

Lesson Description

Students review the elements of a contract. They discuss the characteristics of rent-to-own contracts and compare the cost of those contracts with the outright purchase of goods.

Concepts

Annual percentage rate (APR)
Contract
Elements of a contract
Rent-to-own contract

Objectives

Students will:

- Define contract.
- Explain the elements of a contract.
- Evaluate the terms and costs of a rent-to-own contract.

Content Standards

National Standards in K-12 Personal Finance

Financial Responsibility and Decision Making: Apply reliable information and systematic decision making to personal financial decisions.

- **Standard 1:** Take responsibility for personal financial decisions
 - Eighth-grade expectation 2: Give examples of the benefits of financial responsibility and the costs of financial irresponsibility.
- **Standard 4:** Make financial decisions by systematically considering alternatives and consequences
 - Eighth-grade expectation 2: Evaluate the results of a financial decision.
 - High school expectation 6: Give examples of how decisions made today can affect future opportunities.
- **Standard 5:** Develop communication strategies for discussing financial issues.
 - High school expectation 3: Give examples of contracts between individuals and between individuals and businesses, and identify each party's basic responsibilities.

Time Required

60 minutes

Materials

- A copy of Handouts 9.1 and 9.2 for each student
- A copy of Handout 9.1—Answer Key for the teacher
- A copy of Handout 9.3 for each student (optional)
- A copy of Handout 9.3—Answer Key for the teacher

Procedures

1. Tell the students that a **contract** is a legally binding exchange or promise or agreement between parties that is enforced by law. Ask the students if they have ever heard of any examples of contracts. (*Professional athletes have contracts with team owners, union workers have contracts with management, and so on.*)
2. List the following on the board: Competent Parties, Consideration and Mutual Agreement. Explain that these are key elements of a contract. Using the information provided below, discuss each of the key elements of a contract.
 - **Competent Parties** – The individuals involved in the contract must be able to understand the conditions of the contract and what they are agreeing to. For example, a drugged or mentally impaired person might not understand the conditions of the contract, and it is unlikely that a court would hold that person to the contract. Generally, minors (usually those under 18) may not enter into a binding contract without parental consent unless it is for the necessities of life, such as food, clothing or for student loan contracts.
 - **Consideration** – If you are one of the parties in a contract, you must give up something in exchange for what the other party is providing to you. This is called “consideration.” Money is the most common form of consideration, but consideration may also be property, making a promise to do or not to do something, or anything of value. Agreeing to perform an illegal act is not consideration, and a contract that includes this would be void.
 - **Mutual Agreement** – This means that each side must be clear as to the essential details, rights and obligations of the contract. This can be done in written or oral form.

3. Ask the students the following questions.
 - What consideration might a professional athlete give a team owner? (*his or her skills or abilities, performance for that team, not signing with any other team*)
 - What consideration might a team owner give a professional athlete? (*salary, length of contract, performance bonuses*)
 - Describe some essential details of a contract you might have with your parents to mow the lawn every two weeks. (*how much you are going to be paid; in addition to cutting the grass, what else must be done to complete the job*)
 - What conditions might make a contract void? (*One of the parties is mentally impaired and does not understand the conditions of the contract, one of the parties is a minor or the contract involves an illegal act.*)
4. Ask the students if they have seen or heard advertisements for rent-to-own stores. (*Answers will vary.*) Ask what types of products these ads usually involve. (*furniture, appliances, televisions and so on*)
5. Tell the students they are going to study a specific type of contract, a **rent-to-own contract**, which is a basic lease contract with an option to purchase. Discuss the following:
 - With this type of contract consumers can get immediate delivery on new furniture, appliances or other items.
 - There is no down payment or credit check.
 - If the consumer keeps the rental item for a minimum amount of time, there is no penalty charged for returning it.
 - Rental stores offer contracts that are technically rental-purchase agreements.
 - These contracts allow people to rent merchandise either by the week or month. The person owns the item after all payments have been made.
 - If a renter misses a payment, the contract requires them to return the item.
 - If this happens, the consumer has nothing to show for the money spent. They have only the benefits of having used the item for a period of time.
6. Explain that if people want to use furniture or appliances for just a few weeks or months, renting may be the right choice. On the other hand, if their goal is to own the item, rental payments can add up to a greater total cost than buying the product outright. Tell the students that about 75 percent of customers return a rental item within the first four months, and fewer than 25 percent of customers actually rent long enough to own the item.

7. Point out that rent-to-own contracts are not written as loans; therefore, annual percentage rates are not disclosed. **Annual percentage rate** (APR) is the percentage cost of credit on an annual basis. (Note: For a more detailed explanation of APR, see Unit C, Lesson 8.) APR may differ from the stated interest rate of a loan because it is the total cost of credit to the consumer in that it includes fees and any other upfront charges in addition to the stated interest rate. Therefore, APR includes the real costs of credit and is intended to make it easier to compare lenders and loan options in order to help the consumer make a better-informed choice.
8. Explain that rent-to-own contracts are popular because they allow consumers with inadequate credit to get immediate use of an expensive good without providing a down payment. In addition, they allow consumers to try something out before buying.
9. Remind the students that the three key elements of a contract are competent parties, consideration and mutual agreement. Discuss the following:
 - How does the competent parties element factor into a rent-to-own contract? *(The individuals involved must understand the conditions of the contract. The store may not initiate a contract with someone who is mentally impaired or a minor.)*
 - What considerations are given by each party in a rent-to-own contract? *(The renter agrees to make payments to the store. The store agrees to provide the good. The renter agrees that the good may be repossessed by the store if the renter fails to make payments. The store agrees that the renter may return the item without penalty after a specified amount of time.)*
 - How is mutual agreement illustrated in a rent-to-own contract? *(Often the store provides a written contract. It is the responsibility of the renter to read the contract carefully in order to understand the terms prior to signing the contract.)*
10. Explain that if consumers are considering the rent-to-own option, it is important to compute the cost of these contracts as compared with the outright purchase of a good before making a decision. Distribute a copy of *Handout 9.1: Rent-to-Own Chart* to each student. Divide the class into groups of three. Have the students fill in the blanks on the chart. Tell the groups that they will be sharing their answers with the class, and ask each group to appoint a spokesperson.
11. Review the answers on the chart by selecting a group spokesperson to provide an answer for each row on the chart until each row has been discussed. (Note: Refer to *Handout 9.1: Rent-to-Own Chart—Answer Key*)
12. Ask the students the following:
 - How is the total cost for the rent-own-contract computed? *(the amount of payment X term or length of time payments are made)*
 - Which column in the chart has the higher total costs? *(rent-to-own stores)*
 - Which column in the chart has the lower total costs? *(retail stores)*

Lesson 9: To Rent-to-Own or not to Rent-to-Own?

- Can rent-to-own contracts be a beneficial way to obtain the use of goods such as furniture, appliances, etc.? *(Yes, if you want an item for a short period of time or you want to try out an item before purchase.)*
- What are the drawbacks to the rent-to-own contract? *(The cost is higher than outright purchase of the item, there may be additional fees attached, financial disclosure laws do not always apply and, even after some payments have been made, you can lose the item if you don't continue to make the rental payments.)*
- Do the differences between the retail price of items and the amount paid when purchasing items from rent-to-own stores seem significant to you? *(Answers will vary.)*
- Point out that the items purchased through rent-to-own contracts cost from 80 percent (car rims and laptop) to 368 percent (Nintendo Wii) more than retail.

Closure

13. Review the key points of the lesson by discussion the following.
 - What is a contract? *(a legally binding exchange of promises or agreements between parties enforceable by law)*
 - What are the key elements of a contract? *(competent parties, consideration and mutual agreement)*
 - What is a rent-to-own contract? *(a basic lease contract with an option to purchase)*
 - Why is purchasing a good with a rent-to-own contract more expensive than buying the item outright? *(Payments are spread out over a period of time—usually 12 months—and additional fees may be attached; RTO stores incur the risk of repossessing the merchandise and repairing or replacing the merchandise.)*
 - What are the disadvantages of such a contract? *(The cost is higher than outright purchase of the item; there may be additional fees attached; financial disclosure laws do not always apply; even after some payments you can lose the item if you don't continue payments; and consumers are often left paying twice as much, if not more, for owning the rented goods than they would have if they had bought them outright.)*

Assessment

14. Distribute *Handout 9.2—Assessment* to the students. Have them read the scenario and answer the questions located below the scenario.

Answers to Handout 9.2 questions

- A. *How much money did Jose save by buying the television using an installment loan?* $(\$1080 - \$558.72 = \$521.28)$

- B. *Do you think Jose made the correct decision? Why? (Yes, he saved money on his purchase. Point out that Jose also gathered information about the payments and recognized that he could lose the television and money if he missed a payment.)*
 - C. *If you were Jose, what would you do with the money you saved? (Answers will vary, but could include purchase another item, deposit the savings into a savings account, purchase a savings bond or pay off another bill.)*
15. As an optional assessment, distribute *Handout 9.3: Figuring Percentages*. Instruct students to follow the instructions and example on the handout in order to complete the chart. Use *Handout 9.3: Figuring Percentages—Answer Key* to check students' work.

Handout 9.1: Rent-to-Own Chart

Item/Description	Rent-to-Own-Payments	Total	Retail Cost	Difference
Hitachi 50" Plasma Television	\$279.99 per month for 12 months		\$1,449.50	\$1,910.38
Nintendo Wii Bundle	per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88		\$799.95
18.3cf Refrigerator	\$139.99 per month for 12 months		\$799.99	
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	
Gibson SG Electric Guitar	\$60.75 per month for 12 months		\$405.00	

Handout 9.1: Rent-to-Own Chart—Answer Key

Item/Description	Rent-to-Own-Payments	Total	Retail Cost	Difference
Hitachi 50" Plasma Television	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38
Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00

Handout 9.2: Assessment

Directions: Read the scenario below and answer the questions that follow.

Jose is trying to decide between using a rent-to-own contract or an installment loan to purchase a new television. Primo Electronics is selling the television he wants for \$500. He can obtain an installment loan that will allow him to finance the television with an interest rate of 21 percent. A rent-to-own store nearby has advertised the same model for \$15 a week. After seeing the rent-to-own store advertisement, Jose went to the rental store to get more information. The assistant manager told Jose that he could own the television in 72 weeks. Jose multiplied $\$15 \times 72$ and got \$1,080.

Jose found out that if he missed one payment at the rent-to-own store, the store would take back the television. He calculated that if he made 50 payments on time, that would be $50 \times \$15$, for a total of \$750. If he missed the next payment, he would lose the television and still be out the \$750.

Jose purchased the television at Primo Electronics. He was able to obtain an installment loan for one year. The interest rate was 21 percent with monthly payments of \$46.56, totaling \$558.72.

A. How much money did Jose save by buying the television using an installment loan?

B. Do you think Jose made the correct decision? Explain your answer.

C. If you were Jose, what would you do with the money you saved?

Handout 9.3: Figuring Percentages

Using the information in the chart below, determine the percentage of the retail cost that the total rent-to-own (RTO) payments are. To determine the percentage, divide the RTO cost by the retail cost. Then, move the decimal two places to the right to change the answer from a decimal to a percentage. Round to the nearest hundredth (two decimal places). Answer the question that follows the table.

Example:

$$\$3,359.88 \div \$1,449.50 = 2.32 \text{ (rounded)} = 232\%$$

If the Hitachi television purchased through RTO cost 100 percent of the retail cost, that would mean that the RTO method cost the same as retail (100%-100% = 0%). In the example above, 232 percent means that the Hitachi television costs 132 percent more if purchased through RTO rather than buying directly at a retail store (232 percent -100 percent = 132 percent).

Item/Description	Rent-to-Own Payments	Total	Retail Cost	Difference	RTO as % of Retail
Hitachi 50" Plasma Television	\$279.99 per month for 12 months	\$3,359.88	\$1,449.50	\$1,910.38	232%
Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95	
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89	
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89	
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00	

What percentage more than retail was the Nintendo Wii Bundle?

Handout 9.3: Figuring Percentages—Answer Key

Using the information in the chart below, determine the percentage of the retail cost that the total rent-to-own (RTO) payments are. To determine the percentage, divide the RTO cost by the retail cost. Then, move the decimal two places to the right to change the answer from a decimal to a percentage. Round to the nearest hundredth (two decimal places). Answer the question that follows the table.

Example:

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Item/Description	Rent-to-Own Payments	Total	Retail Cost	Difference	RTO as % of Retail
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Nintendo Wii Bundle	\$97.50 per month for 12 months	\$1,170.00	\$250.00	\$920.00	468%
22" Chrome Car Rims	\$266.48 per month for 12 months	\$3,197.76	\$1,776.50	\$1,421.26	180%
Intel Pentium Laptop Computer	\$149.99 per month for 12 months	\$1,799.88	\$999.93	\$799.95	180%
18.3cf Refrigerator	\$139.99 per month for 12 months	\$1,679.88	\$799.99	\$879.89	210%
General Electric Free-Standing Smooth Top, Self-Cleaning Range	\$139.99 per month for 12 months	\$1,679.88	\$764.99	\$914.89	220%
Gibson SG Electric Guitar	\$60.75 per month for 12 months	\$729.00	\$405.00	\$324.00	180%

What percentage more than retail was the Nintendo Wii Bundle? *368 percent more (468% - 100% = 368%)*