



## “Rent-to-Own” Can Mean Moans and Groans

Chances are there’s a rent-to-own store or dealer near you. Such stores rent furniture, appliances, home electronics and jewelry, typically without a down payment or credit check required (a popular marketing ploy). Consumers make weekly or monthly payments, and can return the merchandise at any time without further obligation. You obtain ownership of the merchandise if you continue payments for a specified period of time, usually 12 to 24 months.

According to the website [www.responsiblelending.org](http://www.responsiblelending.org), a typical rent-to-own contract is for two years, with 104 weekly payments. But the important thing to keep in mind is that the total cost of purchasing merchandise through a rent-to-own transaction is usually much higher than retail store prices.

For example, let’s say a rent-to-own center offers a desktop computer for \$800, for which the renter pays \$32.99 per week for the next two years. At the end of that time, however, the actual cost of the computer is \$3,430.96. If the renter is unable to make a payment, the store picks up the computer and the renter must start all over if they want to rent-to-own the computer again.

To put this in perspective, if the same computer was purchased with a credit card, what would the total cost be?

Using a credit card with an interest rate of 18% and the same payment of \$131.96 per month ( $\$32.99 \times 4 = \$131.96$ ), the computer would be paid for in seven months at a total cost of \$846. Even better is

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## To Rent, or Not to Rent; that is the Question

It’s an all too common experience—we spot a new plasma screen television, sleek laptop computer, or luxury leather sofa and think we simply must have it. But after mulling it over we come to our senses and realize it’s a want, not a need. But then we think: Aha! What about rent to own? Well, let’s be honest. While renting certain items makes sense, renting to own other things can become a dangerous and financially debilitating trap. This issue of Dollars & Sense equips you with insightful information to help you make wise, prudent choices when it comes to renting. ■

### Don't Fall Victim to Rental Fraud

As mentioned earlier, for some people, buying their home makes the most sense, while for others, renting is best. When you buy a home, you build equity and get to write off your mortgage interest come tax time.

But that doesn't mean that everyone should be a homeowner. If you know you'll only be in the home a short time, or if interest rates are high and property values are slipping, it may be worthwhile to deal with a landlord for a while.

However, the Commercial Crimes Bureau of the Los Angeles County Sheriff's Department cautions people to be on the alert for rental fraud scams.

Rental fraud scams involve the rental of homes that the scammer or con

artist does not own. The scammer locates a vacant or abandoned house that may be in foreclosure, or it may be a vacation home not in use.

The scammer enters the house, changes the locks and advertises the property for rent, usually well below the market rental rate. An unsuspecting tenant pays a security deposit along with first and last month's rent and moves in. Rent is collected and pocketed by the rental fraud perpetrator. The true owner and lender do not receive a dime. When the fraud is discovered, the tenant is evicted, losing his or her security and rental deposits.

Some crooks are so bold that they will rent a piece of property to several different tenants, collecting advance



rents and deposits and then vanish. In a creative twist to this fraud, some scammers claim that they hold legal title to the property under the old law of "adverse possession".

Also, be alert for possible rental fraud when utilities are held in the name of a third person, or when the landlord insists that the rent be collected in person without a receipt. Also be wary if legal notices are mailed or posted on the property and the landlord tells you simply to ignore them. ■

### Renting vs. Buying—The Pros and Cons

No doubt about it, renting offers you more flexibility than home ownership. If you need to, you can pick up and move easily and frequently. If you own a home you're more tied down to the property. And if you need to move, you have to go through the process of putting your home up for sale. On the other hand, having your own home means you can paint it the way you want to, landscape the yard to your liking, plus home ownership may provide a greater sense of place and help you establish roots in a neighborhood or community.

If you rent a home and something breaks like a water heater, refrigerator or dishwasher, typically you notify the landlord of the problem and the item gets fixed or replaced. As a homeowner, if an appliance or other item breaks down and can't be repaired, you end up having to buy a new one. For example, a new refrigerator can cost thousands.

Many people feel that because renting a home doesn't enable you to build up equity, you're just helping make someone else richer with your rent money. Plus you don't get to deduct the mortgage interest on your income taxes. On the other hand, when you own a home, some of your money goes towards homeowner's association dues, condo fees, and property taxes that never go towards your home ownership.

And what about home-related insurance? Renters face the same risk as homeowners in cases of disasters striking their dwelling. The landlord or condo association may have insurance, but it only protects the building, not your things in it. Renter's insurance is typically much cheaper than homeowners insurance and can protect your belongings in case of disaster.

Remember, everyone's needs and circumstances are different. Only you can determine whether renting a home or buying one makes sense. And in the future your needs may change. The key is gathering all the helpful information that will help you make the decision that best suits your needs. ■

# Five Things You Should Never Rent

Writing for MSNMoney.com (May 22, 2008), popular financial columnist Liz Pulliam Weston says renting a home makes more sense than buying one if you plan to move within a couple of years. And renting a car occasionally can make more sense than owning one if you live in an urban area with good public transportation. But at other times, and for certain things, renting is a huge financial trap. The seemingly low payments mask the fact that you're paying more and getting less than if you'd purchased the item outright. Weston lists the following five situations where renting is absolutely the wrong idea.

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**Wheel rims.** Perhaps it's the influence of shows like MTV's "Pimp My Ride" or an American car culture that's lost its moral compass, but flashy chrome wheels are all the rage these days, and they're also expensive, typically costing \$1,000 and up for a set. Not surprisingly, rent-to-own stores offering rims and tires have sprung up, beckoning to those with expensive tastes and bad credit.

For example, Weston says at one store in Van Nuys, California, you can pay the cash price of \$1,612 for a set of VCT Grissini wheels, or you can pay \$62 a week for a year—and pay for them twice (\$62 x 52 weeks = \$3,224). "Honestly, if you fall for this scheme, you deserve to stay broke," Weston says. "If you really must have the baddest wheels, you can save up for them in six months (or less, since you're likely to find a better deal if you shop around)."

**Furniture.** While on the topic of going broke, Weston says you'll get there even faster and stay there longer if you fall for rent-to-own furniture. At a rent-to-own store in North Hollywood, California, you can rent an overstuffed Klaussner couch, love seat and coffee table for \$44.99 a week for 83 weeks, which works out to about \$2,000 more than the \$1,657 the set would cost if you paid cash.

**Computers.** According to Weston, if you own a small business, leasing computers can make sense. You protect capital and can upgrade to more powerful computers more often. But as a consumer, renting a computer is usually a lousy idea, especially if you're renting to own. Since there's typically no credit check, you get the worst possible terms on an overpriced computer. At the Van Nuys rent-to-own store mentioned earlier, a mid-range Dell computer rents for \$39.99 a week for 62 weeks, or a total of \$2,479. (The cash price is \$1,100.)

**Televisions.** Toshiba offers a 50-inch Toshiba TV for around \$1,200, sometimes less. At some rent-to-own locations, the cash price is \$1,800. Or you can pay \$34.99 a week for 116 weeks, or more than \$4,000, for the item.

It doesn't take long to realize how foolish and crazy the rent-to-own approach truly is. Weston says there's no excuse for such purchasing behavior. So what are some alternatives? Well, when it comes to computers for example, consider Craigslist.com. It's a centralized network of online communities, featuring free classified advertisements. Check with friends who are upgrading to see whether you can buy their old units. Or check out eMachines, which specializes in low-cost computers. A brand-new desktop with monitor costs as little as \$480. You could save \$40 a week for 12 weeks and own it outright.

## Buying or Renting a Home—What Makes the Most Sense?

"Hmmm. Let's see. Should I rent a home or buy one?" It's a question people ask themselves all the time. And the answer is—it all depends. Everyone's situation is different, and there are a lot of factors involved in making such a decision. Perhaps you don't have enough money for a down payment to purchase a home. Maybe you're finishing school and anticipate moving out of state within the next year. Or maybe you simply don't want to be tied to the responsibility of a home mortgage and home ownership.

On the other hand, perhaps you don't like the idea of living in a place that "isn't really yours." Or maybe you feel that home ownership will prove to be one of your very best long-term investments, providing equity for future needs.

It is important to review all of the pros and cons of renting vs. buying as you contemplate such a decision. Some ideas are listed in the shaded section on page 2. ■

**Your paycheck.** If you fall into the clutches of a payday lender, your paycheck is no longer your own. These places work by lending you cash for a fee. The fee may not seem like much—\$45 to cash a \$300 check that you could pay back when you receive your regular paycheck—but they also charge daily interest on the loan. At most payday lenders it works out to annual interest rates of over 400%!

If you can't pay back the loan when payday comes around, another fee is added. Fall into this trap, and it's hard, sometimes impossible, to climb back out again. ■





## When Renting Is the Way to Go

As a follow up article to “Five Things You Should Never Rent”, sometimes renting is the smart option. Consumer finance columnist Liz Pulliam Weston writing for MSNMoney.com (May 22, 2008) offers these insights:

**Pickup trucks.** Unless you’re a rancher, cowboy, or construction worker, you should think twice about how often you would actually use a truck bed to haul things. Let’s face it, if you really only need a pickup a few times a year, rent one and buy a car that gets decent gas mileage instead.

**Anything you use once a year or less.** Items you use infrequently like

a floor buffer, lawn aerator, power washer, or really expensive power tools make more sense to rent. Let’s say you use a tool or appliance more often than once a year, but still infrequently. You may want to consider sharing or swapping with a neighbor. You could buy a carpet steamer together, or you could get the steamer and your neighbor could get the sewing machine you’ll use once or twice a year.

**DVDs.** Unless you repeatedly watch the same movies over and over, it makes more sense to rent. Take Netflix for example. You can rent as many DVDs as you want and watch movies instantly on your PC for one

low price. There are no late fees and no due dates, and DVD shipping is free both ways.

**The next car you plan to buy.** Here’s a novel idea. Of course, it won’t always work because America’s car rental agencies don’t stock every conceivable car. But there’s no better way to get the feel for a vehicle than to drive it around for a few days without a high pressure salesman putting the screws on you to close the deal. ■

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## “Rent-to-Own” Can Mean Moans and Groans *(continued from page 1)*

saving up the money and paying for the computer in cash, avoiding interest charges altogether.

Remember that rent-to-own lending practices are often predatory and should be avoided as much as possible. Predatory lenders exist because individuals become stressed about their financial situations and end up making poor choices. The better alternative is to first distinguish between wants and true needs, understand the true cost of credit on purchases made at rent-to-own centers, and have the discipline to patiently set money aside for big ticket items and purchase them with cash. ■

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