

Rent to buy



Factsheet

August 2011

You've probably seen advertisements in newspapers or on television for 'rent to buy' deals that encourage you to sign up now and have a computer, electrical appliance or other household goods delivered tomorrow.

If you're short on cash, such deals might seem an attractive option.

But it pays to stop and think before shopping this way – you'll usually pay more with this kind of credit arrangement.



Brian ended up with a dud deal

When Brian's fridge broke down, he couldn't afford a new one. So he signed up to a rent to buy scheme, aiming to buy the fridge with monthly rental payments. But Brian signed the contract without reading it properly.



After 18 months of making payments, Brian was told by the company that to buy the fridge he would have to pay an extra \$532 on top of what he'd already paid. All up, Brian paid the value of his second-hand fridge many times over – much more than the price of a new one.

How does rent to buy work?

- ▶ With **rent to buy**, you agree to rent an item (for example, a fridge or television) for a period of time. You make regular rental payments, for example, every month over 3 years.
- ▶ You are not hiring the goods but you are making a **commitment to buy** them. At the end of the rental period, you pay a nominal amount to finalise the purchase.
- ▶ While the store may promote this as a more affordable option than buying an item outright, chances are you'll end up **paying more**. For example, your total rental payments almost always add up to more than the cash price of the item – sometimes a lot more. You may also have to pay fees and charges on top of this. It can easily become more expensive than buying the goods outright with other forms of credit, including no-interest loans (for details, see 'Six steps to smarter borrowing' on pages 3–4).



TIP Watch out for these hidden traps

Check your ownership

- ▶ With a rent to buy contract you own the goods from the beginning of the contract. You also owe a debt to the supplier of the goods (the credit provider) who will take a bill of sale or mortgage over the goods you have purchased.
- ▶ There are different types of contracts with differing terms so check with the supplier to find out if you have the right or obligation to purchase. Don't rely on the salesperson's explanation, check the **written contract**.

You are responsible if the item is damaged or stolen

- ▶ Even if an item is damaged, stolen or destroyed, you still have to keep making the payments, as set out in your agreement.
- ▶ So you need to think about taking out **insurance** to cover the replacement cost of the item. Sometimes this is a condition of signing the agreement.

Terms and conditions can be complicated

- ▶ If you do decide to go ahead with a rental agreement, make sure you know exactly what you're getting into. For example, you may be charged **account-keeping fees** as well as penalties if you miss repayments, break the agreement or pay it off early.
- ▶ Make sure you check all the **terms and conditions** before you sign anything. Often the penalty for breaking an agreement is that you still have to repay an amount equal to the rental payments for the full term of the agreement, even though you have given back the goods you were renting.

Renting may not be the best way to buy something

- ▶ Beware of impulse buys and watch out for high-pressure salespeople. Take the time to explore all your purchasing options first. You may be better off waiting a while and saving up for the item.
- ▶ Consider **lay-by**. This option may not be widely promoted, but is usually available if you ask for it. With lay-by, you pay off your purchase in instalments, with no extra fees or charges. Of course, you have to wait until you've paid it off in full before taking your purchase home, but you will save a lot of money in fees and avoid getting hit with hefty interest charges.
- ▶ If you still want to go ahead with renting, **shop around** for the best price on the goods and the best terms on the rental agreement.



Six steps to smarter borrowing

Step 1.

Work out if you can afford to borrow

- ▶ Before you decide to take up a rent to buy option, use our **budget planner** at moneysmart.gov.au. This will help you see exactly where you spend your money and how much you can afford in repayments.
- ▶ Think about whether you can save up the money for the item, or put it on **lay-by**. By using lay-by you won't pay interest or fees, so it will cost you less. You may also get a discount if you pay in cash.
- ▶ Alternatively, see if there are other cheaper forms of credit available.
- ▶ If you're on a low income, you may qualify for a loan through the **No Interest Loan Scheme (NILS®)**, which offers small loans for specific purposes, like buying a fridge or washing machine. To find your nearest provider, visit goodshepvic.org.au or call ASIC's Infoline on 1300 300 630.
- ▶ Read our factsheets *Consumer leases* and *No or low-interest loans* at moneysmart.gov.au.

Step 2.

Shop around for the best deal

- ▶ If you decide to go ahead with a rent to buy arrangement, make sure you know exactly what you're getting into. Just as you would shop around for the item itself, shop around to get the best deal on finance.
- ▶ Check the **total amount** you will pay for the item if you rent it – it may turn out to be too expensive.
- ▶ Take time to **compare fees and charges**. Even a small difference in rental or fees can make a big difference to what you have to pay.
- ▶ Research published by the independent consumer group CHOICE can help you find the right product for your needs and budget – see choice.com.au.

Step 3.

Know who and what you're dealing with

- ▶ Ask questions about the **terms and conditions** of the rental agreement so you know what you're getting into. Find out if there are penalties for missed repayments or paying off the contract early.
- ▶ Anyone who wants to engage in credit activities (including brokers) must be licensed with ASIC or be an authorised representative of someone who is licensed. If they aren't, they are operating illegally.
- ▶ There is currently an exemption from licensing for credit assistance provided through some businesses (for example, retail stores and car yards). While the store may be exempt, the actual credit provider must still be licensed. If you are unsure who the credit provider is, ask the person you are dealing with to point out the name in your credit contract.
- ▶ To find out if a credit provider is licensed, visit moneysmart.gov.au or call ASIC's Infoline on 1300 300 630.
- ▶ Anyone engaging in credit activities (for example, by providing credit or assistance to you) must give you either a **credit guide** (with information such as their licence number, fees and details of your right to complain) or a written notice with details of your right to complain about their activities.



Six steps to smarter borrowing

Step 4.

Keep up with your repayments

- ▶ Keep up your repayments, to avoid being hit with penalty fees for missed or late payments.

Step 5.

Get help if you can't pay your debts

- ▶ **Act quickly** if you are having trouble making repayments. It may be difficult to face the problem, but ignoring it will only make things worse.
- ▶ If you can't make the full repayment, pay what you can. Contact your provider without delay.
- ▶ If you are experiencing financial difficulties, you may have the right to apply to a provider for a **hardship variation**. If the provider refuses, you can complain to its independent dispute resolution scheme for a variation on the grounds of hardship (see step 6 below).
- ▶ There are places you can go to seek help – visit moneysmart.gov.au for sample letters and information about support services such as financial counselling and legal assistance, call the National Debt Helpline on 1800 007 007 or call ASIC's Infoline on 1300 300 630.
- ▶ See our factsheet *Can't pay your debts?* at moneysmart.gov.au.

Step 6.

Complain if things go wrong

- ▶ Try to resolve your problem with your credit provider first.
- ▶ If you aren't satisfied, take your complaint to your provider's **independent dispute resolution scheme**, the Australian Financial Complaints Authority (AFCA). Go to afca.org.au or call 1800 931 678.
- ▶ If you think that a credit provider has acted unlawfully or in a misleading way, you can complain to ASIC online at asic.gov.au or call ASIC's Infoline on 1300 300 630.



moneysmart.gov.au

ASIC Infoline: 1300 300 630

Disclaimer

Please note that this is a summary giving you basic information about a particular topic. It does not cover the whole of the relevant law regarding that topic, and it is not a substitute for professional advice.

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