Lesson 9:

To Rent-to-Own or Not to Rent-to-Own?

Standards and Benchmarks (see page 9.11)

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

Compelling Question

Why don't rent-to-own stores provide consumers with annual percentage rates (APRs)?

Objectives

Students will be able to

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

Time Required

60 minutes

Materials

- PowerPoint slide deck for "It's Your Paycheck! Lesson 9: To Rent-to-Own or Not to Rent-to-Own"
- Handouts 9.1 and 9.2, one copy of each for each student
- Handout 9.2 Answer Key, one copy for the teacher
- Handout 9.3, one copy for each student (optional)
- Handout 9.3 Answer Key, one copy for the teacher

Procedure

1. Display Slide 2 and 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. Display Slide 3 and 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.*)

3. Display Slides 4-5 and discuss the following.

    A **rent-to-own contract** is a rental contract that includes an option to purchase. It 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 is legally entitled to have the merchandise as long as payments are being made as outlined in the contract. After the final payment is made and the contract is fulfilled the merchandise belongs to the consumer.
    - If the merchandise is kept for a minimum amount of time, there is probably no penalty charged for returning it.
    - If a payment is missed, the consumer may be able to make a late payment that likely includes a late-payment fee. However, it may also be the case that the store will demand

return of the merchandise and arrange for its immediate repossession. The consumer will receive nothing in return for the payments made (except the benefit of having used the merchandise).

4. 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 from a retail store 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.

5. Display Slide 6 and point out that a rent-to-own contract is not written as a loan; therefore no federal laws protect the consumer. As a result, annual percentage rates (APRs) are not disclosed. An **annual percentage rate (APR)** is the percentage cost of credit on an annual basis. (NOTE: For a more detailed explanation of APR, see 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.

6. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit history or low credit scores to get immediate use of expensive merchandise without providing a down payment. In addition, these contracts allow consumers to try something before buying it.

7. Display Slide 7 and tell the students that the five **key elements of a contract** are offer, acceptance, competent parties, consideration, and mutual agreement.

8. Display Slides 8-12 and discuss the following:
   - How does the requirement of an offer factor into a rent-to-own contract? (*The rent-to-own company is making an offer to the consumer. The offer includes renting an item with the option to purchase it in the future.*)
   - How does the requirement of acceptance factor into a rent-to-own contract? (*Acceptance occurs as the consumer agrees to the terms of the contract by giving consideration.*)
   - 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.*)
   - What considerations are given by each party—the store and the renter—in a rent-to-own contract? (*The renter agrees to make timely payments and to return the item to the store in good condition if not purchased outright. 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 and both parties add their signature.*) Point out that it is the responsibility of the renter to read the contract carefully to understand the terms before signing the contract.

9. 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. Display Slide 13 and distribute a copy of *Handout 9.1: 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.

10. Review Handout 9.1 by asking the spokespersons to provide the answers. (*Answers are provided on Slide 14.*)

11. Display Slides 15-19 and 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 relative to purchasing it outright? (*It may be beneficial to choose a rent-to-own contract if you want the merchandise for only a short time or 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 probably will lose the merchandise rented.*)
    - Do the differences between the retail prices and the rent-to-own costs on Handout 9.1 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 wheels 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

12. Display Slides 20-22 and 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? (*Offer, acceptance, competent parties, consideration, and mutual agreement*)
    - What is a rent-to-own contract? (*A rental contract with the option to purchase the merchandise*)
    - 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.)*

Assessment

13. Distribute a copy of *Handout 9.2: Assessment* to each student. Instruct the students to read the scenario and answer the questions. Use *Handout 9.2: Assessment—Answer Key* to review the answers.

14. As an optional assessment, distribute *Handout 9.3: Figuring Percentages*. Instruct students to follow the directions and the example on the handout to complete the chart. Use *Handout 9.3: Figuring Percentages—Answer Key* to check students' work.

Handout 9.1: Rent-to-Own Costs vs. Retail Prices

Directions: Calculate the missing information in the chart.

Merchandise description	Rent-to-own payments	Rent-to-own costs	Retail price	Difference
50" Smart 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 wheels	$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: Assessment

Directions: Read the scenarios below and answer the questions.

José is trying to decide whether to purchase a new TV with a rent-to-own contract or an installment loan. Primo Electronics has the TV he wants for $500. José can get a one-year installment loan from the store at a 21 percent interest rate. An advertisement for the nearby rent-to-own store says it has the same model available for $15 a week. José heads to the rent-to-own store for more information. The assistant manager tells José that he could own the television in 72 weeks.

a. What are some important things José should know about a rent-to-own contract?

José multiplies $15 × 72 to see what the rent-to-own option will cost. The total is $1,080.

The manager tells José that if he misses one payment, the rent-to-own store will take back the TV. José calculates that if he makes 50 payments on time (50 × $15), he will have spent a total of $750 up to that point. If he misses the next payment, though, he realizes he would lose the TV and be out the $750.

José decides to purchase the TV from Primo Electronics instead. He obtains a one-year installment loan with a 21 percent interest rate. His monthly payments will be $46.56, totaling $558.72 for the life of the loan.

b. How much money did José save by buying the television using an installment loan?

c. What are the advantages of José's choice? Explain your answer.

d. If you were José, what would you do with the money you saved?

Handout 9.2: Assessment—Answer Key

Directions: Read the scenarios below and answer the questions.

José is trying to decide whether to purchase a new TV with a rent-to-own contract or an installment loan. Primo Electronics has the TV he wants for $500. José can get a one-year installment loan from the store at a 21 percent interest rate. An advertisement for the nearby rent-to-own store says it has the same model available for $15 a week. José heads to the rent-to-own store for more information. The assistant manager tells José that he could own the television in 72 weeks.

a. What are some important things José should know about a rent-to-own contract?

The rent-to-own company is making an offer about the television. José has the opportunity to accept the offer. The offer includes component parties; both José and the rent-to-own store are competent parties. They understand the conditions of the contract. There are also considerations in the contract. These are things that the parties are exchanging. In this case, José makes a payment each month; he is exchanging money. The rent-to-own company allows José to use the television and gives him the chance to purchase the television over a period of time. Mutual agreement is an element of the contract that means both parties agree to the terms of the contract.

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José decides to purchase the TV from Primo Electronics instead. He obtains a one-year installment loan with a 21 percent interest rate. His monthly payments will be $46.56, totaling $558.72 for the life of the loan.

b. How much money did José save by buying the television using an installment loan?

$1,080 – $558.72 = $521.28

c. What are the advantages of José's choice? Explain your answer.

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.)

d. 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.

Handout 9.3: 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 costs	Retail price	Difference	Difference divided by retail price
50" Smart TV	$279.99 per month for 12 months	$3,359.88	$1,449.50	$1,910.38	132%
Gaming sys-tem bundle	$ 97.50 per month for 12 months	$1,170.00	$250.00	$920.00	
22" Chrome car wheels	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	
Laptop com-puter	$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	

Handout 9.3: Figuring Percentages—Answer Key

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%

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Gaming sys-tem bundle	$ 97.50 per month for 12 months	$1,170.00	$250.00	$920.00	*368%*
22" Chrome car wheels	$266.48 per month for 12 months	$3,197.76	$1,776.50	$1,421.26	*80%*
Laptop com-puter	$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%*

Standards and Benchmarks

National Standards for Personal Finance Education

Standard V. Managing Credit

- **Benchmarks: Grade 8**

  2. Financial institutions advertise loan costs to potential borrowers using the Annual Percentage Rate (APR), expressed as an annual percentage of the loan principal. Low introductory rates offered to attract customers may increase later.

- **Benchmarks: Grade 12**

  1. Borrowers can compare the cost of credit using the Annual Percentage Rate (APR) and other terms in the loan or credit card contract.

  13. Alternative financial services, such as payday loans, checkcashing services, pawnshops, and instant tax refunds, provide easy access to credit, often at relatively high cost.