with the option to purchase the good leased and generally adheres to the following terms:

 - No down payment or credit check is required.
 - A consumer (renter) can get immediate delivery of new furniture, appliances, or other goods.
 - The merchandise may be rented by the week or month.
 - The consumer owns the merchandise after all payments have been made.
 - If the merchandise is kept for a minimum amount of time, there is no penalty charged for returning it.
 - If a payment is missed, the consumer must return the merchandise—that is, it will be repossessed—and will receive nothing in return for the payments made (except the benefit of having used the merchandise).
6. Explain that if people want to use furniture or appliances for just a few weeks or months, renting may be a good choice. On the other hand, if their goal is to own the merchandise, purchasing it outright most likely will cost less. Tell the students that about 75 percent of customers return a rental item within the first four months, and fewer than 25 percent of customers actually rent long enough to own the item.
7. Point out that a rent-to-own contract is not written as a loan; therefore, annual percentage rates (APRs) are not disclosed, and financial disclosure laws do not always apply to rent-to-own contracts. An **annual percentage rate (APR)** is the percentage cost of credit on an annual basis. (Note: For a more detailed explanation of APR, see Unit C, Lesson 8.) APR may differ from the stated interest rate of a loan because it is the total cost of credit to the consumer—it includes all fees and any other upfront charges in addition to the stated interest rate. Therefore, because an APR includes the real cost of credit, comparing the APRs of different loan options can help consumers make better-informed choices.
8. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit to get immediate use of expensive merchandise without providing a down payment. In addition, these contracts allow consumers to try something before buying it.
9. Remind the students that the three **key elements of a contract** are competent parties, consideration, and mutual agreement. Discuss the following:
 - How does the requirement of competent parties factor into a rent-to-own contract? (*The individuals involved must understand the conditions of the contract. The store may not initiate a contract with someone who is mentally impaired or a minor.*)

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- What considerations are given by each party—the store and the renter—in a rent-to-own contract? (*The renter agrees to make payments to the store. The store agrees to provide merchandise. The renter agrees that the merchandise may be repossessed by the store if the renter fails to make a payment. The store agrees that the renter may return the merchandise without penalty after a specified amount of time.*)
 - How is mutual agreement established in a rent-to-own contract? (*The store provides a written contract.*) Point out that it is the responsibility of the renter to read the contract carefully to understand the terms before signing the contract.
10. Explain that when consumers consider a rent-to-own contract, before making a decision it is important to compute the total cost of the contract and compare it with the cost of purchasing the good outright. Distribute a copy of *Handout 9.2: Rent-to-Own Costs vs. Retail Prices* to each student. Divide the class into groups of three. Have the students fill in the blanks on the chart. Tell the groups that they will be sharing their answers with the class and that each group should appoint a spokesperson.
11. Review Handout 9.2 by asking the spokespersons to provide the answers. (Answers are provided on Handout 9.2—Answer Key.)
12. Discuss the following:
- How is the total cost of a rent-to-own contract computed? (*The monthly payment amount is multiplied by the number of payments.*) (Note: Any fees are included in the monthly payment.)
 - Which column has the higher final costs—the rent-to-own cost column or the retail price column? (*The rent-to-own cost column*)
 - When might purchasing merchandise, such as furniture or an appliance, with a rent-to-own contract be beneficial to purchasing it outright? (*It may be beneficial to choose a rent-to-own contract if you want the merchandise for a only short time or you want to try it before you purchase it.*)
 - What are the drawbacks of purchasing with a rent-to-own contract? (*Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you will lose the merchandise rented.*)
 - Do the differences between the retail prices and the rent-to-own costs on Handout 9.2 seem significant to you? (*Answers will vary.*)
 - What do you notice about the differences between the retail prices and the rent-to-own costs? (*The rent-to-own costs are from 80 percent [chrome car wheel and laptop] to 368 percent [gaming system] more than the retail prices.*)
 - Why are rent-to-own costs higher? (*Rent-to-own stores incur the risk of loss or damage to the merchandise and must repair or replace damaged merchandise. If*

renters fail to make payments, rent-to-own stores incur the costs of repossessing the merchandise.)

Closure

13. Review the key points of the lesson by asking the following:
- What is a contract? *(An exchange, promise, or agreement between two parties that is enforceable by law)*
 - What are the key elements of a contract? *(Competent parties, consideration, and mutual agreement)*
 - What is a rent-to-own contract? *(A basic lease contract with the option to purchase the item leased)*
 - Why is purchasing merchandise with a rent-to-own contract usually more expensive than buying it outright? *(Rent-to-own contracts charge fees and interest. Rent-to-own stores incur the risk of repossessing the merchandise and repairing or replacing the merchandise.)*
 - What are the disadvantages of a rent-to-own contract? *(Purchasing merchandise with a rent-to-own contract usually costs more than purchasing it outright because of the fees and interest charged. Financial disclosure laws do not always apply to rent-to-own contracts. No matter how many payments you have made, if you miss a payment, you will lose the merchandise.)*
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Assessment

14. Distribute a copy of *Handout 9.3: Assessment* to each student. Instruct the students to read the scenario and answer the questions.

Handout 9.3—Answer Key

- a. How much money did José save by buying the television using an installment loan? $(\$1,080 - \$558.72 = \$521.28)$
 - b. What are the advantages of José's choice? *(Answers will vary but may include that he saved money on his purchase and will pay off the loan in 12 months rather than 72 months.)* Point out that José also gathered information about the payments and recognized that he could lose the television and money if he missed a payment.
 - c. If you were José, what would you do with the money you saved? *(Answers will vary but may include purchasing other things, depositing the savings into a savings account, purchasing a savings bond, or paying off another bill.)*
15. As an optional assessment, distribute *Handout 9.4: Figuring Percentages*. Instruct students to follow the directions and the example on the handout to complete the chart. Use *Handout 9.4: Figuring Percentages—Answer Key* to check students' work.
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Visual 9.1: Rent-to-Own Contract Facts

A lease is a legal contract that outlines the terms under which one party agrees to rent property from another party. A rent-to-own contract is a basic lease contract with the option to purchase the good leased and generally adheres to the following terms:

- No down payment or credit check is required.
- A consumer (renter) can get immediate delivery of new furniture, appliances, or other goods.
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- The consumer owns the merchandise after all payments have been made.
- If the merchandise is kept for a minimum amount of time, there is no penalty charged for returning it.
- If a payment is missed, the consumer must return the merchandise—that is, it will be repossessed—and will receive nothing in return for the payments made (except the benefit of having used the merchandise).

Handout 9.1: Key Elements of a Contract

Competent parties

The individuals involved in a contract must be competent parties able to understand the conditions of the contract—that is, what they are agreeing to. For example, a mentally impaired person (for example, from drugs or illness) might not understand the conditions of the contract, and it is unlikely that a court would hold such a person to the contract. Generally, minors (usually those under age 18) may not enter into a binding contract without parental consent unless it is for necessities of life (for example, food or clothing) or a student loan.

Consideration

Consideration is what is exchanged in a contract and is the reason for the contract—one party gives something up and the other party provides something. Money is the most common consideration. Other examples of consideration include property, goods, and a promise to do or not to do something. Agreeing to perform an illegal act is not a valid consideration, and any contract that includes such an agreement would be void.

Mutual agreement

Mutual agreement is when both parties in a contract agree to the essential details, rights, and obligations of the contract. Mutual agreement may be given in writing or verbally.

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Handout 9.2: Rent-to-Own Costs vs. Retail Prices

Directions: Calculate the missing information in the chart.

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference
50" Plasma TV	\$279.99 per month for 12 months		\$1,449.50	\$1,910.38
Gaming system bundle	_____ per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome car wheel	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	
Laptop computer	\$149.99 per month for 12 months	\$1,799.88		\$799.95
Refrigerator	\$139.99 per month for 12 months		\$799.99	
Smooth-top, self-cleaning range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	
Electric guitar	\$60.75 per month for 12 months		\$405.00	

Handout 9.2: Rent-to-Own Costs vs. Retail Prices—Answer Key

Directions: Calculate the missing information in the chart.

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference
50" Plasma TV	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38
Gaming system bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome car wheel	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26
Laptop computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95
Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89
Smooth-top, self-cleaning range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89
Electric guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00

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Handout 9.4: Figuring Percentages

Directions: For each item in the chart below, determine the rent-to-own cost as a percentage of the retail price as follows:

1. Divide the difference between the two prices by the retail price.
2. Move the decimal two places to the right to change the answer from a decimal to a percentage.
3. Round to the nearest hundredth (two decimal places).

The first answer is provided for you and was computed as follows:
 $\$1,910.38/\$1,449.50 = 132\%$

Merchandise description	Rent-to-own payments	Rent-to-own cost	Retail price	Difference	Difference divided by retail price
50" Plasma TV	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38	132%
Gaming system bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	
22" Chrome car wheel	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	
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Handout 9.4: Figuring Percentages—Answer Key

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Gaming system bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	368%
22" Chrome car wheel	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	80%
Laptop computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95	80%
Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89	110%
Smooth-top, self-cleaning range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89	120%
Electric guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00	80%

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Standards and Benchmarks

National Standards in K-12 Personal Finance

Financial Responsibility and Decision Making Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.

Standard 1: Take responsibility for personal financial decisions.

- **Expectation 2, 8th Grade:** Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

- **Expectation 3, 8th Grade:** Evaluate the results of a financial decision.
- **Expectation 6, 12th Grade:** Give examples of how decisions made today can affect future opportunities.

Standard 5: Develop communication strategies for discussing financial issues.

- **Expectation 3, 12th Grade:** Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History and Social Studies

- **Key Ideas and Details**
CCSS.ELA-Literacy.RH.6-8.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary of the source distinct from prior knowledge or opinions.
- **Craft and Structure**
CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.
- **Integration of Knowledge and Ideas**
CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

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