

The hidden cost of 'Rent to Own'

We've all seen advertisements promoting 'Rent to Buy' or 'Rent to Own' arrangements, where customers rent a product for a number of years before being given the option to buy or keep that product.

This can look reasonable at first glance because the adverts focus on the weekly price. But when you consider that the contract is often for three years (around 156 payments), the total cost of the product hits home.

Want a new TV? \$20 a week for a new 50 inch TV means you'll have paid around \$3000 by the end of the contract, approximately three times the retail price. Indeed, as this document reveals, Rent to Own will often end up costing two, three or even four times more than buying a product outright.

Unfortunately, the overall cost of the lease is often not disclosed, and advertising the weekly rate leaves an unrealistic sense about the cost of their contract. We believe that, in the interest of an effective and competitive market, these companies should disclose the overall cost as well as an imputed rate of interest to show the cost of credit. Terms of contracts should be in plain and simple language we can all understand. This would help consumers make an informed decision about whether this is the right deal for them.

Understanding phone contracts became much clearer once phone providers were required to include the minimum contract cost in their adverts. Consumer Action believes requiring Rent to Own companies to meet the same level of disclosure is a simple way to help consumers and promotes a fair and competitive market.

Method and results

Step 1: Calculating the cost of 'Rent to Own' option

In July 2013, we searched the websites of five Australian companies that prominently advertise a Rent to Own option (Radio Rentals, Rent the Roo, Rent4Keeps, MakeitMine and RediRent) and found prices for eight products: a TV, laptop, fridge/freezer, dishwasher, washer, dryer, cot and stroller. We chose these products because they represent standard products that most households need. Where prices are advertised for many different varieties, we have chosen a basic or mid-range models rather than a deluxe version. We then calculated total cost by multiplying the advertised weekly price by the relevant minimum term.

Radio Rentals minimum term is three years, Make it Mine's is 12 months. RediRent's 'Rent 2 Keep' option requires a 2 year minimum, but the prices they quote online are based on a three year term. Rent the Roo don't indicate the length of their minimum term, but say that the weekly price they advertise is based on a three year term. Rent4Keeps don't say what their minimum term is on their website, but staff confirmed to us on the phone that the prices online assume a three year term.

Step 2: Finding a retail price for comparable products

We then searched on the internet for retail prices for the same or similar products. For each product we have listed a price from at least one retailer and the results of a search on at least one price comparison website. We have made a good faith effort to show the spread of prices we found offered by both lease providers and retailers—we haven't just listed the cheapest or more expensive prices.

Step 3: Calculating the cost of buying on credit

Finally, we also wanted to give an indication of how much it would cost to buy goods on credit instead of Rent to Own. For each item, we have taken the most expensive retail price we quote and shown how much it would cost to buy those goods with high cost credit. We used the personal loan calculator on moneysmart.gov.au, assuming

20% interest (this is around the cost buying on an expensive credit card—about the maximum a consumer is ever likely to pay for credit), weekly repayments (to allow a comparison with per week prices advertised by lessors), a three year term (most Rent to Own contracts are for a minimum of three years) and no other fees.

We haven't always been able to compare the exact model offered by both the lease provider and the retailer.

Often this isn't possible—the websites of the lease providers often don't say which models or even brands they have on offer. Rent4Keeps and Rent the Roo specify that customers can rent any product from any supplier and the prices on the website are indicative only. Others (such as Radio Rentals) give specifications about the model they have on offer and RediRent may give a model number. Where we can find specifications or model numbers we have compared retail prices for products which match as closely as possible. Even where lease providers don't give details, they give a minimum or indicative price. We think it is fair to compare that price against a retail price for a basic model.

We are aware that the lease providers may offer more products that aren't advertised on their website and they might also offer deals for prices cheaper than those advertised.

However, based on the information available to us (and indeed any other consumer, if they had the time to look), we believe our finding that Rent to Own generally costs about three times the cash price is correct. For each product we have quoted prices of at least two lease providers. In most cases the prices quoted by the lease providers are similar, so we are confident that the prices shown here are the prices that people are paying. We've also shown retail prices from multiple sources to be sure they are reasonable retail prices for the same (or at least very similar) goods that are being offered by lease providers.

What we found

Expect Rent to Own to cost at least twice retail price, often three times and sometimes more

Consumers should expect Rent to Own to cost at least twice retail price, often three times and sometimes more. Consumers might be able to find a better deal by shopping around, but our searches usually found the Rent to Own cost to be at least twice retail price and can be much more: for example, we found dishwashers to be around 5 times retail price.

Rent to Own is much more expensive than even a high cost credit card

Rent to Own is still expensive when compared to buying on credit at 20% per annum. While we wouldn't recommend anyone buy a large household appliance on their credit card, it was a little surprising to find that even an expensive credit card seems a cheaper option than the cheapest Rent to Own. This suggests that Rent to Own is among the most expensive ways anyone can get their hands on new household goods.

Product	Retail price	Credit price	Rent to own price
HD plasma television	\$749 - \$1049	\$1397	\$3112 - \$3893
Basic laptop	\$488 - \$689	\$918	\$1040 - \$2644
Fridge/freezer	\$565 - \$599	\$798	\$1510 - \$1864
Dishwasher	\$373 - \$492	\$655	\$2332 - \$2644
Washing machine	\$428 - \$499	\$655	\$1115 - \$1552
Clothes dryer	\$363 - \$431	\$574	\$960 - \$1396
Cot	\$270 - \$999	\$666	\$1552 - \$2488
Mid-range stroller	\$100 - \$300	\$400	\$772 - \$1392

HD Plasma TV - 50 inch (127cm)

Cash price

Harvey Norman: \$795

LG 50PN6500

The Electric Discounter: \$749

LG 50PN6500

GetPrice: \$727-\$1,049

LG 50 PN6500



Buy on credit

\$1397 for a purchase worth \$1049

(\$9 per week for 3 years)

Rent to own

Rent4Keeps: \$3892.20

LG TV (\$24.95 p/week for 36 months)

Rent the Roo: 3580.20

Brand not specified (\$22.95 p/week for 36 months)

Radio Rentals: \$3112.20

LG TV (\$19.95 p/week for 36 months)



Further details on the products referred to here are available on page 9.

Basic laptop

Cash price

JB Hi Fi: \$575.45

Acer Aspire 15.6" Touchscreen

Technopolis: \$598

Acer Aspire V5 Touch

MyShopping: \$448-\$689

3 comparable products in this price range.



Buy on credit

\$918 for a purchase worth \$689

(\$6 per week for 3 years)

Rent to own

Radio Rentals: \$2644.20

Acer Aspire Touchscreen Notebook
(16.95 p/week for 36 months)

Rent the Roo: \$2176.20

'mini notebook computer'
(\$13.95 p/week for 36 months)

MakeitMine: \$1040

'Acer brand Everyday laptop'
(\$20 p/week for 12 months)



Further details on the products referred to here are available on page 9.

Cot

Cash price

Baby Bunting: \$299-\$449

30 options in this price range

Target Baby: \$290-\$999

8 cots in this price range

Baby Zone Direct: \$270 - \$500

13 options in this price range



Buy on credit

\$666 for a purchase worth \$500

(\$4 per week for 3 years)

Rent to own

Rent the Roo: \$1552.20

Brand not specified
(\$9.95 p/week for 36 months)

Radio Rentals: \$1708.20

Convertible cot/bed + mattress
(\$10.95 p/week for 36 months)

Rent4Keeps: \$2488.20

'Matilda cot'
(\$15.95 p/week for 36 months)



Further details on the products referred to here are available on page 9.

Mid-range stroller

Cash price

GetPrice: \$100-\$300 + shipping

55 options in this price range

Baby Bunting: \$99-\$299

9 options in this price range

Target: \$149 - \$299

11 items in this price range



Buy on credit

\$400 for a purchase worth \$300

(\$3 per week for 3 years)

Rent to own

Rent the Roo: from \$772.20

Brand not specified (\$4.95 p/week
for 36 months)

Rent4Keeps: from \$772.20

Brand not specified (\$4.95 p/week
for 36 months)

Radio Rentals: from \$1392.20

Babylove stroller (\$8.95 p/week for
36 months)



Further details on the products referred to here are available on page 9.

Washing machine - 5.5kg top loading

Cash price

Harvey Norman: \$479

Fisher and Paykel MW513

**AppliancesOnline: \$477
+ shipping**

Fisher and Paykel MW513

**MyShopping: \$428-\$499
+ shipping**

Fisher and Paykel MW513



Buy on credit

\$665 for a purchase worth \$499

(\$4 per week for 3 years)

Rent to own

Radio Rentals: \$1552.20

Fisher and Paykel
(\$9.95 p/week for 36 months)

MakeltMine: \$1144

Haier (\$22 p/week for 12 months)

RediRent: \$1115.40

Fisher and Paykel
(\$7.15 p/week for 36 months)



Clothes dryer - 5 Kg

Cash price

Harvey Norman: \$428

Fisher and Paykel DE50F56E1

The Good Guys: \$419

Fisher and Paykel DE50F56E1

**GetPrice: \$363-\$431
+ shipping**

Fisher and Paykel DE50F56E1

12 retailers in this price range



Buy on credit

\$574 for a purchase worth \$431

(\$4 per week for 3 years)

Rent to own

Radio Rentals: \$1396.20

Fisher and Paykel
(\$8.95 p/week for 36 months)

RediRent: \$960.96

Fisher and Paykel
(\$6.16 p/week for 36 months)



Fridge/Freezer - medium sized

Cash price

MyAppliance: \$585

Daewoo FR-360

**GetPrice: \$565-\$599
+ shipping**

Daewoo FR-360

4 retailers in this price range.



Buy on credit

\$798 for a purchase worth \$599

(\$5 per week for 3 years)

Rent to own

Rent the Roo: \$1864.20

Brand not specified
(\$11.95 p/week for 36 months)

Radio Rentals: \$1708.20

Daewoo 353L
(\$10.95 p/week for 36 months)

RediRent: \$1510.08

Daewoo 353L
(\$9.68 p/week for 36 months)



Dishwasher - 12 settings

Cash price

Harvey Norman \$449

Dishlex DX103WK

Masters: \$414

Dishlex DX103WK

**GetPrice: \$373-\$492
+ shipping**

Dishlex DX103WK



Buy on credit

\$655 for a purchase worth \$492

(\$4 per week for 3 years)

Rent to own

Rent the Roo: \$2644.20

Brand not specified
(\$16.95 p/week for 36 months)

Radio Rentals: \$2332.20

Dishlex model with 12 settings
(\$14.94 p/week for 36 months)



Recommendations

- Shop around. Before you enter a Rent to Own contract, do some research and get an idea of the value of the goods you want.
- Do the maths. Ask your lease provider to tell you what the total price of the goods will be under a Rent to Own deal. If they're not willing to be upfront about it, shop somewhere else.
- Be aware that a Rent to Own deal will lock you into a contract for a while, and there could be large fees if you terminate early. A Rent to Own contract will tie you down for at least one year and maybe three. Make sure you know how long it is, and ask what termination fees apply if you can't keep up the repayments and want to cancel early and hand the goods back.
- Consider other options: if you have a Health Care Card or Concession Card, you might be eligible for a No Interest Loan (NILS) or another community finance provider as an alternative. NILS is a community-based program offering low income applicants no interest loans for essential household goods and services. For information: <http://goodshepherdmicrofinance.org.au/>.
- We're aware that some lease providers say that their additional costs are because they offer insurance, or replace or repair goods if faulty or damaged. However, under the Australian Consumer Law, all retailers are required to provide consumer guarantees with goods sold, and are obliged to provide a refund or exchange where an item has a major problem. We don't think the additional costs being charged by lease providers are worth it, given the strong consumer protections Australians already enjoy.

Further advice

If you are having money or debt problems you can speak confidentially to a free and independent financial counsellor on 1800 007 007 or at get advice at www.moneyhelp.org.au.

If you are having trouble with a Rent to Own contract talk to the lease provider. If you are unhappy with its response speak to an ombudsman. The lease provider will be a member of either the Financial Ombudsman Service or the Credit Ombudsman Service.

Victorians can get free advice from Consumer Action Law Centre by emailing advice@consumeraction.org.au or calling 9629 6300 (1300 881 020 for country callers). People in other states and territories can get free advice from their local community legal centre.

Further information of products

HD Plasma TV notes

Cash Prices are for an LG 50PN6500 Full HD, which is the closest match we could find advertised for the Radio Rentals product. The Electric Discounter's price was marked 'super special'.

Basic laptop Notes:

All prices are for the cheapest laptops advertised by the lease providers. All cash prices are for Acer Aspire models featuring, Intel core i3, 15.6" screen, 4GB RAM and 500GB HDD. These features match those advertised by Radio Rentals and MakeltMine.

Cot notes:

Where a retailer had a large number of cots we have listed retail prices between up to \$500 as this appears to capture low to mid-range products.

Rent the Roo's website does not specify a brand or model, simply that a cot can be rented 'for as little as' \$9.95 per week for a 36 month term. We assume this price must be for a low cost cot because 'from as little as' indicates that this is the price cot Rent the Roo will provide.

Total range of cots from Baby Bunting is 27 priced between \$299-1499. Total range of cots from Baby Zone is 18 priced between \$270 - \$720.

Mid-range stroller notes:

We have listed retail prices between around \$100 and \$300 as this appeared to be the mid-range price for strollers. We think this is a fair comparison as each lessor's price was stated as being 'from' the price advertised, suggesting this was the cheapest option available.

Total range of strollers from Target is 18 priced between \$25-\$499. Total range of strollers from Baby Bunting is 19 priced between \$49 - \$679. Total range of strollers from GetPrice is 134 priced between \$36 - \$1869.