

### 3.3 Demographic Profile of Rent-to-Own Customers

The significant differences in the use of rent-to-own transactions by different demographic groups are reflected in the demographic profile of rent-to-own customers. Table 3.3 presents the demographic profile of rent-to-own customers, both for customers using rent-to-own transactions in the last year and those using rent-to-own transactions in the last five years.<sup>66</sup> The table also presents the demographic profile of respondents not using rent-to-own transactions in each of these time periods.<sup>67</sup>

Rent-to-own customers differed significantly from non-customers in a wide variety of demographic categories. Many of the differences between rent-to-own customers and non-customers were quite large and statistically significant.<sup>68</sup>

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<sup>65</sup> (...continued)

area but outside of the central cities. The "non-metropolitan" category consists of counties outside of metropolitan areas.

<sup>66</sup> As was noted in the previous section, the last-year results are likely to provide a more accurate picture of the demographic profile of rent-to-own customers than are the five-year results, because the demographic characteristics of some earlier customers may have changed since the time they used rent-to-own transactions. The results presented in the text of this section focus on customers using rent-to-own transactions in the last year, but the five-year results generally show similar patterns.

<sup>67</sup> "Non-customers" includes all respondents who had not used rent-to-own transactions in the given time period. Thus, non-customers in the last-year data includes all respondents who had not used rent-to-own transactions in the last year, though some may have done so in the last five years.

<sup>68</sup> T-tests were used to test the significance of the difference between rent-to-own customers and non-customers in each demographic category. The results of these tests are presented in Table 3.3. Tests of independence of classification also were done for each demographic variable, comparing the demographic distribution of rent-to-own customers to the demographic distribution of non-customers, using a Pearson chi-square statistic corrected for the survey design using a Rao and Scott second-order correction and converted to an F-statistic (Rao and Scott, 1981, 1984). These tests showed highly significant differences (at the one percent level of significance) between the demographic distributions of rent-to-own customers and non-customers for all demographic variables (with the exception that the distributions were not significantly different for sex in the last-year data, and were significantly different at only the 5.5 percent level for both sex in the five-year data and metropolitan status in the last-year data).

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Compared to survey respondents who had not used rent-to-own transactions, rent-to-own customers were more likely to be African American, younger, less educated, lower income, have children in the household, rent their residence, live in the South, and live in non-suburban areas.

*Sex.* Forty-four percent of rent-to-own customers were male and 56 percent were female.<sup>69</sup> These percentages were not significantly different from the percentages for non-customers. Sex was the only demographic variable not showing significant differences between rent-to-own customers and non-customers.

*Race / Ethnicity.* Thirty-one percent of rent-to-own customers who had used rent-to-own transactions in the last year were African American (compared to 11 percent of non-customers).<sup>70</sup> Forty-one percent of customers were minority (compared to 22 percent of non-customers, though the percentages for Hispanic and Native Americans were not significantly different from the percentages for non-customers). Fifty-seven percent of rent-to-own customers were white (compared to 75 percent of non-customers).

*Age.* Most rent-to-own customers were relatively young. Fifty-one percent were between the ages of 18 and 34 (compared to 30 percent of non-customers), and 79 percent were between the ages of 18 and 44 (compared to 52 percent of non-customers). Only four and a half percent of rent-to-own customers were 55 or older (compared to 30 percent of non-customers).

*Education.* Most rent-to-own customers had a relatively low education level. Thirty-seven percent had less than a high school education (compared to 18 percent of non-customers), and 73 percent had no more than a high school education (compared to 49 percent of non-customers). Only 23 percent of rent-to-own customers had at least some college or higher level of education (compared to 48 percent of non-customers), and only 8 percent had graduated college or higher (compared to 27 percent of non-customers).

*Income.* Most rent-to-own customers had relatively low household incomes. Twenty-five percent had annual household incomes less than \$15,000 (compared to 15 percent of non-customers), 59 percent had household incomes less than \$25,000 (compared to 31 percent of non-customers), and 81 percent had household incomes less than \$40,000 (compared to 50 percent of non-customers). Only 14 percent of rent-to-own customers had household incomes of

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<sup>69</sup> Most of the percentages presented in the text of this and later sections of the report are rounded to the nearest whole percentage, while the tables present the more detailed percentages.

<sup>70</sup> Except where noted, all of the percentages for demographic characteristics of rent-to-own customers presented in the text of this section were significantly different from the corresponding percentage for non-customers.

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\$40,000 or more (compared to 35 percent of non-customers), and only six percent had household incomes of \$50,000 or more (compared to 25 percent of non-customers).

*Employment.* Most rent-to-own customers were employed. Sixty-eight percent were employed either full or part-time (and this was not significantly different from the percentage for non-customers). Only about three percent of customers were students, and only nine percent homemakers (these percentages also were not significantly different from the percentages for non-customers). Nine percent of rent-to-own customers were temporarily unemployed (compared to four percent of non-customers), and six percent were disabled or handicapped (compared to three percent of non-customers). Only about two and a half percent of rent-to-own customers were retired (compared to 21 percent of non-customers).

*Marital status.* Forty-seven percent of rent-to-own customers were married, 22 percent were single, and nine percent divorced (and none of these percentages were significantly different from the percentages for non-customers). Eleven percent of customers were single and living with a partner (compared to five percent of non-customers), seven percent were separated (compared to two percent of non-customers), and four percent were widowed (compared to ten percent of non-customers).

*Children.* Most rent-to-own customers had children living in the household. Sixty-seven percent had at least one child living in the household (compared to 37 percent of non-customers), 44 percent had two or more children (compared to 22 percent of non-customers), and 26 percent had three or more (compared to eight percent of non-customers).

*Home ownership.* Most rent-to-own customers rented rather than owned their residence. Sixty-two percent rented their residence (compared to 30 percent of non-customers), and only 35 percent owned their residence (compared to 69 percent of non-customers).

*Region.* Fifty-three percent of rent-to-own customers lived in the South (compared to 35 percent of non-customers), and 78 percent lived in either the South or Midwest (compared to 59 percent of non-customers, though the percentage of customers in the Midwest was not significantly different from the percentage for non-customers). Only 13 percent of customers lived in the Northeast (compared to 20 percent of non-customers), and only ten percent lived in the West (compared to 21 percent of non-customers).

*Metropolitan status.* Most rent-to-own customers lived in non-suburban areas. Forty-three percent lived in the central cities of metropolitan areas (compared to 35 percent of non-customers) and 24 percent lived in non-metropolitan areas (compared to 20 percent of non-

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customers). Only thirty-two percent of customers lived in suburban areas (compared to 45 percent of non-customers).<sup>71</sup>

A summary of some of the demographic characteristics of rent-to-own customers is presented in Table 3.4.

#### *3.4 Customer Ownership of Vehicles, Credit Cards, and Bank Accounts*

The FTC staff survey found that most rent-to-own customers had a car or truck and most had some type of credit card or bank account. The survey asked customers whether they or anyone in their household had a car or truck, credit card, savings account, or checking account. The results are presented in Table 3.5. The table also presents comparable figures for all U.S. households.<sup>72</sup>

The FTC staff survey found that 84 percent of the households that had used rent-to-own transactions in the last year had a car or truck. This percentage was identical to the percentage for all U.S. households.<sup>73</sup>

The FTC staff survey also found that 44 percent of the households that had used rent-to-own transactions in the last year had a credit card, 49 percent had a savings account, and 64 percent had a checking account. The figures were slightly higher for households that had used rent-to-own transactions in the last five years.<sup>74</sup>

Seventy-seven percent of the households that had used rent-to-own transactions in the last year had at least one of the three types of credit or bank accounts (credit card, savings, or

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<sup>71</sup> The definitions of "central city," "suburban," and "non-metropolitan" areas are discussed in the previous section of this chapter.

<sup>72</sup> The U.S. household figures are from the Federal Reserve Board's 1995 Survey of Consumer Finances (SCF), as presented in Kennickell, Starr-McCluer, and Sunden (1997) and Hogarth and O'Donnell (1997, 1999).

<sup>73</sup> The U.S. household figure includes vehicles of all types, including motorcycles, RV's, boats, and airplanes, but excludes leased vehicles (Kennickell, Starr-McCluer, and Sunden, 1997). The FTC staff survey specified only cars or trucks, and did not exclude leased vehicles.

<sup>74</sup> As with the demographic characteristics discussed in the previous sections, the last-year data may provide a more accurate picture of rent-to-own customers, because the ownership of credit cards and bank accounts by earlier customers could have changed since the time they used rent-to-own transactions.

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checking), and 54 percent had at least two of the three. Twenty-three percent of customer households had neither a credit card, savings account, or checking account. These results are presented in Table 3.6.

The percentage of rent-to-own customers having a credit card was approximately 20 percentage points lower than for all U.S. households (44 percent compared to 67 percent), as was the percentage of customers having a checking account (64 percent compared to 85 percent).<sup>75</sup> The percentage of rent-to-own customers having a savings account, however, was 13 percentage points higher than for all U.S. households (49 percent compared to 36 percent). The percentage of customers having either a checking or savings account was 16 percentage points lower than for all U.S. households (71 percent compared to 87 percent) (not shown in table).

These results indicate that the percentage of rent-to-own households having a credit card and the percentage having a checking account are both significantly lower than the percentages for all U.S. households, but each type of account is owned by a substantial percentage of rent-to-own customers. And the percentage of customers owning a savings account is actually higher than for all U.S. households. Three-quarters of rent-to-own customers have at least one type of credit card or bank account, and half have at least two of the three types of accounts.

### **3.5 Conclusions**

The FTC staff survey found that 2.3 percent of households had rented merchandise from a rent-to-own store in the last year, and 4.9 percent had done so in the last five years. The incidence of rent-to-own use varied significantly across demographic groups. The use of rent-to-own transactions was significantly higher for respondents who were African American, young, less educated, lower income, had children in the household, rented their residence, and lived in the South. Older, higher educated, and higher income respondents had the lowest use of rent-to-own transactions.

The differences in the use of rent-to-own transactions were reflected in the demographic profile of rent-to-own customers. Rent-to-own customers differed significantly from survey respondents who had not used rent-to-own transactions.

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<sup>75</sup> The U.S. household figure for credit cards includes only major credit cards (Discover, MasterCard, Optima, and Visa). The FTC staff survey did not specify the types of credit cards. Also, the U.S. household figure is based on a survey conducted three to four years before the FTC staff survey. The overall U.S. household ownership of credit cards may have changed since then.

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Thirty-one percent of customers who had rented merchandise from a rent-to-own store in the last year were African American, 79 percent were 18 to 44 years old, 73 percent had a high school education or less, 59 percent had household incomes less than \$25,000, 67 percent had children living in the household, 62 percent rented their residence, 53 percent lived in the South, 78 percent lived in the South or Midwest, and 68 percent lived in non-suburban areas.

The FTC staff survey also found that 84 percent of rent-to-own customers had a car or truck. This suggests that most rent-to-own customers are not constrained to a neighborhood rent-to-own store by a lack of transportation, and are able to comparison shop at traditional retail stores if they choose to do so.

The survey also found that while the ownership of credit cards and checking accounts was significantly lower for rent-to-own customers than for all U.S. households, 77 percent of rent-to-own customers had at least one type of credit card or bank account (credit card, savings, or checking), and 54 percent had at least two of the three types of accounts. This indicates that the typical rent-to-own customer does not belong to the group of consumers that some observers have referred to as the "unbanked."<sup>76</sup> This does not necessarily indicate that these customers have available cash or credit. A customer's bank accounts may not have any significant cash balances, credit cards already may be charged to their limit, and lenders may refuse new credit because of a poor customer credit history. But any constraints on the availability of cash or credit are more likely related to the customer's financial condition and credit risk, rather than a lack of access to traditional banking accounts.

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<sup>76</sup> See, for example, Hogarth and O'Donnell (1997). For further discussion of the use of traditional credit and bank accounts by rent-to-own customers (and more generally, by "alternative financial sector" customers) see Swagler, Burton, Lewis (1995) and Caskey (1994, 1997).

**Table 3.1 Use of Rent-to-Own (RTO) Transactions**

Use of Rent-to-Own Transactions (N)	Percent of Respondents Using Rent-to-Own Transactions	
	In the last year (12136)	In the last 5 years (12136)
Yes	2.3%	4.9%
No	97.4	94.9
Don't know (RTO use)	0.2	0.2
Refused (RTO use)	0.1	0.1
Don't know (rental date)	0.1	NA
Refused (rental date)	0.0	NA

DATA. Five-year data from survey question RO-1. Last-year data from survey questions RO-1 and RO-4. All percentages weighted.

NOTES. N's are unweighted sample sizes.

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**Table 3.2 Use of Rent-to-Own Transactions by Demographic Group**

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
All Respondents	2.3%	4.9%	12136
<u>Sex</u>			
Male	2.2	4.5	6061
Female	2.3	5.2	6075
<u>Race / Ethnicity</u>			
White	1.8	4.0	9746
African American	6.4	10.8	1004
Hispanic	2.1	5.2	639
Asian	0.6	3.8	116
Native American	1.7	5.5	137
Other / refused	1.1	4.5	494
<u>Age</u>			
18 - 24	4.1	6.1	1248
25 - 34	3.7	8.8	2435
35 - 44	2.9	6.3	2688
45 - 54	2.3	4.3	2167
55 - 64	0.7	1.9	1422
65 or older	0.2	0.9	1855
Refused	0.2	2.3	321
<u>Education</u>			
Less than H.S. graduate	4.6	9.0	1146
H.S. graduate	2.6	5.7	3956
Technical school / other	3.6	7.3	283
Some college	1.7	3.8	2812
College graduate	0.9	2.0	2651
Graduate school or more	0.3	1.6	1188
Refused	0.6	4.4	100

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**Table 3.2 Continued**

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
<u>Income</u>			
Less than \$15,000	3.8%	7.4%	1413
\$15,000 - \$24,999	4.9	9.2	1595
\$25,000 - \$39,999	2.6	4.8	2360
\$40,000 - \$49,999	1.9	5.3	1284
\$50,000 or more	0.5	2.1	3529
<\$25,000 (unspecified)	2.0	6.1	177
\$25,000+ (unspecified)	1.3	3.2	434
Don't know	2.5	3.4	211
Refused	0.3	1.7	1133
<u>Employment</u>			
Employed full-time	2.5	5.2	6773
Employed part-time	2.4	4.2	1372
Retired	0.3	1.1	2099
Homemaker	2.7	6.6	843
Student	2.9	6.2	272
Temporarily unemployed	5.6	10.8	391
Disabled / handicapped	4.8	13.0	269
Other not employed	8.7	18.7	55
Not employed, DK reason	0.0	0.0	4
Not employed, refuse reason	0.0	0.0	8
Refused	0.0	5.6	50
<u>Marital Status</u>			
Single	2.7	5.8	2216
Single, living with partner	4.8	8.6	596
Married	2.0	4.3	6808
Separated	6.4	12.4	249
Divorced	2.0	6.1	1284
Widowed	0.9	1.5	886
Refused	0.0	2.8	97

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**Table 3.2 Continued**

Demographic Group	Percent of Demographic Group Using Rent-to-Own		Group N
	In the last year	In the last 5 years	
<u>Number of Children</u>			
None	1.2%	2.9%	7327
One	3.3	6.7	1947
Two	2.9	7.0	1767
Three	6.4	11.7	684
Four	8.1	15.7	200
Five or more	11.0	12.2	79
Refused	1.0	2.4	132
<u>Home Ownership</u>			
Own	1.2	3.1	8602
Rent	4.5	8.8	3389
Don't know	11.9	12.9	53
Refused	0.9	2.1	92
<u>Region</u>			
Northeast	1.4	3.6	2435
Midwest	2.3	5.2	2903
South	3.4	6.6	4272
West	1.1	2.7	2526
<u>Metropolitan Status</u>			
Central city	2.8	5.8	3865
Suburban	1.6	3.7	5291
Non-metropolitan	2.8	5.9	2980

DATA. Survey question RO-1 and various demographic questions. All percentages weighted.

NOTES. N's are unweighted sample sizes. A test of independence of classification was done for each demographic variable using a Pearson chi-square statistic corrected for the survey design using a Rao and Scott second-order correction and converted to an F-statistic (Rao and Scott, 1981, 1984). The differences across categories were significant at the one percent level for all demographic variables except sex (which was not significant in the last-year data and was significant in the five-year data at only the 12 percent level).

**Table 3.3 Demographic Characteristics of Rent-to-Own (RTO) Customers Compared to Non-Customers**

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<u>Sex</u>							
Male	44.1%	46.1%		42.3%	46.3%		46.1%
Female	55.9	53.9		57.7	53.7		53.9
<u>Race / Ethnicity</u>							
White	57.3	74.5	**	60.3	74.8	**	74.0
African American	31.4	10.6	**	24.5	10.4	**	11.1
Hispanic	8.4	9.1		9.7	9.0		9.0
Asian	0.2	0.9	**	0.7	0.9		0.9
Native American	0.8	1.1		1.2	1.0		1.1
Other / refused	1.9	3.9	**	3.6	3.9		3.9
<u>Age</u>							
18 - 24	17.7	9.7	**	12.3	9.8	*	9.9
25 - 34	33.1	19.9	**	36.7	19.4	**	20.2
35 - 44	28.6	21.9	*	28.4	21.7	**	22.0
45 - 54	15.9	15.6		13.7	15.6		15.5
55 - 64	3.2	11.0	**	4.3	11.1	**	10.8
65 or older	1.3	19.3	**	3.3	19.7	**	18.9
Refused	0.2	2.7	**	1.3	2.7	**	2.7
<u>Education</u>							
Less than H.S. graduate	36.6	17.5	**	33.0	17.1	**	17.9
H.S. graduate	36.3	31.4		36.6	31.2	**	31.5
Technical school / other	3.5	2.2		3.3	2.1		2.2
Some college	15.2	20.9	**	16.0	21.0	**	20.7
College graduate	7.1	19.0	**	7.7	19.2	**	18.7
Graduate school or more	1.1	8.3	**	2.6	8.4	**	8.1
Refused	0.2	0.9	**	0.8	0.9		0.9

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Rent-to-Own Customers

Table 3.3 Continued

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<b>Income</b>							
Less than \$15,000	25.4%	14.8%	**	23.0%	14.7%	**	15.1%
\$15,000 - \$24,999	31.5	14.2	**	27.6	14.0	**	14.6
\$25,000 - \$39,999	22.2	19.3		19.1	19.4		19.4
\$40,000 - \$49,999	8.3	9.9		10.7	9.8		9.9
\$50,000 or more	5.8	24.9	**	10.4	25.2	**	24.4
<\$25,000 (unspecified)	1.6	1.8		2.3	1.8		1.8
\$25,000+ (unspecified)	1.8	3.3		2.2	3.4	*	3.3
Don't know	2.3	2.0		1.5	2.1		2.1
Refused	1.1	9.6	**	3.2	9.8	**	9.5
<b>Employment</b>							
Employed full-time	56.7	51.4		55.1	51.3		51.5
Employed part-time	11.7	11.1		9.5	11.2		11.1
Retired	2.6	20.5	**	4.4	20.9	**	20.1
Homemaker	9.0	7.5		10.2	7.4	*	7.5
Student	3.0	2.3		3.0	2.3		2.3
Temporary unemployed	9.4	3.7	**	8.4	3.6	**	3.8
Disabled / handicapped	5.8	2.6	*	7.2	2.5	**	2.7
Other not employed	1.8	0.4		1.8	0.4	*	0.5
Not employed, DK reason	0.0	0.0		0.0	0.0	*	0.0
Not employ, refuse reason	0.0	0.1		0.0	0.1	**	0.1
Refused	0.0	0.4	**	0.5	0.4		0.4
<b>Marital Status</b>							
Single	22.1	18.2		21.7	18.2		18.4
Single, living with partner	10.6	4.9	**	8.8	4.8	**	5.0
Married	47.4	53.3		46.7	53.4	**	53.1
Separated	6.5	2.2	**	5.8	2.1	**	2.3
Divorced	9.3	10.8		13.5	10.6		10.8
Widowed	4.0	9.8	**	3.0	10.0	**	9.7
Refused	0.0	0.9	**	0.5	0.8		0.9

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**Table 3.3 Continued**

Demographic Group (N)	RTO Use in Last Year			RTO Use in Last Five Years			Percent of total sample (12136)
	Percent of customers (244)	Percent of non- customers (11853)	t-test	Percent of customers (532)	Percent of non- customers (11575)	t-test	
<u>Number of Children</u>							
None	32.5%	61.5%	**	36.2%	62.0%	**	60.8%
One	23.2	15.6	**	21.7	15.5	**	15.8
Two	18.3	14.1		20.6	13.9	**	14.2
Three	15.8	5.4	**	13.5	5.2	**	5.6
Four	6.3	1.6	**	5.7	1.5	**	1.8
Five or more	3.4	0.6	*	1.8	0.7		0.7
Refused	0.5	1.1		0.6	1.1	*	1.1
<u>Home Ownership</u>							
Own	35.4	68.7	**	42.8	69.2	**	67.9
Rent	61.8	30.1	**	55.6	29.6	**	30.9
Don't know	2.5	0.4		1.3	0.4		0.5
Refused	0.3	0.8		0.3	0.8	*	0.8
<u>Region</u>							
Northeast	12.5	19.8	**	14.5	19.9	**	19.7
Midwest	24.2	23.9		25.6	23.8		23.9
South	53.3	35.2	**	48.2	34.9	**	35.5
West	10.0	21.2	**	11.6	21.4	**	20.9
<u>Metropolitan Status</u>							
Central city	43.2	35.1	**	41.9	35.0	**	35.3
Suburban	32.4	45.4	**	34.3	45.7	**	45.1
Non-metropolitan	24.4	19.5	*	23.8	19.3	**	19.6

DATA. Survey question RO-1 and various demographic questions. All percentages weighted.

NOTES. N's are unweighted sample sizes. The t-tests are tests of the difference in the proportions of rent-to-own customers and non-customers in each demographic category. \* indicates significance at the 90 percent level and \*\* indicates significance at the 95 percent level. Tests of independence of classification also were done for each demographic variable, comparing the demographic distribution of rent-to-own customers to the demographic distribution of non-customers, using a Pearson chi-square statistic corrected for the survey design using a Rao and Scott second-order correction and converted to an F-statistic (Rao and Scott, 1981, 1984). These tests showed highly significant differences (at the one percent level) for all demographic variables, with the exceptions that the distributions were not significantly different for sex in the last-year data, and were significantly different at only the 5.5 percent level for both sex in the five-year data and metropolitan status in the last-year data.

**Table 3.4 Summary of Selected Demographic Characteristics of Rent-to-Own Customers**

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Percent of customers using rent-to-own transactions in the last year:

- 31% African American; • 41% Minority
  - 51% 18 to 34 years old; • 79% 18 to 44 years old
  - 37% Less than high school education; • 73% High school graduate or less
  - 59% Household income less than \$25,000; • 81% Less than \$40,000
  - 67% Children in the household
  - 62% Rent their residence
  - 53% Live in the South; • 78% Live in the South or Midwest
  - 68% Live in central city or non-metropolitan areas
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DATA. Survey questions RO-1, RO-4, and various demographic questions. All percentages weighted.

NOTES. The unweighted sample size is 244 customers. Minority includes African Americans, Hispanic Americans, Asian Americans, and Native Americans.

**Table 3.5 Ownership of Vehicles, Credit Cards, and Bank Accounts by Rent-to-Own (RTO) Customers**

Vehicle, Credit Card, and Bank Account Ownership (N)	Percent of Customer Households		Percent of all U.S. households*
	Customers using RTO in the last year (244)	Customers using RTO in the last 5 years (532)	
<b><u>Car or Truck</u></b>			
Yes	83.7%	83.3%	84.0%
No	16.3	16.7	16.0
Don't know	0.0	0.0	—
Refused	0.0	0.0	—
<b><u>Credit Card</u></b>			
Yes	43.6	48.4	66.5
No	56.3	51.4	33.5
Don't know	0.2	0.1	—
Refused	0.0	0.1	—
<b><u>Savings Account</u></b>			
Yes	48.7	54.4	36.0
No	51.1	45.1	64.0
Don't know	0.2	0.4	—
Refused	0.0	0.0	—
<b><u>Checking Account</u></b>			
Yes	63.7	67.5	85.0
No	36.1	31.8	15.0
Don't know	0.2	0.7	—
Refused	0.0	0.0	—

DATA. Survey questions RO-17a, 17b, 17c, and 17d. All percentages weighted.  
 \*U.S. household data from the Federal Reserve Board 1995 Survey of Consumer Finances (SCF), as presented in Kennickell, Starr-McCluer, and Sunden (1997) and Hogarth and O'Donnell (1997, 1999).

NOTES. N's are unweighted sample sizes. In the U.S. household figures, credit cards include major cards only (Discover, MasterCard, Optima, Visa), and "car or truck" includes all types of vehicles, including motorcycles, RV's, boats, and airplanes (but excludes leased vehicles).

**Table 3.6 Number of Different Types of Bank Accounts Owned by Rent-to-Own Customers (Credit Card, Savings, or Checking)**

Number of Different Types of Bank Accounts Owned (Credit Card, Savings, or Checking) (N)	Percent of RTO Customer Households	
	Customers using RTO in the last year (241)	Customers using RTO in the last 5 years (524)
None	23.0%	21.0%
One	23.3	19.7
Two	28.5	26.8
Three	25.2	32.5

DATA. Survey questions RO-17b, 17c, and 17d. All percentages weighted.

NOTES. N's are unweighted sample sizes.

## RENT-TO-OWN MERCHANDISE AND RENTAL DATES

This chapter presents the survey results on the amount and types of merchandise rented by rent-to-own customers, the dates of the rent-to-own transactions, and the number of occasions on which customers rented merchandise over the last five years.

### *4.1 Number of Items Rented*

The 532 rent-to-own customers in the FTC staff survey sample rented a total of 1,271 items of merchandise over the last five years. This amounted to an average of 2.5 items per customer. Forty-two percent of customers had rented a single item, 39 percent had rented two or three items, and 13 percent had rented four or five items. Seven percent of customers had rented more than five items, and less than one percent had rented more than ten. These results are presented in Table 4.1.

### *4.2 Types of Merchandise Rented*

The survey found that 38 percent of the items rented by rent-to-own customers were home electronics products, 36 percent furniture, and 25 percent appliances. Jewelry accounted for less than one percent of rented items. These results are presented in Table 4.2.

The most commonly rented items were televisions (19 percent of rented items), sofas (13 percent), washers (nine percent), VCR's (eight percent), and stereos (seven percent). Together, these five types of merchandise accounted for 55 percent of all rented items. The ten most common types of merchandise, which adds beds, dryers, refrigerators, chairs, and dining tables, accounted for 80 percent of all items. The ten most common types of merchandise and their corresponding percentages are presented in Table 4.3.

### *4.3 Date of Rental*

The FTC staff survey asked customers when they began renting each item, asking them to choose between one of four categories that ranged from "less than six months ago" to "more than two years ago." The results are presented in Table 4.4.

The distribution of rental dates indicates a mix of both recent and older transactions, but with a larger percentage being more recent. Customers began renting 35 percent of the items less than a year before the survey, 23 percent one to two years before the survey, and 41 percent more than two years before the survey. If one assumes that the 41 percent of items rented more than

two years before the survey were evenly distributed over the three years of that period, then each of the three years accounts for approximately 13.5 percent of the items in the sample.<sup>77</sup>

Table 4.4 also shows, for each time period, the percentage of customers who had rented at least one item in that period. Forty-seven percent of customers had rented at least one item in the last year, 35 percent had rented at least one item between one and two years ago, and 52 percent had rented at least one item more than two years ago. This indicates that the sample includes large proportions of both recent and older customers.

#### *4.4 Repeat Customers*

The FTC staff survey found that most rent-to-own customers had rented merchandise from a rent-to-own store on only one occasion over the last five years. After asking rent-to-own customers to list all of the items they had rented in the last five years, the survey asked those who had rented more than one item whether all of the items had been rented on the same day.

As shown in Table 4.5, 40 percent of rent-to-own customers rented merchandise from a rent-to-own store on more than one occasion over the last five years.<sup>78</sup> The other 60 percent of customers rented merchandise only once in that period.

#### *4.5 Conclusions*

The FTC staff survey found that rent-to-own customers had rented an average of 2.5 items of merchandise per customer over the last five years. Thirty-eight percent of rented items were home electronics products, 36 percent furniture, and 25 percent appliances. Jewelry accounted for less than one percent of rented items. The most common items were televisions, sofas, washers, VCR's, and stereos, which together accounted for more than half of all rented merchandise. Televisions alone accounted for almost 20 percent of rented items.

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<sup>77</sup> Industry estimates suggest that both the annual number of customers and merchandise deliveries changed little over the five years included in the sample (APRO, 1998). If the industry estimates are accurate, one would expect the sample to have a relatively equal percentage of items (approximately 20 percent) in each of the five years. The under-representation of items in the earlier years suggests that survey respondents may have been less complete in reporting earlier rentals than they were in reporting more recent rentals, perhaps due to memory limitations. It is also possible that some respondents inadvertently categorized rental dates as beginning more recently than the actual date.

<sup>78</sup> This may understate the extent of repeat use because some customers may have used rent-to-own transactions prior to the five-year period examined in the survey.

*Rent-to-Own Merchandise and Rental Dates*

Forty percent of rent-to-own customers had rented merchandise from a rent-to-own store on more than one occasion over the last five years. The other 60 percent of customers rented merchandise only once in that period.

The survey sample included a mix of both recent and older transactions, though the percentage of items rented in the most recent year was significantly higher than the percentages in each of the earlier years. Customers began renting 35 percent of the items less than a year before the survey, 23 percent one to two years before the survey, and 41 percent two to five years before the survey.

**Table 4.1 Number of Items Rented Per Customer**

Number of Items Rented (N)	Percent of Customers (532)	Cumulative Percent of Customers (532)	Number of Items Rented (N)	Percent of Customers (532)	Cumulative Percent of Customers (532)
1	41.9%	41.9%	9	0.9	99.0
2	22.2	64.1	10	0.3	99.3
3	16.4	80.5	11	0.0	99.3
4	7.6	88.1	12	0.2	99.5
5	5.1	93.2	13	0.0	99.5
6	2.1	95.3	14	0.0	99.5
7	1.9	97.2	15	0.4	99.9
8	0.9	98.1	16	0.1	100.0

Mean number of items = 2.5

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

**Table 4.2 Types of Merchandise Rented**

Type of Merchandise (N)	Percent of Items (1271)	Type of Merchandise (N)	Percent of Items (1271)
<u>Home Electronics (total)</u>	37.6%	<u>Furniture (total)</u>	35.5%
Television	18.6	Sofa / couch / loveseat	12.5
VCR	8.1	Bed	6.3
Stereo	6.8	Chair	4.6
Computer	1.8	Dining table	3.4
Video camera	1.5	Dresser / chest	2.1
Play station	0.6	Entertainment center	1.7
CD player	0.1	End table	1.4
Scanner	0.1	Night stand	1.3
<u>Appliances (total)</u>	25.0	Coffee table	1.0
Washer	8.8	Cabinet / bookcase	0.5
Dryer	5.8	Headboard	0.3
Refrigerator	4.9	Ottoman / footstool	0.2
Stove / oven	2.5	China closet / hutch	0.2
Freezer	1.1	Microwave stand	0.1
Air conditioner	1.1	<u>Miscellaneous (total)</u>	1.1
Dishwasher	0.9	Lamp	0.9
<u>Jewelry (total)</u>	0.8	Glassware / china	0.2
Rings	0.5		
Necklace / chain	0.3		

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

**Table 4.3 Top Ten Types of Merchandise Rented**

Type of Merchandise (N)	Percent of Items (1271)	Cumulative Percent of Items (1271)
Television	18.6%	18.6%
Sofa	12.5	31.1
Washer	8.8	39.9
VCR	8.1	48.0
Stereo	6.8	54.8
Bed	6.3	61.1
Dryer	5.8	66.9
Refrigerator	4.9	71.8
Chair	4.6	76.4
Dining table	3.4	79.8

DATA. Survey question RO-2. All percentages weighted.

NOTES. N's are unweighted sample sizes.

**Table 4.4 Date of Rental**

Date the customer began renting the merchandise (N)	Percent of items rented in the time period (1271)	Percent of customers renting at least one item in the time period (532)
<u>Less than one year before the survey (total; net total)</u>	35.1 %	46.5%
Less than six months before the survey	17.0	25.6
Between six months and one year before the survey	18.1	27.7
<u>More than one year before the survey (total; net total)</u>	63.8	74.0
Between one year and two years before the survey	23.2	35.2
More than two years before the survey	40.6	52.0
Don't Know	1.0	2.0
Refused	0.0	0.1

DATA. Survey question RO-4. All percentages weighted.

NOTES. Multiple responses possible in the last column; column percentage may sum to greater than 100 percent. "Net total" applies to the last column, and counts only one response per customer in the given category. N's are unweighted sample sizes.

**Table 4.5 Repeat Customers Over the Last Five Years**

Number of items rented in the last five years; number of rental occasions (N)	Percent of Customers (532)
<u>Repeat Customers</u>	
Multiple items; rented on different days	39.9%
<u>Not Repeat Customers (total)</u>	
Only one item rented	60.0
Multiple items; all rented on the same day	41.9
Multiple items; don't know days	18.1
Multiple items; refused days	0.1
	0.0

DATA. Survey questions RO-2 and RO-3. All percentages weighted.

NOTES. N's are unweighted sample sizes.

## RENT-TO-OWN PURCHASES AND RETURNS

This chapter presents survey results on customer purchase intentions, the actual purchase rate, the duration of rentals for both purchases and returns, the reasons why merchandise was returned, and the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.

### 5.1 Customer Purchase Intentions

The FTC staff survey found that most rent-to-own customers began the rent-to-own transaction intending to purchase the merchandise. The survey asked customers whether they had intended to "rent the [merchandise] long enough to purchase it from the rent-to-own store," had intended to "rent it only for awhile and then return it to the store," or "weren't sure at the time."<sup>79</sup> The survey found that 67 percent of customers began the transaction intending to purchase the merchandise, 25 percent intended to rent the merchandise for awhile and return it, and eight percent were unsure at the time. These results are presented in Table 5.1.

### 5.2 Purchases of Rent-to-Own Merchandise

The FTC staff survey found that most rent-to-own merchandise was purchased by the customer, that most customers had purchased at least one item of merchandise, that actual purchases were highly consistent with customer purchase intentions, and that the purchase rate was consistently high across almost all demographic groups and for both recent and older rentals.

*The percentage of rent-to-own merchandise purchased.* The survey asked, for each item rented in the last five years, whether the customer was "still renting the item," had "purchased it

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<sup>79</sup> The survey questionnaire asked this question, as well as questions presented later in the chapter on the duration of the rental and the reasons why merchandise was returned, in regard to only one randomly-selected item for each customer (see Chapter 2, above). In contrast, the question on the actual disposition of the rented merchandise (whether the merchandise was purchased, returned, or still being rented), which is presented in the following section of this chapter, was asked in regard to every item rented by each customer.

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from the rent-to-own store," or had "returned it to the rent-to-own store."<sup>80</sup> The results are presented in Table 5.2, both for all items combined and separately by item rental date.

The most accurate estimate of the percentage of rent-to-own merchandise purchased by rent-to-own customers (referred to here as the "purchase rate") is found in the results for merchandise customers began renting more than two years before the survey. For these transactions, sufficient time had elapsed to allow the customer to make all of the payments required to obtain ownership of the merchandise (which is typically 18 to 24 months in most rent-to-own agreements).<sup>81</sup>

The survey found that 71 percent of the merchandise that customers began renting more than two years before the survey had been purchased by the customer, 25 percent had been returned to the rent-to-own store, and two percent was still being rented.<sup>82</sup>

*The percentage of customers purchasing merchandise.* The purchase of rent-to-own merchandise was not concentrated among a small percentage of customers each purchasing a large number of items, but was widespread across most rent-to-own customers. Seventy percent of the customers who had rented merchandise more than two years before the survey had purchased at least one of those items. This result is presented in Table 5.3.

*Consistency with customer purchase intentions.* The purchase of rent-to-own merchandise was highly consistent with customer purchase intentions. As noted above, 67

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<sup>80</sup> The questionnaire instructed customers to count the item as purchased if they had either rented it long enough to acquire ownership, or if they had purchased it by paying it off early; and to count the item as returned if it was taken back to the store, by either the customer or the store.

<sup>81</sup> The results from more recent transactions cannot be used as a direct estimate of the purchase rate because a large percentage of this merchandise was still being rented at the time of the survey, with the ultimate disposition not yet determined. As can be seen in the second column of Table 5.2, 67 percent of the merchandise rented less than six months before the survey was still being rented. The percentage of merchandise still being rented steadily declines as the rental date becomes less recent, and the percentage of merchandise purchased steadily increases. While the results from more recent transactions cannot be used as a direct estimate of the purchase rate, the purchase rate can be estimated by projecting the ultimate disposition of the items still being rented. This analysis is presented later in this chapter.

<sup>82</sup> The 95 percent binomial confidence intervals for these estimates are 67 to 76 percent for the percentage of merchandise purchased, and 21 to 30 percent for the percentage of merchandise returned. (See footnote 53 for an explanation of confidence intervals.)

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percent of customers intended to purchase the merchandise, and 71 percent of rent-to-own merchandise was purchased.

Actual purchases also were highly consistent with customer purchase intentions when examined at the individual customer level. As shown in Table 5.4, 87 percent of the customers who intended to purchase the rent-to-own merchandise actually did purchase it. Similarly, 90 percent of the customers who intended to rent temporarily and return the merchandise actually did return it. Customers who were unsure of their intentions when they began renting divided fairly evenly, with 47 percent purchasing the merchandise and 44 percent returning it.<sup>83</sup>

*Purchases across demographic groups.* The percentage of rent-to-own merchandise purchased by customers was consistently high across almost all demographic groups.<sup>84</sup> The purchase rate ranged between 61 and 88 percent in nearly 90 percent of the demographic groups examined.<sup>85</sup> While there were statistically significant differences in the purchase rate across some of these groups, customers in almost all of the groups had purchased most of the merchandise they had rented from rent-to-own stores.<sup>86</sup>

The only demographic groups with purchase rates less than 60 percent were the oldest age group, the retired employment category, the highest income categories, the highest education

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<sup>83</sup> These results are based on the one randomly-selected item for each customer that was the subject of the purchase intentions question, and only for those randomly-selected items that had been rented more than two years before the survey.

<sup>84</sup> The purchase rate was examined in approximately 70 different demographic groups, including all of the demographic groups listed earlier in Table 3.2, and all of the vehicle, credit card, and bank account ownership groups listed in Tables 3.5 and 3.6. The sample sizes for some of the groups were small.

<sup>85</sup> One group, respondents who had attended technical school, had a purchase rate of 95 percent, but the sample size for the group was small, consisting of only 13 respondents.

<sup>86</sup> One example of a significant difference across demographic groups is that the purchase rate was 62 percent for customers who had a credit card, but 81 percent for customers who did not.

categories, and the Western region category.<sup>87</sup> As noted in Chapter 3, these same groups also had the lowest incidence of rent-to-own use.<sup>88</sup>

*Purchase rate estimates from more recent rentals.* All of the above purchase rate results were based on merchandise customers began renting more than two years before the survey. The results from more recent transactions cannot be used as a direct estimate of the purchase rate, because a large percentage of the merchandise was still being rented at the time of the survey, with the ultimate disposition not yet determined. But analysis of the results from more recent rentals shows that they are consistent with the results found for earlier rentals, and support the conclusion that most rent-to-own merchandise is purchased by the customer.

Table 5.2 shows that a relatively high percentage of more recently rented merchandise already had been purchased by the time of the survey. Of the merchandise that customers began renting between six months and one year before the survey, 31 percent already had been purchased, and an additional 39 percent was still being rented. Similarly, of the merchandise that customers began renting between one and two years before the survey, 50 percent already had been purchased, and an additional 14 percent was still being rented.

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<sup>87</sup> The purchase rate was between 20 and 40 percent in five of these groups, and was approximately 50 percent in two of them. One additional group, Asian-Americans, had a purchase rate of zero percent, but the sample size for this group consisted of only three respondents.

<sup>88</sup> The high purchase rate found across almost all demographic groups suggests that the absence from the survey sample of households without a telephone did not artificially inflate the overall purchase rate found in the survey. The demographic groups that typically have the lowest telephone subscription rates – low income, minority, and Southern households (FCC, 1999), for example – had purchase rates equal to or higher than the purchase rate found for the overall sample. If the purchase rates for low-income, minority, and Southern households without a telephone are similar, the absence of non-telephone households from the sample would not affect the overall purchase rate estimate. And even if the purchase rate for non-telephone households is substantially different from the purchase rate for telephone households, the resulting effect on the overall purchase rate estimate is not likely to change the conclusion that most merchandise is purchased. If 25 percent of all rent-to-own customers do not have a telephone, for example, (an industry-commissioned study by Cheskin and Masten (1991) suggests that it may be 22 percent), and these non-telephone households have a zero percent purchase rate, adjusting the FTC staff survey estimate to account for the non-telephone households would still yield an overall purchase rate estimate of 53 percent  $((0.71 \times 0.75) + (0.0 \times 0.25) = 53.3\%)$ . And if the non-telephone households had a purchase rate of 25 percent, the adjusted overall purchase rate would be 60 percent  $((0.71 \times 0.75) + (0.25 \times 0.25) = 59.5\%)$ .

### *Rent-to-Own Purchases and Returns*

The percentage of more recently rented merchandise already returned to the store by the time of the survey also is relatively high. As shown in Table 5.2, 29 percent of the merchandise rented between six months and one year before the survey had already been returned to the store, as had 34 percent of the merchandise rented between one and two years before the survey. These return percentages already are slightly higher than the 25 percent return rate found for merchandise rented more than two years before the survey.<sup>89</sup>

To estimate the ultimate purchase rate for more recently rented merchandise, one must estimate the ultimate disposition of the merchandise that was still being rented.<sup>90</sup> The ultimate disposition of the merchandise still being rented can be estimated using a survey result presented later in this chapter. As shown in Table 5.8, the FTC staff survey found that 90 percent of the merchandise rented for six months or more was ultimately purchased by the customer. This implies that 90 percent of the merchandise that was rented more than six months before the survey, and was still being rented at the time of the survey, eventually will be purchased. The projected purchases from merchandise still being rented can be added to the purchases that already had occurred by the time of the survey to obtain a projected purchase rate for more recent rentals.

As shown in Table 5.5, these projections yield a purchase rate estimate of 66 percent for merchandise rented between six months and one year before the survey, 63 percent for merchandise rented between one and two years before the survey, and 73 percent for

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<sup>89</sup> The 34 percent result for merchandise rented between one and two years before the survey is significantly different from the 25 percent result obtained for merchandise rented more than two years before the survey, but neither of these results is significantly different from the 29 percent result for merchandise rented between six months and one year before the survey.

<sup>90</sup> Basing the purchase rate estimate only on items that already had been purchased or returned would yield a biased result that understates the purchase rate. The purchase rate would be understated because purchased items are typically rented for a longer period of time than returned items. (As discussed below in section 5.3, and presented in Table 5.6, 81 percent of returned merchandise was rented for six months or less prior to being returned, but only 11 percent of purchased merchandise was rented for six months or less prior to being purchased.) If the purchase rate estimate were based only on items that already had been purchased or returned, merchandise that ultimately would be purchased would have a much greater probability of being excluded from the estimate because the merchandise was still being rented, while most returned merchandise would be included in the estimate because it already had been returned, biasing the purchase rate estimate downwards.

*Rent-to-Own Purchases and Returns*

merchandise rented more than two years before the survey.<sup>91</sup> A weighted average that combines the three estimates yields an overall projected purchase rate of 69 percent.

The projected purchase rates for more recent rentals are consistent with the purchase rate found for earlier rentals. While the projected purchase rates for more recent rentals are slightly lower than the estimate for earlier rentals, all of the estimates are consistent in finding that most rent-to-own merchandise is purchased by the customer.

The projected purchase rates for more recent rentals also indicate that potential memory bias is not affecting the conclusions of the purchase rate analysis.<sup>92</sup> If memory bias were significantly affecting the results, one would expect to find a large difference between the purchase rates for older rentals and recent rentals, since any memory bias would have a larger effect on the results for older rentals. The consistency of the projected purchase rate estimates across all rental date categories in the FTC staff survey results indicates that any potential memory bias, if present at all, is slight, and does not affect the conclusions of the purchase rate

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<sup>91</sup> The 63 and 66 percent purchase rates projected for more recently rented merchandise are significantly different from the 73 percent rate projected for merchandise rented more than two years before the survey.

<sup>92</sup> A memory bias would occur if respondents were more likely to remember purchases rather than returns (or *vice versa*). If respondents were more likely to remember purchases rather than returns, for example, the purchase rate estimate would be biased upwards. One might speculate that respondents are more likely to remember purchases, because purchased merchandise is typically rented for a longer period of time than returned merchandise, and because purchased merchandise still may be in the respondent's home, aiding recall. But one might also speculate the opposite, that returns are more likely to be remembered, because many returns involve either financial difficulties, problems with the merchandise or store, or rentals that were made for special occasions or temporary needs. These rentals may be more easily remembered than purchases, because the purchases may have been more routine transactions. If respondents were equally likely to remember both purchases and returns, however, memory limitations would not bias the purchase rate estimate, even if a large percentage of transactions were not recalled. In that case, the failure to recall transactions would only reduce the number of rented items reported in the survey.

analysis.<sup>93</sup> The estimated purchase rates for both recent and older rentals are consistent in finding that most rent-to-own merchandise is purchased by the customer.

### 5.3 Rental Duration

The FTC staff survey found that merchandise purchased from the rent-to-own store was rented for an average of almost 14 months before being purchased. As shown in the first column of Table 5.6, 11 percent of purchased merchandise was rented for less than six months, 36 percent was rented between six months and a year, 31 percent was rented between a year and a year and a half, and 20 percent was rented for more than a year and a half. Combining the first two categories shows that 47 percent of purchased merchandise was rented for a year or less before being purchased.<sup>94</sup> The large percentage of purchases occurring within a year or less suggests that many rent-to-own customers may have used an early-purchase option.<sup>95</sup>

Most of the merchandise returned to the rent-to-own store was returned after a relatively short rental duration averaging approximately five months. As shown in the fifth column of Table 5.6 (which presents the cumulative percentages for returned merchandise) 51 percent of

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<sup>93</sup> As described above, purchases for more recently rented merchandise that was still being rented at the time of the survey were projected using the survey result that found that 90 percent of the merchandise rented for six months or more was purchased by the customer. A question might be raised as to whether this 90 percent figure also is subject to possible memory bias. But a significant bias appears unlikely. The 90 percent figure is based only on merchandise that had been rented for six months or more (and a 90 percent figure also is found for merchandise that had been rented for one year or more). Since both returned and purchased merchandise in this group were rented for a substantial period of time, a selective memory bias in which purchases are more likely to be remembered and returns forgotten would seem unlikely. Further, even if a figure less than 90 percent were used to project ultimate purchases, the conclusions would not be greatly affected. For example, if a 75 percent figure were used instead of 90 percent, one would still obtain projected purchase rates of 60 to 61 percent.

<sup>94</sup> These results, and the others in this section, are based only on merchandise customers began renting more than two years before the survey. Including more recent rentals could bias the results, because more recent rentals, by definition, could not have had long rental durations. The actual effect, however, was relatively small. Including all purchases, regardless of the rental date (which increases the sample size from 144 to 226), results in an average rental duration of 12.6 months, with 53 percent of the purchases occurring within a year or less.

<sup>95</sup> Most rent-to-own agreements allow the customer to obtain early ownership of the merchandise through a lump-sum payment equal to a pre-specified proportion of the remaining rental payments.

### *Rent-to-Own Purchases and Returns*

returned merchandise was returned within three months, 81 percent was returned within six months, and 90 percent was returned within a year.<sup>96</sup>

Combining the results for both purchases and returns shows that 36 percent of all rent-to-own merchandise was either purchased or returned within six months, and 62 percent was purchased or returned within a year. These results are presented in the last column of Table 5.6.

#### *5.4 Reasons for Returning Merchandise*

The reasons why merchandise was returned to the rent-to-own store are presented in the first column of Table 5.7.<sup>97</sup> The survey found that 59 percent of returned merchandise was returned because the renter's need for the merchandise had changed: forty percent because the merchandise "was no longer needed" or "had been needed only temporarily;" 14 percent because the renter had either purchased or obtained the same type of merchandise elsewhere; and five percent because of changed circumstances, such as a move, divorce, or death in the family.

Twenty-four percent of returned merchandise was returned for explicitly financial reasons: fifteen percent because the renter thought the merchandise was too expensive, and eight percent because the renter could no longer afford it or had other expenses.<sup>98</sup>

Eight percent of returned merchandise was returned because of some type of problem: six percent because of a problem with the merchandise and two percent because of a disagreement with the rent-to-own store.<sup>99</sup>

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<sup>96</sup> Including all returns, regardless of the rental date (which increases the sample size from 80 to 189), results in an average rental duration of 4.5 months, with 93 percent of the returns occurring within a year or less.

<sup>97</sup> The other two columns in the table present the reasons why customers returned merchandise after making substantial payments towards ownership. These results are discussed in the analysis of late-term returns, presented in the next section of this chapter.

<sup>98</sup> Two of the customers who said that the merchandise was returned because they "bought one elsewhere" explicitly said that they bought one elsewhere because it was less expensive. Other customers who "bought one elsewhere" may have had a similar reason, even though they did not explicitly state it. These customers were included with the need-related, rather than the financial-related returns, because the responses indicated that they could afford a retail purchase, and no longer needed the rent-to-own merchandise.

<sup>99</sup> As with the rental duration results, the results in this section are based only on  
(continued...)

The merchandise returned for financial reasons represented seven percent of all rent-to-own merchandise, and merchandise returned because of problems with the merchandise or store represented two percent.<sup>100</sup>

### **5.5 Late-Term Returns**

The disposition of merchandise rented for six months or more was examined to determine the extent to which customers lost merchandise through a return or repossession after making substantial payments towards ownership.<sup>101</sup> As shown in Table 5.8, 90 percent of the merchandise that had been rented for six months or more was purchased by the customer, and ten percent was returned to the store.<sup>102</sup> Similar percentages were found for both merchandise rented for more than a year and merchandise rented for more than two years.<sup>103</sup>

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<sup>99</sup> (...continued)

merchandise customers began renting more than two years before the survey. More recent rentals would include a larger proportion of rentals with a short rental duration, which could have different reasons for return than longer rentals. The actual effect of including more recent rentals, however, was not significant. Including all returns, regardless of the rental date (which increases the sample size from 80 to 189), finds that 62 percent of returns were for need-related reasons, 22 percent for financial reasons, and nine percent because of a problem with the merchandise or store.

<sup>100</sup> These figures are calculated from the results presented above. Approximately 30 percent of all rent-to-own merchandise was returned to the store, and 24 percent of returns were for financial reasons, implying that 7.2 percent of all merchandise was returned to the store for financial reasons ( $0.30 \times 0.24 \times 100 = 7.2\%$ ). Similarly, 2.4 percent of all merchandise was returned to the store because of a problem with the merchandise or store ( $0.30 \times 0.08 \times 100 = 2.4\%$ ).

<sup>101</sup> The survey did not attempt to distinguish between returns and repossessions, counting all merchandise taken back to the store, by either the customer or the store, as a return. The survey did examine the reason for returns, as discussed above, identifying the extent to which merchandise was returned for financial reasons.

<sup>102</sup> These results are based only on merchandise customers began renting more than two years before the survey. More recent rentals were excluded for the same reasons discussed earlier in regard to the purchase rate results, presented in section 5.2, above.

<sup>103</sup> The differences across the three rental date categories were not statistically significant.

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The reasons why customers returned merchandise to the rent-to-own store after rental durations of six months or more were similar to the reasons found for all returns. Sixty percent of returns were because the item was no longer needed, 18 percent were for financial reasons, and eight percent because of a problem with the merchandise or store. These results are presented in the second column of Table 5.7.<sup>104</sup>

The merchandise returned for financial reasons represented two percent of all merchandise rented for six months or more, and merchandise returned because of problems with the merchandise or store represented one percent.<sup>105</sup>

### **5.6 Conclusions**

The FTC staff survey found that approximately 70 percent of rent-to-own merchandise was purchased by the customer. The purchase rate was consistently high (at least 60 percent) in almost all demographic groups, and for both older and more recent transactions. Purchases also were widespread across most customers, with 70 percent of customers purchasing at least one item of merchandise.

Purchases were consistent with customer purchase intentions. Sixty-seven percent of customers intended to purchase the merchandise when they began the rent-to-own transaction, and 87 percent of the customers intending to purchase actually did purchase.

The survey also found that merchandise purchased from the rent-to-own store was rented for an average of 14 months before being purchased. Almost half of the purchased merchandise was rented for a year or less before being purchased, suggesting that many customers may have used an early purchase option.

Most of the merchandise returned to the rent-to-own store was returned after a relatively short rental duration averaging five months. Fifty-one percent of returned merchandise was

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<sup>104</sup> Table 5.7 also presents results for returned merchandise that was rented for more than a year before being returned. As indicated in the table, the sample sizes for both categories of late-term returns were small. The small sample sizes reflect the fact that few items were returned to the store after rental durations of six months or more.

<sup>105</sup> These figures are calculated from the results presented above. Approximately ten percent of the merchandise rented for six months or more was returned to the store, and 18 percent of these returns were for financial reasons, implying that 1.8 percent of all late-term rentals were returned to the store for financial reasons ( $0.10 \times 0.18 \times 100 = 1.8\%$ ). Similarly, 0.8 percent of all late-term rentals were returned to the store because of a problem with the merchandise or store ( $0.10 \times 0.08 \times 100 = 0.8\%$ ).

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returned within three months, 81 percent was returned within six months, and 90 percent was returned within a year.

The survey found that 59 percent of the merchandise returned to the rent-to-own store was returned because the renter's need for the merchandise had changed, 24 percent was returned for financial reasons, and eight percent because of a problem with the merchandise or store. The merchandise returned to the store for financial reasons represented seven percent of all rent-to-own merchandise, and the merchandise returned because of problems with the merchandise or store represented two percent.

The survey also found that ninety percent of the merchandise on which customers had made substantial payments towards ownership (of six months or more) was purchased by the customer. The other ten percent was returned to the store. Sixty percent of the returns were because the item was no longer needed, 18 percent for financial reasons, and eight percent because of a problem with the merchandise or store. Merchandise returned to the store for financial reasons represented two percent of all merchandise rented for six months or more, and merchandise returned because of some type of problem represented less than one percent. These results suggest that late-term repossessions are not a widespread problem and do not represent the typical experience of rent-to-own customers.

**Table 5.1 Customer Purchase Intentions**

Customer Intentions (N)	Percent of Customers (532)
Purchase	66.8%
Temporary rental	25.0
Wasn't sure	7.8
Don't know	0.3
Refused	0.0

DATA. Survey question RO-7. All percentages weighted.

NOTES. N's are unweighted sample sizes.

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**Table 5.2 Disposition of Rent-to-Own Merchandise: Percentage of Items Purchased, Returned, and Still Being Rented**

Disposition (N)	Percent of All Items (1271)	Rental Date			
		Percent of items rented less than 6 months before the survey (224)	Percent of items rented 6 months to 1 year before the survey (231)	Percent of items rented 1 to 2 years before the survey (287)	Percent of items rented more than 2 years before the survey (515)
Purchased	48.5%	12.4%	30.8%	50.0%	71.4%
Returned	26.9	20.7	28.7	34.1	25.3
Still renting	22.5	66.6	39.3	14.0	2.0
Other	1.1	0.0	0.4	1.6	1.2
Don't know	0.9	0.3	0.9	0.2	0.0
Refused	0.1	0.0	0.0	0.0	0.1

DATA. Survey questions RO-4 and RO-5. All percentages weighted.

NOTES. The rental date indicates the date the customer began renting the merchandise. N's are unweighted sample sizes.

**Table 5.3 Customers Purchasing at Least One Item**

Purchased at Least One Item (N)	Percent of Customers (269)
Purchased at least one item	69.9%
Did not purchase at least one item	30.1

DATA. Survey questions RO-4 and RO-5. All percentages weighted.

NOTES. The sample includes only customers who began renting merchandise more than two years before the survey. N's are unweighted sample sizes.

**Table 5.4 Comparison of Customer Purchase Intentions to the Actual Disposition of Rent-to-Own Merchandise**

Actual Disposition (N)	Customer Purchase Intention		
	Percent of customers who intended to purchase (145)	Percent of customers who intended a temporary rental (65)	Percent of customers who were not sure (24)
Purchased	86.6%	10.1%	46.8%
Returned	9.5	90.0	44.0
Still renting	2.0	0.0	5.0
Other	1.9	0.0	4.2

DATA. Survey questions RO-4, RO-5 and RO-7. All percentages weighted.

NOTES. The sample includes only the randomly-selected items included in the purchase intentions question that the customer began renting more than two years before the survey. N's are unweighted sample sizes.

**Table 5.5 Purchase Rate Estimates for More Recent Rentals**

Disposition of Rented Items (N)	Rental Date			Weighted average of the three time periods (1033)
	Percent of items rented 6 months to 1 year before the survey (231)	Percent of items rented 1 to 2 years before the survey (287)	Percent of items rented more than 2 years before the survey (515)	
(1) Percentage purchased by the survey date	30.8%	50.0%	71.4%	—
(2) Percentage still renting at the survey date	39.3	14.0	2.0	—
(3) Percent of items rented for six months or more that are ultimately purchased	90.0	90.0	90.0	—
(4) Estimated eventual purchases from items still being rented	35.4	12.6	1.8	—
(5) Estimated ultimate purchase rate	66.2	62.6	73.2	68.7

DATA. Survey questions RO-4; RO-5; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. Data in rows (1) and (2) are from Table 5.2. Data in row (3) are from Table 5.8 (with the figures rounded to 90.0 percent in each category). Row (4) is calculated by multiplying row (2) by row (3) and dividing by 100. Row (5) is calculated by adding rows (1) and (4). The rental date indicates the date the customer began renting the merchandise. N's are unweighted sample sizes.

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**Table 5.6 Rental Duration for Purchased and Returned Merchandise**

Rental Duration (N)	Percent of Purchases (144)	Percent of Returns (80)	Percent of Both (224)	Cumulative Percent of Purchases (144)	Cumulative Percent of Returns (80)	Cumulative Percent of Both (224)
Less than 3 months	3.3%	50.8%	20.3%	3.3%	50.8%	20.3%
3 to 6 months	7.2	30.4	15.5	10.5	81.2	35.8
6 months to 1 year	35.6	8.6	26.0	46.1	89.8	61.8
Less than 1 year (non-specific)	0.7	0.0	0.5	46.8	89.8	62.3
<b>Total less than 1 year</b>	<b>46.8</b>	<b>89.8</b>	<b>62.3</b>	<b>46.8</b>	<b>89.8</b>	<b>62.3</b>
1 to 1½ years	31.4	6.5	22.5	78.2	96.3	84.8
1½ to 2 years	9.4	0.0	6.0	87.6	96.3	90.8
2 to 2½ years	4.7	1.3	3.5	92.3	97.6	94.3
More than 2½ years	5.5	1.9	4.2	97.8	99.5	98.5
1 year or more (non-specific)	1.9	0.0	1.2	99.7	99.5	99.7
<b>Total 1 year or more</b>	<b>52.9</b>	<b>9.7</b>	<b>37.4</b>	<b>---</b>	<b>---</b>	<b>---</b>
Don't know	0.4	0.6	0.5	100.1	100.1	100.2
Mean (months)	13.9	4.9	10.7	---	---	---

DATA. Survey questions RO-4; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.

**Table 5.7 Reasons for Returning Rent-to-Own Merchandise**

Reason for Return (N)	Percent of all returned items (80)	Rental Duration	
		Percent of returned items rented for 6 months or more (15)	Percent of returned items rented for 1 year or more (7)
<b><u>Need-Related Reasons (total)</u></b>	59.2%	60.4%	60.1%
Only needed it temporarily / didn't need it anymore	40.1	28.4	35.1
Bought one / got one elsewhere	14.1	23.2	25.0
Changed circumstances (divorce / death in family / move)	5.0	8.8	0.0
<b><u>Cost / Financial Reasons (total)</u></b>	23.5	18.0	13.4
Too expensive / too costly / too much interest	15.4	8.3	0.0
Couldn't afford it anymore / had other expenses	8.1	9.7	13.4
<b><u>Problem-Related Reasons (total)</u></b>	7.6	7.6	0.0
The item did not work properly / item defective	5.6	0.0	0.0
Disagreement with the rent-to-own store	2.0	7.6	0.0
No specific reason given	1.3	7.2	13.6
Other	6.3	6.9	13.0
Don't know	2.0	0.0	0.0
Refused	0.0	0.0	0.0

DATA. Survey question RO-9, 9a, 9b, and RO-9c. All percentages weighted.

NOTES. One response per respondent. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.

**Table 5.8 Disposition of Merchandise Rented for Six Months or More**

Disposition (N)	Rental Duration		
	Percent of items rented for 6 months or more (137)	Percent of items rented for 1 year or more (81)	Percent of items rented for 2 years or more (16)
Purchased	89.9%	92.4%	87.3%
Returned	10.1	7.6	12.8

DATA. Survey questions RO-4; RO-5; RO-8, 8a, 8b; and RO-9, 9a, 9b. All percentages weighted.

NOTES. The sample includes only merchandise that customers began renting more than two years before the survey. N's are unweighted sample sizes.