



TERRY MOULTON



WISCONSIN STATE SENATOR

23RD SENATE DISTRICT

From: Senator Terry Moulton
To: Joint Meeting of the Senate Committee on Ag, Small Business & Tourism and the Assembly Committee on Jobs & the Economy
Re: Testimony on Senate Bill 637 & Assembly Bill 759
Relating to: regulation of rental-purchase agreements and granting rule-making authority
Date: January 30, 2018

Thank you Vice-Chairman Tiffany, Chairman Neylon and members for allowing me to testify on Senate Bill 637 & Assembly Bill 759 this afternoon. I appreciate the opportunity to work with Representative Petryk on this important piece of legislation.

Wisconsin is one of only three states in the country that does not have a dedicated state statute to define and regulate rent-to-own stores and their transactions. They are currently regulated under the Wisconsin Consumer Act which was written prior to the advent of the rent-to-own concept and does not adequately account for the unique nature of this business. Therefore, rent-to-own stores are virtually non-existent in our states.

Rent-to-own stores serve a distinct consumer population that may not otherwise have reasonable access to household items many of us would consider essential today such as a washer and dryer. Without access to this type of merchant in Wisconsin, many consumers have been forced to turn to high-risk credit sales stores where they run a significant risk of entering a downward spiral of debt and worsening credit. The proposed changes reflected in these bills will incentivize the creation of more rent-to-own stores in Wisconsin and provide affordable, alternative choices for consumers.

SB637 and AB759 create state statutes with language similar to virtually every other state in the nation and distinguishes the rent-to-own transaction from consumer credit sales and other consumer lease transactions. They include important provisions to ensure transparency in the transaction and protect consumers.

Finally, we are in the process of drafting an amendment to address some of the concerns we have heard so far from stakeholders and the Department of Financial Institutions and we would certainly consider additional changes based on today's testimony. We believe the time is right to give Wisconsin consumers access to rent-to-own stores and we look forward to the rest of today's hearing to discuss this issue further.

Serving the 23rd Senate District



WISCONSIN CATHOLIC CONFERENCE

TESTIMONY IN OPPOSITION TO SENATE BILL 637 AND ASSEMBLY BILL 759: RENT-TO-OWN TRANSACTIONS

**Presented to the Senate Committee on Agriculture, Small Business and Tourism,
and the Assembly Committee on Jobs and the Economy**

By Barbara Sella, Associate Director

January 30, 2018

On behalf of the Wisconsin Catholic Conference (WCC), I thank you for this opportunity to testify in opposition to Senate Bill 637 and Assembly Bill 759, which would remove regulation of rent-to-own (RTO) transactions from the Wisconsin Consumer Act (WCA).

Our opposition is grounded both in Catholic social teaching – with its emphasis on the dignity of human life and special concern for the poor and marginalized – and in the practical experience of our Catholic Charities agencies and Society of St. Vincent de Paul councils, who regularly minister to families in need.

Staff at these charitable organizations tell us that rent-to-own agreements, and similar transactions that burden people with high interest rates and expensive loan agreements, are major causes of financial hardship for low-income families. This was affirmed by the Archbishop of Milwaukee, Jerome E. ListECKi, in a statement he made in 2013, when there was a similar effort to diminish consumer protections for RTO transactions. His position and ours have not changed.

The current proposal is of particular concern for the following reasons:

1. In addition to exempting RTOs from the Wisconsin Consumer Act, the proposal specifically exempts RTO transactions and agreements from the Uniform Commercial Code, which provides additional safeguards for consumers.
2. It eliminates many consumer protections involving RTO fraud or misrepresentation.
3. It removes federal Truth-in-Lending Act disclosures, including interest rate disclosures.
4. It removes clear disclosure of processing charges, delivery fees, optional fees, and other charges.
5. It removes warning to consumers not to sign agreements with blanks, which can leave customers vulnerable to fraud.
6. It entitles RTOs to immediate possession of the property, if customers are

late on payments. The WCA currently requires 15 days before repossession and opportunity to cure the default.

7. It makes it more difficult for consumers to recoup attorney's fees or take punitive or injunctive legal action against RTO companies that have wronged them.

Simply put, if Senate Bill 637 and Assembly Bill 759 become law, Wisconsin will be opening its doors to businesses that have not served other states well. The personal finance website NerdWallet, in conjunction with a news media outlet, published an investigative series this year on RTOs, focusing on the problems that other states have encountered with Rent-A-Center, one of the largest rent-to-own retailers nationwide.¹ In Ohio, Republican Attorney General Mike DeWine has offered a severe critique of Rent-A-Center² and as a result of his experience specifically recommends avoiding RTOs altogether.³

It is a tragic circumstance of poverty that those who are least able to pay for goods often end up paying the most. Public policy should not compound that tragedy by encouraging business practices which take undue advantage of the poor to proliferate in our state.

Finally, just last month, Governor Walker signed Wisconsin Act 94, requiring financial literacy instruction in grades K to 12. It makes little sense today for the Legislature to make special concessions to an industry that seeks to roll back certain basic consumer protections and that refuses to disclose the type of information that students will be taught to seek out in financial transactions.

For these reasons, we respectfully urge you to retain current law, which requires that RTOs abide by the Wisconsin Consumer Act. It has protected Wisconsin consumers well and still allowed law-abiding, state-based rent-to-own businesses to thrive.

Thank you.

¹ For one of the NerdWallet articles, see <https://www.nerdwallet.com/blog/finance/rent-to-own-complaints-spur-federal-scrutiny>. The remainder can be found in the article's right-hand column.

² http://www.dailyindependent.com/national/retailer-of-last-resort/article_3f121586-c0c3-11e7-9b19-5b0df0055d1f.html.

³ <http://www.ohioattorneygeneral.gov/Files/Publications-Files/Publications-for-Consumers/On-Your-Own-But-Not-Alone-%28PDF%29.aspx>

Date: January 30, 2018

To: Members of the Assembly Jobs and Economy Committee and members of the Senate Committee on Agriculture, Small Business and Tourism

From: Representative Petryk

Re: Assembly Bill 759/Senate Bill 637

Good afternoon, and thank you, Chairman Neylon and Chairman Moulton, and members of the Assembly Committee on Jobs and the Economy as well as members of the Senate Committee on Agriculture, Small Business and Tourism for the privilege to testify today in favor of this job-creating and job-sustaining bill, AB 759, which creates a legal and transparent framework for the rent-to-own, or Rental-Purchase Agreement industry in Wisconsin.

Seldom in this building do we Legislators get the incredible and fortunate opportunity before us today; the opportunity to support legislation that actually contains the sustainability of hundreds of existing manufacturing and sales careers, and the future creation of hundreds of new manufacturing and sales careers in one bill. Those opportunities are intimately connected with our passage of this legislation.

Forty-seven States currently recognize the unique and distinct method of doing business known as Rental-Purchase Agreements. Unlike any other industry, the Rent-to-Own paradigm offers people the opportunity to obtain the use of household goods such as furniture, appliances, electronics, and computers through a short or long-term, no down-payment transaction, with options to buy at any time, or return the product at any time. This offers the consumer a simple, easy-to-enter

and easy-to-terminate, financially flexible number of options while renting the product. Consumers are never obligated to rent beyond the initial term, and they can return the product at any time without penalty and without any negative consequences to their consumer credit rating. Simply put, the Rental-Purchase Agreement allows the consumer the ultimate in freedom of flexibility, freedom of options, and freedom of consumer choice. Aren't these some of the core principles important to each of us who believe in a free market system?

Who will utilize the Rental-Purchase Agreement? A wide variety of consumers, including:

- Business people in a short term or temporary position who wish to furnish an apartment or office
- Military personnel, frequently transferred from base to base, but who want comfortable and useful furniture and appliances in their homes with no intention of hauling heavy durable goods from assignment to assignment.
- College students sharing apartments or dormitory rooms
- Political campaign office set ups
- Summer rentals
- People wanting state-of-the-art televisions for Super Bowl or Final Four parties
- Hard-working families and individuals who want a choice in how they manage their finances without the burden of long-term debt, with the flexibility they need to meet sometimes uncertain economic circumstances

The Rental-Purchase industry once provided services in Wisconsin. However, a series of court decisions in the 1990's and early 2000's all but eliminated the industry by subjecting it to the Wisconsin Consumer Act. The Act was designed and intended to protect consumers entering into credit transactions, which burden the consumer with a long-term obligation to repay a debt; a debt the consumer cannot simply walk away from without negative credit consequences. It was not designed for unique transactions such as Rental-Purchase, in which the consumer is free to terminate the agreement at any time. Rental-Purchase in

Wisconsin, like the industry in 47 other states, must be regulated separately from credit. Rental-Purchase should be regulated in a fashion that recognizes the unique flexibility the transaction provides to the consumer. This industry has no desire to eliminate regulation that protects the consumer, but rather wants pertinent regulatory certainty to encourage and incentivize new businesses in Wisconsin. This bill will provide clear special regulation for rental-purchase companies.

Because of its unique nature, a new section of State statutes must be created which will recognize this fact and avoid subjecting such transactions to Wisconsin laws which regulate traditional consumer credit sales. New definitions which will highlight the regulation of these transactions by the Department of Financial Institutions must be created in a specific and limited fashion. For example, the rental property is only that used for "personal, family, or household purposes" and the initial term of the agreement cannot exceed four months. This transaction is very easy to enter and very easy to terminate which is ideal for consumers who want or need the financial flexibility that only this unique transaction affords.

The unique nature of the transaction also means that certain consumer protections that are not required in credit transactions should be required in Rental-Purchase transactions. That is why AB 759 includes specific price limitations, early purchase option rights, and generous agreement reinstatement rights. This bill contains much more than adequate consumer protections while providing regulatory certainty to the industry.

As the U.S. Federal Trade Commission observed in its 2000 Survey of Rent-To-Own Customers:

"Rent-to-own dealers typically include delivery, pickup, repair, loaner, and other services in the basic rent-to-own rental rate. Many traditional retailers charge extra fees for these services, reflecting the value to the consumer and the cost to the seller. The return option provided with rent-to-own transactions also provides value to consumers and imposes costs on dealers, including the costs of retrieving, refurbishing,

restocking, and re-renting the returned merchandise.”

Reinstatement rights are another important feature of the Rental-Purchase transaction. Reinstatement gives consumers the option to end the agreement at any time, without additional cost or penalty, and then later reinstate the agreement without losing any of the value of payments already made by the consumer.

Finally, AB 759 permits the Department of Financial Institutions to determine the appropriate Rental-Purchase disclosures through their rulemaking process. This will allow the DFI to review a broad range of existing Rental-Purchase disclosure methods and select what is best protection for Wisconsin consumers. Senator Moulton and I are already working with the DFI regarding a substitute amendment to this legislation that will address Department concerns.

In conclusion, it is my hope that this Committee will recognize the unique qualities of the Rental-Purchase Agreement transaction and the urgency of moving this legislation forward. The benefits of doing so will be appreciated by new job-creators willing to open businesses in Wisconsin, current job-creators willing to remain in and expand their businesses in our State, and of course, our Wisconsin consumers and taxpayers who wish to choose this valuable and flexible method of doing business. The time is now for action on this very important piece of legislation.

Thank you so much, Chairman Neylon and Chairman Moulton, as well as members of both Committees, for your kind attention to AB 759/SB 637.



STATE REPRESENTATIVE
GORDON HINTZ

WISCONSIN STATE ASSEMBLY

54th DISTRICT

January 30, 2018

Testimony from Representative Gordon Hintz (D-Oshkosh) on AB 759

Thank you Chairs Moulton and Neylon and committee members.

The bill before you on the rent-to-own (RTO) industry, has been introduced in some form or another for the past 18 years.

It was vetoed by Governor McCallum and Governor Doyle

Six years ago it was introduced at the very end of the 2012 session.

In 2013, Governor Walker included it in his budget proposal. Thanks to the bipartisan opposition of Senator Lena Taylor and former Senator Grothman, Senator Cowles and then Representative Nass, as well as many consumer advocates, the RTO provision was removed.

It has been considered as an amendment during the past two budgets as well.

So here we are with just over three weeks left in the legislative session at a joint hearing on the same proposal.

It is important to recognize that the state of Wisconsin does not currently regulate Rent-to-Own stores in Wisconsin. I drove past the Get-it-Now store on East Washington this morning. And if you want to rent to own a \$500 washer for \$1500, you can. In fact you can do so at, at least 38 locations throughout Wisconsin. So while Wisconsin doesn't currently regulate industry practices, Wisconsin does regulate disclosure.

So if rent-to-own stores can already operate in Wisconsin, why is this legislation so important to national RTO industry?

The principle reason the industry seeks to be exempt from the Wisconsin Consumer Act is that it does not want to have to reveal to consumers how much it is charging to consumers.

Beyond removing the requirement of interest rate disclosure, there are numerous other consumer protections that would be removed under this legislation including: Required notice of consumer rights; Notice of payment obligation; balloon payment prohibition; limitation of default charges; maximum periods of repayment.

In addition: the consumer would lose due process when an item has been repossessed. One of the main goals of the WI Consumer Act was to eliminate the practice of "self help repossession" where the repossession of an item is based on the terms of a contract rather than a court order. Confrontation, disagreement, and strong arm collection tactics would be the norm.

In fact 90% of the complaints against the national Rent-a-Center chain in other states are for harassing debt collection practices.

So Why Should you Care?

Watch a RTO marketing video and you can see how to market to young and financially inexperienced borrowers who have bank accounts and steady jobs, but also have little in savings, flawed credit or have hit their credit limit. These borrowers are less likely to weigh the predatory loan against other opportunities and are less likely to be concerned about the consequences of taking the loan.

We just passed a financial literacy law in Wisconsin. And the proposed legislation is inconsistent with the model curriculum goals on the Department of Public Instruction. We should not be requiring our kids to learn about financial disclosure and consumer rights on the one hand, and then removing financial disclosure and consumer protections on the other. If we pass this bill, what was the point of our financial literacy bill?

In addition, the Department of Financial Institutions and DATCAP both include information warning against the high cost trap of RTO businesses. Passing this bill would seem inconsistent with this information.

RTO stores provide customers products based on access to assets (through checks, bank accounts) and guaranteed continued income, but not on the ability of the borrower to repay the loan without experiencing further financial problems.

According to the Federal Trade Commission, Customers ultimately purchased 70% of the merchandise they obtained through RTO transactions. The purchase rate was consistently high (at least 60%) across most demographic groups. 67% of customers intended to purchase the merchandise when they began the RTO transaction.

The Bureau of Economic study reported that thirty-one percent of RTO customers in the survey were African American, 79% were 18 to 44 years old, 73% had a high school education or less, and 59% had household incomes of less than \$25,000.

The FTC found some evidence that state laws like Wisconsin's that require disclosure of the total purchase cost on product labels of RTO products were associated with lower levels of consumers who intended to purchase RTO merchandise and higher levels of those who intended only to rent temporarily. Consumers living in states that required disclosure of the total purchase costs on product labels were 30 percent less likely to use RTO transactions with the intent to purchase than consumers living in other states.

The FTC study results would be consistent with a conclusion that some customers underestimate the cost of RTO transactions in the absence of the total cost disclosures (perhaps focusing instead on the low payments and immediate access) and that the disclosures more fully inform these consumers, leading some to make different decisions.

At the hearing in 2012, industry representatives testified that passage of a bill that exempted RTO industry from Wisconsin Consumer Act would result in the expansion in the number of RTO stores in Wisconsin from 38 to 300.

With stagnant population growth and plenty of existing retailers selling furniture and appliances, ask yourself why the RTO industry believes that removal of financial disclosure and consumer protections would lead to 8 times the number of existing stores?

The answer is that there remains a growing market of lower income individuals with bad credit to be taken advantage of. The numbers in other states reflect this assessment.

~~Beyond new brick and mortar stores in more communities, large national chains like Rent-a-Center have~~ expanded into providing RTO kiosks at other retailers. For instance, think of someone who wants to purchase a couch at Ashley Furniture but has no money. First they are offered a credit card option. If they don't qualify, they can now access a RTO kiosk and leave with a couch despite having little money and horrible credit. The poverty industry has learned how to make money off of people who do not have any money.

Why AB 579 is BAD Policy:

- It expands a predatory industry that allows people who do not have money or credit to be able to rent/buy products at 3 to 4 times the retail price.
- It takes money out of our economy that would otherwise be spent on food, goods, and services in our local communities.
- It undermines the financial security of families leading to more people stuck in the debt trap paying high cost interest instead of spending income on food and services.
- It is another special interest giveaway that prioritizes an industry at the expense of Wisconsin citizen's financial well-being.
- Whether victims ought to protect themselves is irrelevant. The fact is that they do not. Most consumers of high-cost credit have no idea what they're getting themselves into as there is no real informed consent.

Lastly, I have heard some refer to AB 579 as a jobs bill. Really?

AB 582 is bad for the economy. Lower income individuals' spending money on high-cost credit takes money out of our economy that would otherwise be spent on food, goods, and services in our local communities.

Remember when lending money to people to buy houses that they couldn't afford was a good idea?

But are jobs that are dependent on taking advantage of those with less financial literacy the kind we're looking to create?

And at what expense?

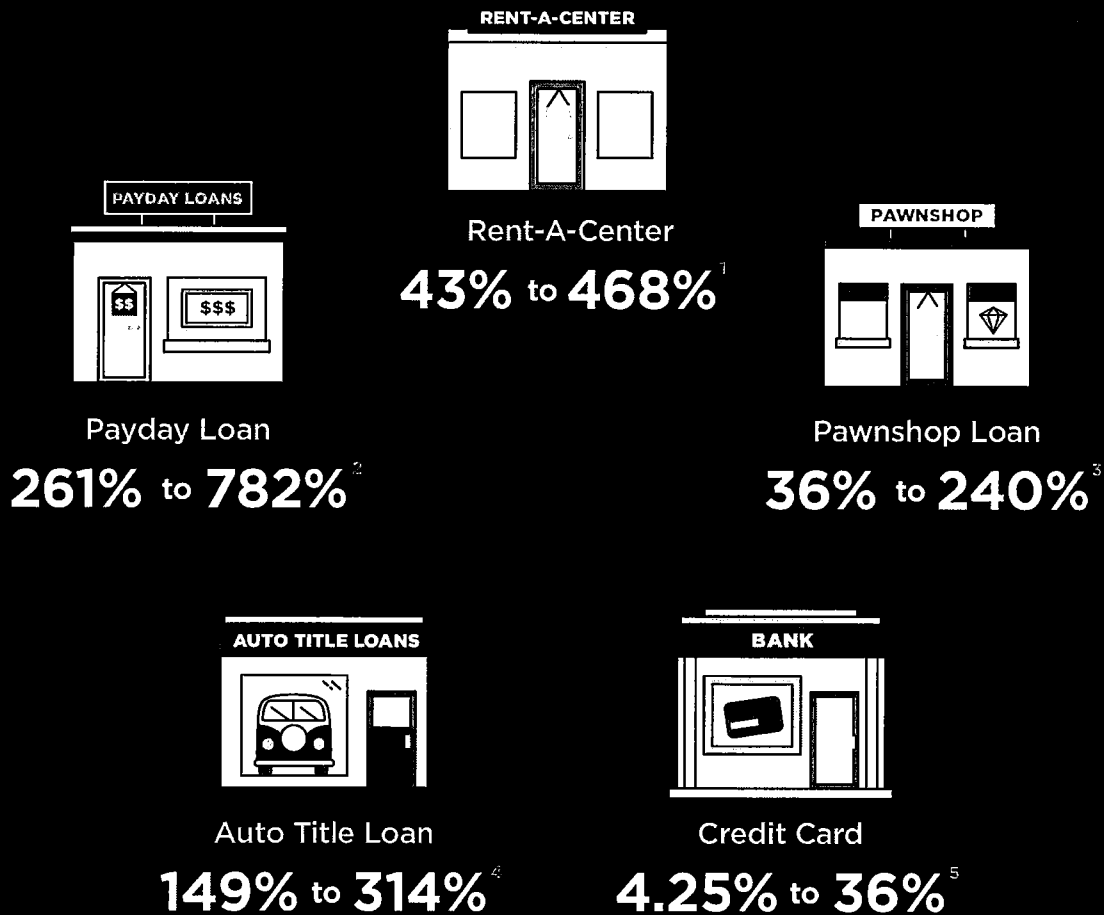
Over the past few years, I have met with credit counselors, mediators, collections agents, fair housing advocates, community advocates and county social services. The debt trap from RTO business erodes worker earnings and for many imposes a devastating high-cost debt burden. Bankruptcy, evictions, and taxpayer assistance are not uncommon results. This crushing debt exacerbates income inequality and undermines long-term economic prosperity.

I appreciate the bipartisan opposition to past attempts to enable the expansion of this predatory industry.

Thank you.

The high cost of rent-to-own

NerdWallet's analysis found that Rent-A-Center charges effective annual percentage rates similar to those collected by payday, auto title or pawnshop lenders. In a rent-to-own transaction, the rate is heavily influenced by the length of your lease. Here's how Rent-A-Center stacks up.



SOURCES:

- 1. NerdWallet analysis of Rent-A-Center by zip code in New Jersey, where rates for rent-to-own transactions are capped at 20%. Rent-to-own agreements are loans, not leases. NerdWallet calculated an effective APR for Rent-A-Center loans.
- 2. Consumer Financial Protection Bureau data
- 3. PawnData
- 4. New Car Lease Trusts report
- 5. NerdWallet data



The Predatory Rent-to-Own Industry Undermines Our Military

"Predatory lending practices are prevalent and target military personnel, either through proximity and prevalence around military installations, or through the use of affinity marketing techniques, particularly on-line. The predatory lenders reviewed as part of this report provide short term loans (payday, car title, and tax refund anticipation loans) and installment loans (unsecured loans focused on the military and rent-to-own).

"However, predatory lending undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force. Education, counseling, assistance from Aid Societies, and sound alternatives are necessary but not sufficient to protect Service members from predatory lending practices or products that are aggressively marketed to consumers in general and to military personnel directly."

U.S. Department of Defense's Report on Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents, August 9, 2006

"[A] lot of local rip-off artists know that, if a military customer is going to move away, that person is not going to have the time or the money to come back and go after them in small claims court. So they can pretty much rip them off with impunity ..."

"A lot of it, frankly, is right outside the gates and has big signs saying "Military E-1 and Up," "We love our military," and "Military discounts -- shop here!" They want them to walk in the door. You find everything from buy-here-pay-here car dealers, to electronics stores selling items at high prices and even higher financing, to rent-to-own furniture stores where you end up paying a lot more than it's worth -- if you make it all the way through the payments. If you don't, of course, the furniture just goes back and you have nothing to show for those payments that you made."

Holly Petraeus, Office of Servicemember Affairs, U.S. Consumer Finance Protection Bureau, May 1, 2011

"Military communities have a greatly expanded list of such vulnerabilities, including:

- ***Higher-than-average numbers of economically-unsophisticated young adults, away from home for the first time and anxious to experience new things.***
- ***A working population that universally receives U.S. Government paychecks on a rock-solid schedule ñ a golden guarantee to the payday lending industry especially -- and that is in no danger of being laid off.***
- ***A population that is easy for debt collectors to track."***

National Consumer Law Center *"In Harm's Way at Home: Consumer Scams and the Direct Targeting of America's Military and Veterans*

"In almost any military town, there are a couple of rent-to-own furniture stores. The idea is appealing - go in, pick out the stuff you want, and make monthly payments. And there's no credit needed, so it doesn't matter if you're over your credit limit on your credit card, you have a collections account against you from your previous landlord, or you just don't have any credit history.

So, what's the trouble with renting-to-own? Renting-to-own costs many times the true value of the product.

For example, a national rent-to-own company offers a washer and dryer set for "just" \$99.99, plus tax, per month, and after just 24 months, it is yours to keep! That's a total payment of \$2399.76.

This washer retails for \$499 at the big-box home improvement stores, and the dryer is also \$499. Use your military discount, and this pair will cost \$900, plus local area taxes.

The rent-to-own option is \$1500 more expensive than purchasing the washer and dryer outright.

Of all the options for furnishing your home, rent-to-own is almost always the most expensive."

Kate Horrell, Military.com, *"The Problem With "Rent To Own" Deals"*

Vote NO on AB 759: Unregulated Rent-to-Own Expansion

AB 759 is bad for the economy. Lower income individuals' spending money on high-cost credit takes money out of our economy that would otherwise be spent on food, goods, and services in our local communities.

"one of the tragic circumstances of poverty is that those who are least able to pay for goods often end up paying the most. Public policy should not compound that tragedy by encouraging businesses that depend ignorance and indebtedness".

-Barbara Sella, Associate Director, Wisconsin Catholic Conference, Feb. 28, 2012 Testimony Opposing AB 582, Rent-to-Own Expansion

"It's expensive being poor. And with the misery index high and unemployment persistently high, that's good news for those in the poverty business. The working poor have become Big Business—with the invention of the payday loan, rent to own, and a long list of diabolically clever ideas that entrepreneurs have devised to get hundreds-of-millions rich off those with thin wallets."

"The genius of rent to own from a business standpoint is that its proprietors have figured out how to collect \$1,400 in weekly installments for the same children's bedroom set you could pick up for \$600 if only you had a credit card. Can't afford a computer for the kids? No problem. The corner rent-to-own store also carries laptops and PCs, along with flat-screen TVs, washers-driers, and furniture of all kind."

"The average rent-to-own customer spent \$1,200 in 2009. That means that typical customer, because she doesn't have a credit card, paid an extra \$700 above and beyond the normal cost of an item. The rent-to-own customer, of course, could choose to set aside some money each week and buy the item in a retail store once she had saved enough money. She could frequent a secondhand store. But ours is a country where so many middle-class people proved willing to mortgage the future for a new bathroom or a large flat-screen TV. The point is that for the security guard making \$25,000 a year or the home health aide making \$20,000, they're typically paying two and a half times as much for that same item."

-Gary Rivlin, author of *Broke, USA: From Pawnshops to Poverty, Inc.—How the Working Poor Became Big Business*. Newsweek, America's Poverty Tax, September 8, 2011

AB 759 Enables the Rent-to-own industry that continue to undermine our service men and women in the United State Military.

The rent-to-own industry was one of the predatory lenders described in the U.S. Department of Defense's "Report On Predatory Lending Practices Directed at Members of the Armed Forces and Their Dependents (August 9, 2006, p. 19-20)" for targeting military personnel. The financial impact of businesses such as rent-to-own on our service men and women "undermines military readiness, harms the morale of troops and their families, and adds to the cost of fielding an all volunteer fighting force." Financial issues account for **80 percent** of security clearance revocations and denials for Navy personnel.

" [A] lot of local rip-off artists know that, if a military customer is going to move away, that person is not going to have the time or the money to come back and go after them in small claims court. So they can pretty much rip them off with impunity ..."

"A lot of it, frankly, is right outside the gates and has big signs saying "Military E-1 and Up," "We love our military," and "Military discounts -- shop here!" They want them to walk in the door. You find everything from buy-here-pay-here car dealers, to electronics stores selling items at high prices and even higher financing, to rent-to-own furniture stores where you end up paying a lot more than it's worth -- if you make it all the way through the payments. If you don't, of course, the furniture just goes back and you have nothing to show for those payments that you made."

**-Holly Petraeus, Office of Servicemember Affairs,
U.S. Consumer Finance Protection Bureau, May 1, 2011.**

"Rent-to-Own Stores", listed first under "most common money drains" by The National Military Family Association in partnership with the National Endowment for Financial Education. www.militarymoney.com

AB 759 is considered a costly scam by our own Dept. of Financial Institutions

"Most customers rent-to-own with the intent of eventually becoming the owner of the merchandise and are seldom interested in renting the product for a short period."

"Rent-to-Own is Very Expensive: Purchasing merchandise from a rent-to-own company usually costs two to five times as much as purchasing the merchandise from a department or appliance store. If the difference between the total payments and the fair market value of the product were expressed as an interest rate, the rate would commonly be over 100%, and at times over 300%."

**Wisconsin Department of Financial Institutions Bureau of Consumer Affairs -
Consumer Information Consumer Protection Rent-to-Own.**

http://www.wdfi.org/wca/consumer_credit/credit_guides/rent-to-own.htm

"We recently examined offers at several rent-to-own merchants and found that you easily end up paying two to three times the amount it would cost to buy an item outright from a traditional retailer, with equivalent interest rates of as much as 311 percent. Low-income people, who can least afford the higher costs, are the ones most likely to shop at rent-to-own stores. If you're among them, we advise finding alternatives, even if it means postponing purchases until you can better afford them."

"Avoid rent-to-own, even if it means postponing purchases until you can better afford them."

Consumer Reports, June 2011. Would you pay the equivalent of 311 percent interest to own a big-screen TV? Rent-A-Center and other rent-to-own companies tout hot products with appealing payment plans, but their deals are a costly way to buy appliances, electronics, and furniture.



RIGHT TO OWN

DINING FURNITURE

\$ 10.49
WEEKLY RATE

NUMBER PAYMENTS 78

\$ 45.46 18
MONTHLY PRICE NUMBER OF PAYMENTS

\$ 818.22 \$ 409.11
TOTAL COST CASH PRICE

\$ 409.11
COST OF RENTAL SERVICES

WELTON USA

1988

F243-5

■ 4 CHAIR

■ WOOD FINISH

■ CONTEMPORARY

SERIAL # 1208049021

NEW PREVIOUSLY RENTED



Testimony Presented by Mr. Jeff Lebakken
President, Wisconsin Rental Dealers Association

Before the Senate Committee on Agriculture, Small Business and Tourism, and the Assembly
Committee on Jobs and the Economy

Re: Joint Hearing on AB-759 and SB-637

January 30, 2018

Thank you Chairman Moulton, Chairman Neylon and Committee members for holding this hearing and for the opportunity to provide this testimony. A special thanks to Senator Moulton and Representative Petryk for authoring SB-637 and AB-759.

I am Jeff Lebakken, President of the Wisconsin Rental Dealers Association and owner of Lebakken's Rent to Own stores. We have a family run business with eleven locations scattered across the State of Wisconsin. With me today is my daughter, Victoria Lebakken, who is a Regional Manager at Lebakken's and who will hopefully one day, along with my other daughter Erica Lebakken, who is our Eau Claire Store Manager, own and run the business. I started in this business with my father in 1975 and purchased the business in 2007.

My father instilled in me a sense of commitment to our customers, to treat them with respect and to provide them with a high level of service that is better than what you would expect at any retail store. I have tried to instill those same values in my daughters and employees.

I began advocating for legislation to regulate the rent-to-own industry in 1987 and am hopeful that after 30 years we can finally pass this bill and have it signed into law. Under current law, rent-to-own businesses are regulated under the Wisconsin Consumer Act as a credit sale. Rent-to-own is not a credit sale, it is a hybrid between a lease and a sale and therefore it is necessary for Wisconsin law to reflect this fact like the rest of the country does. Rent-to-own is a relatively new concept and emerged after the Wisconsin Consumer Act was passed into law.

Since 2002 I have been virtually the only rent-to-own business in the state. Most other businesses were forced to close after a settlement was reached between the industry and the Wisconsin Department of Justice. The settlement required the industry to comply with Consumer Act provisions including the disclosure of an annual percentage rate (APR). An APR is impossible to calculate because it does not exist within a leasing transaction. Most of the industry will not conduct business in the state because this requirement leads to a situation ripe for lawsuits and gives an anti-competitive advantage to other retail businesses.

I disclose a relative APR calculation on all of the products that I lease because I have to, and I can tell you that customers do not use it to evaluate whether to rent an item or not. The disclosures required in AB-759 and SB-637 are much more useful to consumers than an APR. The bills before you require disclosure of:

- The cash price of the rental property
- The amount of the rental payments
- The total amount of the payments necessary to acquire ownership of the property, and
- The difference between the cash price and the total amount of the payments

Disclosing this information is much more clear and helpful to a consumer. It tells them exactly how much money they will have to spend without having to try and figure it out using an APR.

I would also like to make both Committees aware of what has happened since most of the rent-to-own businesses left Wisconsin in 2002. As you probably know, the majority of consumers who are serviced by the rent-to-own industry are those who do not qualify for traditional financing. Since these consumers have not had rent-to-own as an option, they have had to turn to a much less desirable alternative.

High-risk credit sales stores have now entered the market to provide the products traditionally leased at rent-to-own stores. When a consumer enters into a purchase agreement at one of these stores they actually take ownership of the product. This means that they are responsible for servicing the product if it breaks and if they cannot make one of their monthly payments, it has a negative impact on their credit report. If they continue to miss payments, it usually results in a repossession action which further damages credit and can lead to additional costs. In many cases this results in a downward spiral for the consumer who will find it harder to climb out of debt and establish a better credit rating so they can qualify for traditional financing.

Compare this to how rent-to-own works and you can see the definite benefit of how my stores work. I retain ownership throughout the lease period of the product and must keep the product in good working condition. If a product breaks and I am required to fix it, the consumer makes no payments during the time it is not in use. If a consumer is unable to make a payment, they can simply return the product at the end of the lease period. All of my leases are for one week or one month. Typically I, or my employees, will find out if there is just a temporary setback for our customer and try to work something out in order to keep the product in their home if they will be able to start making payments again. There is never a hit to anyone's credit report and can actually assist in building a higher credit rating.

I would like to end by letting Committee members know that I have tried extremely hard to build a bridge to groups traditionally opposed to this legislation. I managed to get an initial meeting with the Wisconsin Catholic Conference and the Wisconsin Council of Churches much earlier in this process. I was very heartened by the dialogue we shared at the meeting and thought we had made considerable progress. At the end of the meeting, members from those groups even asked me if I would consider opening a store in Milwaukee because it was desperately needed. However, my attempts to continue the discussion and broaden it to other groups went nowhere. I would like those groups to know that when/if this bill becomes law, I will still be happy to work with them to help them achieve their goals.

Thank you again Chairmen Moulton and Neylon and Committee members. I urge you to pass both bills as soon as you can. I am happy to answer any questions.

**Written Testimony of Peter Skopec
Director, Wisconsin Public Interest Research Group (WISPIRG)**

Public Hearing: Senate Bill 637/Assembly Bill 759 "Regulation of Rental-Purchase Agreements"

Senate Committee on Agriculture, Small Business and Tourism

Assembly Committee on Jobs and the Economy

Wisconsin State Legislature

January 30, 2018

Chairmen Moulton and Neylon, Committee Members:

Thank you for the opportunity to testify on SB637/AB759, relating to the regulation of rent-to-own agreements. I offer the following testimony on behalf of the Wisconsin Public Interest Research Group (WISPIRG) and our thousands of members statewide. WISPIRG is a non-partisan, member-based non-profit organization that advocates for fairness in the marketplace.

SB637/AB759 would exempt rent-to-own (RTO) companies and agreements from the Wisconsin Consumer Act (WCA). WISPIRG opposes this legislation because it would 1.) eliminate crucial protections that create a level playing field between RTO companies and consumers; 2.) encourage national RTO companies with track records of abusive behavior to operate in Wisconsin, with less scrutiny; and 3.) reduce transparency and consumer protections in a high-cost marketplace, where such transparency and safeguards are all the more important.

Reputable, transparent rent-to-own business already can – and do – operate under current law in Wisconsin. We strongly believe they ought to continue to do so under the crucial consumer protections afforded by the Wisconsin Consumer Act.

1. Doing away with a Level Playing Field

Protections under the Wisconsin Consumer Act create a level playing field between rent-to-own companies and consumers. By exempting RTO agreements from the WCA, SB637/AB759 would eliminate crucial protections that give consumers recourse in case of wrongdoing. As outlined in testimony and supporting documentation by Sarah J. Orr of the UW Law School Consumer Law Clinic, among other things, consumers could be exposed to fraud, misleading statements, or other unfair practices, and they may find it more difficult to recoup attorney's fees or take punitive or injunctive legal action against RTO companies that have wronged them and others if SB637/AB759 became law. Weakening consumer protections with regard to debt collection and repossession tactics or misrepresentation would encourage national rent-to-own companies with track records of illegal and questionable behavior related to such practices to take advantage of Wisconsin consumers.

We share Dr. Orr's concerns about the impacts of exempting RTO agreements from the WCA and point to her analysis for further detail.

2. Encouraging Bad Actors to Take Advantage of Low- and Middle-Income Wisconsinites, Military Families

The Wisconsin Consumer Act already allows reputable, transparent rent-to-own companies to operate in Wisconsin. Exempting RTO agreements from the WCA and doing away with the safeguards it provides, as described above, would no doubt encourage potentially predatory actors to do business in our state, with adverse impacts on the largely low- and middle-income consumers as well as on the military servicemembers and their families who frequently use rent-to-own agreements.

The nation's largest RTO company, Rent-A-Center, currently operates none of its 2,400 stores in Wisconsin. Nothing prevents Rent-A-Center from setting up shop in the Badger State and doing business here, fairly and transparently, under our Consumer Act.

Perhaps the Wisconsin Consumer Act just does not suit Rent-A-Center's predatory business model. Rent-A-Center has come under intense scrutiny for its predatory and in some cases illegal practices in recent years, for example:

- The Ohio Attorney General's Office recommends avoiding rent-to-own transactions.¹ Ohio Attorney General Mike DeWine specifically urges consumers to stay away from Rent-A-Center because of the company's practices,² and he has called for stronger regulation of the industry.³
- The Federal Trade Commission (FTC) received 2,779 complaints from consumers about Rent-A-Center between 1/2016 and 6/2017 alone, as reported by the Texas Tribune.⁴ More than 90 percent of these complaints were about aggressive collection and repossession practices, according to an investigation by NerdWallet and Raycom Media.⁵
- In 2010, Rent-A-Center settled a suit with Washington State after being accused of illegally harassing customers with aggressive collection tactics.⁶
- In 2006, Rent-A-Center settled a suit with the State of California after being accused of misrepresenting the true cost of its RTO products, and of using deceptive marketing.⁷

¹ Ohio Attorney General, *On Your Own But Not Alone: Guide to Consumer Protection*, accessed on 1/4/2017 at <http://www.ohioattorneygeneral.gov/Files/Publications-Files/Publications-for-Consumers/On-Your-Own-But-Not-Along-%28PDF%29.aspx>.

² Brad Wolverton, "Kicking in Doors and Crushing Credit: How Rent-A-Center Torments Customers," NerdWallet, 10/26/2017, accessed on 1/4/2017 at <https://www.nerdwallet.com/blog/finance/rent-a-center-complaints-lawsuits/>.

³ Jill Riepenhoff, Megan Luther *et al.*, "Rent-to-own customers face high costs, harassment, few protections," FOX8 WVUE New Orleans, 10/27/2017, accessed on 1/30/2018 at <http://www.fox8live.com/story/36694721/retailer-of-last-resort>.

⁴ Brad Wolverton, "Rent-to-own complaints spur investigation by federal agency," *The Texas Tribune*, 11/9/2017, accessed on 1/4/2017 at <https://www.texastribune.org/2017/11/09/rent-own-complaints-spur-investigation-federal-agency/>.

⁵ Brad Wolverton, "Kicking in doors and crushing credit: How Rent-A-Center torments customers," NerdWallet, 10/26/2017, accessed on 1/4/2017 at <https://www.nerdwallet.com/blog/finance/rent-a-center-complaints-lawsuits/>.

⁶ Office of the Attorney General of Washington State, "Rent-a-Center settles harassment and contract claims," 3/1/2010, accessed on 1/4/2018 at <http://www.atg.wa.gov/news/news-releases/rent-center-settles-harassment-and-contract-claims>.

⁷ State of California Department of Justice, Office of the Attorney General, "Attorney General Lockyer Announces \$7.75 Million-Plus Consumer Protection Settlement with Nation's Largest Rent-to-Own Business," 11/17/2006, accessed on 1/30/2017 at <https://oag.ca.gov/news/press-releases/attorney-general-lockyer-announces-775-million-plus-consumer-protection>.

Furthermore, military personnel and their families – often young families that frequently move and may be financially unstable – are routinely marketed to by the RTO industry. A simple Google Maps search shows that many Rent-A-Center’s stores are located in close proximity to military bases:

- Rent-A-Center has six outlets within a five-mile radius of Fort Bragg, NC.
- Rent-A-Center operates six outlets in Colorado Springs, CO, home of the US Air Force Academy and Peterson Air Force Base.
- Rent-A-Center has two stores within a two-mile radius of Fort Hood, TX.

We are concerned that SB637/AB759 would encourage national RTO companies with track records of abusive behavior, like Rent-A-Center, to prey on Wisconsinites, with insufficient scrutiny and inadequate remedies for harmed consumers.

3. Reducing Transparency and Protections in a High-Cost Marketplace

By no longer requiring disclosure of annual percentage rates (APR) in rent-to-own agreements, and by doing away with crucial consumer protections as described above, SB637/AB759 would render the rental-purchase market less transparent while exposing consumers to greater risk. Interest rate disclosure is critical in helping Wisconsinites make informed decisions before entering into financial contracts – particularly when it comes to high-cost financial products like rent-to-own agreements.

WISPIRG staff conducted a survey of five rent-to-own stores in the Rockford, Illinois area in 2013, comparing prices of merchandise at three Rent-A-Centers and two Aaron’s Rent-to-Own stores to department store prices.⁸ We found that buying products at RTO stores would cost consumers many times the purchase price at major electronics and appliance retailers, or compared to buying these products using a credit card.

Key findings included:

- Purchasing items via rent-to-own at the RTO stores we surveyed cost two to seven times as much as purchasing the same items at major appliance and electronics retailers.
- The RTO stores that we surveyed charged an average effective APR of 221 percent. 100 percent of the RTO stores surveyed, and all of the products surveyed in those stores, charged effective APRs of over 100 percent – that is, over five times prevailing credit card rates of less than 20 percent.
- Purchasing rent-to-own products cost consumers at least twice, and sometimes nearly four times what they would pay by purchasing the same product at another retailer with a slightly above-average cost 18 percent APR credit card.

Doing away with disclosure requirements would make it more difficult for consumers to weigh and compare their options in this high-cost marketplace, while putting Wisconsinites at unnecessary risk from national RTO companies with a track record of skirting lax regulation.

Conclusion

Reputable, transparent and locally owned RTO companies currently operate in Wisconsin, under terms that work both for consumers and lenders thanks to the level playing field created by the WCA. We see

⁸ WISPIRG Foundation, *Rent-to-Own Ripoff: Why Wisconsin Shouldn’t Exempt the Predatory Rent-to-own Industry from Consumer Protection Laws*, March 2013.

no reason to encourage predatory lenders to expand to our state by doing away with the crucial protections granted to RTO customers under the Consumer Act.

We urge you to reject SB637/AB759.

Thank you for your attention to this important issue, and for the opportunity to provide testimony today.



January 30, 2018

TO: Members of the Senate Committee Agriculture, Small Business and Tourism

RE: WBA Support for Senate Bill 727

Chairman Moulton and Members,

The Wisconsin Bankers Association, the state's largest financial industry trade association which represents nearly 240 commercial banks and savings institutions, their nearly 2,300 branch offices and 23,000 employees, strongly supports Senate Bill 727 to allow communities, such as Superior, to establish an Exposition District to facilitate large-scale developments.

In the case of Superior, this is critical to improving the area's future from a quality and workforce development standpoint. The Superior Exposition District idea is a perfect tool for creating an effective public/private partnership environment which will help fund the effort of improving local and state economic conditions.

Superior has lost approximately 16 percent of its population between 1960 and 2010. This tool will turn that trend around and help the Superior area attract new business and visitors which in turn increases the tax base boosting the local and state economy. It will create jobs and reduce unemployment. All of which is needed to return economic vibrancy to the area.

The BetterCity Superior organization downtown plan and Exposition District component has wide support. They have 20 unanimous resolutions of support from their local units of government and business and labor organizations. They also ran a successful advisory referendum last November capturing 75.5% of an 82% voter turnout clearly evidence of bi-partisan citizen support.

Six market feasibility studies have been conducted in the area. Similar communities and their redevelopment projects have been analyzed and eight project strategies have been developed. This area is poised to actively pursue improving their businesses, communities, and local economies. Modifying the existing Exposition District legislation to allow smaller communities, such as Superior, to establish an Exposition District to facilitate large-scale developments is exactly the tool they need to get started.

If you have any questions or need additional information, please don't hesitate to contact me at jturke@wisbank.com or 608-441-1215.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Turke", written over a horizontal line.

Jon Turke
Director-Government Relations



To: Members of the Assembly Committee on Jobs and the Economy
Members of the Senate Committee on Agriculture, Small Business and Tourism

From: Sarah Orr, University of Wisconsin Law School Consumer Law Litigation Clinic

Re: 2017 AB 759, relating to regulation of rental-purchase agreements and granting rule-making authority.

Date: January 30, 2018

I have been the Director of the U.W. Law School's Consumer Law Litigation Clinic for almost ten years. The Clinic educates future lawyers and advocates for Wisconsin consumers in the courts and in the legislature. Every day we assist people across the state with consumer protection issues such as unfair debt collection practices, predatory loans and fraud. Most of our clients work but struggle to make ends meet for themselves and their families.

Thank you for the opportunity to testify about Assembly Bill 759. We oppose the bill because it exempts rental-purchase agreements from the Wisconsin Consumer Act, which provides vital protections to consumers.

The Wisconsin Consumer Act generally governs consumer transactions involving amounts under \$25,000.00. It explicitly coordinates with Chapter 100 which forbids deceptive marketing and sales and provides a private right of action for violations of the Wisconsin Department of Agriculture, Trade and Consumer Protection regulations, creating a durable legal framework that ensures a fair marketplace for consumers.

The Wisconsin Consumer Act provides especially important protections in credit transactions. While credit transactions take different forms, their core feature is that the consumer incurs increased costs to pay for goods or services over time. For the consumer, paying lower amounts more frequently increases the risk of missing one or more payments and losing not only the goods but also the money already paid.

Given these special concerns, the Act requires disclosures of interest rates and payment calculations, governs practical aspects of the transaction and prevents deception and abuse of consumers.

Rental-purchase agreements in Wisconsin must comply with the Act because they are considered to be consumer credit sales: the consumer pays in installments or a finance charge (the cost of paying over time) is imposed, the consumer agrees to pay as much or more for use of the goods than their value, and the consumer will become, or for no more or a nominal amount has the option to become, the owner of the goods upon full compliance with the agreement.

This bill not only separates rent-to-own customers from other consumers, setting them adrift to fend for themselves, but also invites more sharks into the water. How?

To start, this bill prevents rent-to-own customers from seeing critical information such as the APR that helps them comparison shop and provides a reality check before they agree to rent-to-own. Rent-to-own customers may have less expensive options to get similar, or better, items. It doesn't make sense to keep information from a specific group of consumers at the same time that we encourage financial literacy in school curriculum.

Also, if the APR disclosure is eliminated, the rent-to-own industry will swarm the state. They will vie for customers with deceptive marketing and employ abusive collection tactics in a race to get to the customers' bank accounts before another company does. Even if consumers don't have other options but to patronize a rent-to-own store, the very last thing they need is more sharks in the water.

These disclosures are critical, but rent-to-own customers will lose other important safeguards if you allow the industry to separate them from other consumers.

Rent-to-own customers will not be protected from a company's false, misleading or deceptive acts or omissions. Companies regularly mislead customers by concealing parts of the paperwork or falsifying data or signatures. In other cases, customers agree to a transaction based on untrue statements or the company's failure to mention critical information. The clinic recently helped a couple who were lied to about the age of the TV they were renting-to-own. In these situations, the Wisconsin Consumer Act's powerful remedies include cancelling the agreement, permitting the consumer to keep the goods, a full refund and payment of the consumer's reasonable attorney fees in any legal action. If these deterrents disappear, rental-purchase companies will be free to deceive their customers without meaningful consequences.

Rent-to-own customers will not be entitled to important information before the transaction is consummated or to warnings about blank spaces or writing on the back sides of papers. They will not know about their right to receive exact copies of any agreement.

Rent-to-own customers could be forced to sign agreements that require them to pay the company's attorney fees or permit the company to attach their earnings for payment.

Rent-to-own customers will lose the right to cancel a transaction when the company solicits them directly and consummates the transaction away from the regular place of business, such as in the customer's home.

Rent-to-own customers will be more susceptible to unfair debt collection practices such as repossession without notice, harassing phone calls and in-person visits to their homes or workplaces. In fact, the bill encourages abusive collection tactics because it authorizes the rental-purchase company is to take immediate possession of the property if the customer does not make payments as scheduled or exercise the early-purchase option.

Rent-to-own customers will not be entitled to a range of remedies and penalties depending upon the violation and may not be able to receive punitive damages in appropriate cases, as the Wisconsin Consumer Act allows. Moreover, they will be able to recover their costs and attorney fees only if a court awards money damages. In contrast, the Act provides for recovery of costs

and reasonable attorney fees if the consumer prevails in prosecution or defense of a legal action, which may not include a monetary award to the consumer.

Finally, unlike consumers in other credit transactions, rent-to-own customers will be wide open to unconscionable practices that take advantage of physical or mental infirmities, illiteracy or inability to understand the language of the transaction or agreement, lack of education or other factors that affect their abilities to protect their own interests.

The Wisconsin Consumer Act continues to be an anchor for all of us. I encourage you to rebuff the rent-to-own industry's campaign to divide and conquer Wisconsin consumers and hold firm to the status quo.

Thank you again for your time today. Please don't hesitate to contact me at sarah.orr@wisc.edu or (608) 890-2454 if you would like to discuss this bill further.