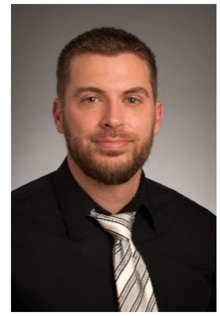
Poverty Delivered: How Rent-to-Own Businesses Make the Poor Poorer



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Abstract

Through stories, interviews, pictures and financial records, I narrate the workings of the rent-to-own company I work for. It capitalizes on the American culture of conspicuous consumption to target the poorest workers, gouge them with usurious contracts, overextend their credit, "trip" them up with fees and ultimately deliver poverty to the poor. Over two years on the job, I developed extensive field notes, performed qualitative interviews with management, analyzed a year's worth of financial data, and therein could bring new details to the intimate process that make the poor poorer. Working there made me realize that basic American household goods not only come with a much higher price tag for the poorest, but that the way we provision these to the poor undermines these communities by extracting wealth into richer areas and leaving poor residents saddled with unmanageable debt. By offering free delivery, free installation, no credit check, and low to no upfront cost, unsustainable payment plans become attractive to those most destitute. In-store sales practices filter for the most vulnerable people, such as management literally telling people to go elsewhere if they can afford to. The owner leverages the status of the corporation to attain cheap credit, brokering goods at much higher rates to target poverty-stricken workers. I found that the profit structure of this business often creates, and is reliant upon, a rent-confiscation cycle that deepens economic inequality.

"Tripping" Up the Poor

My boss sends me to a customer's house attempting to collect on a late payment for a rented bedroom set. When I get there, I find a modest one-bedroom house with an older van parked on a dirt driveway. I knock on the door and hear a little dog barking, but nobody answers. When I get back in my truck, I see a man looking at me through the front window who then quickly closes the drapes. Not answering the door is common when I'm sent on a "trip" to collect a late payment. However, each trip adds $10 to the past due balance so this can get expensive fast.

Most customers don't get past three trips before they break down and answer. And, like clockwork, after three trips this customer finally does. A heavy-set man sitting in a wheelchair with no legs from the knees down, wearing a Vietnam veteran hat and an American flag tank top, answers the door. From the moment the door opens, he immediately begins to apologize for being late. He explains that he's waiting on his next social security check and will make a payment in a few days. I say "no problem, sir. I'll let Dan know" and go back to my truck.

I call my boss Dan, who has been the accounts manager for this rent-to-own furniture store for 16 years, to explain the situation. But he quickly interrupts me and says if I don't get any money from him today, then I must take the set right now. Reluctantly, I go back and tell the customer what Dan had said. In agitation, he admits that the only reason he got the bedroom set was because he had accidently soiled his other one and had no family in town to help.

His tone of voice turns into frustration as he explains how he got a coupon flyer in the mail advertising he could have a "luxury" bedroom set delivered for free, with free installation, for $40 a week, including the first two weeks free—that Dan gave him for being a veteran—which made it seem like a great option. In disheartened contempt, he divulges that he stayed on top of his payments for four-months but got impossibly behind after spending two weeks in the hospital. Once he got behind, with the extra $30 from the three trips, the additional $1 added per day he was late, and the $80 needed to be caught up from the previous two weeks, costs snowballed out of control and he couldn't afford to keep it anymore.

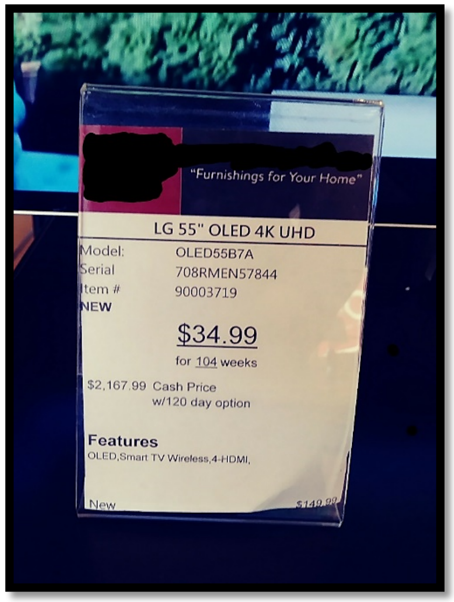
It was at that moment I decided I was not going to take this man's bedroom set, regardless of what Dan told me to do. I realized that this business was extracting this disabled vet's social security with a deceptively attractive but usurious contract, tripping him up at every moment until there was no more money left to squeeze out. After two years on the job, I've witnessed over and over how this company's drive to maximize their bottom line creates a perpetual rent-confiscation cycle in the poorest communities in town. As my stomach turned from this realization, I told the man not to worry and I would talk to Dan for him. I went back to my truck, called Dan, told him that I could not do the repo and was coming back to the store. Dan said "okay, see you soon." When I got back Dan said nothing about that situation and quickly sent me back out on a delivery. When I returned, I asked him what he was going to do with that customer. He told me after I called he sent a different driver to the customer's house and they repossessed the bedroom set. This made me understand the very structure of this business is dependent upon targeting the most vulnerable and making them poorer.

Targeting the Poor

Today, 1 in 3 people in Idaho are either living in poverty or struggle daily to pay their bills (United Way, 2018). And the most financially desperate people in this expanding population are the ones this business specifically targets (Blanchard, N., 2018). The process of targeting the working poor and disadvantaged begins when this business advertises "no upfront cost," "low weekly rates" and "no credit needed" on a large billboard outside. The sign glowingly announces that if you are low on cash, and have bad credit, this is the store for you.

Once inside the store, the company presents highly inflated prices barely masked as low regular payments. For instance, big screen televisions are this company's second best source of rental profits. In April of 2018, they had 148 televisions on rent that totaled $14,845 in monthly rental revenue.

To get an idea of how inflated their prices really are, let's look at one popular TV, the LG 55-inch 4K television.



My work offers it for $34.99 a week, for 104 weeks, before a 6% sales tax. That means, if you were to fulfill this contract by making only the minimum weekly payments, you would spend $3,857.30 (34.99 x 104 = 3,638.96 (.06) = 218.34 + 3,638.96 = X). However, a quick google search at the time of writing this article found the same TV list for $418.99 at Best Buy's online store. After sales tax this would come to $444.13 (418.99 x .06 = 25.14, 25.14 + 418.99 = 444.13). This TV would cost you almost 870% ($3,857.30/444.13 = 8.69) above the retail price if you were to fulfill the rent-to-own contract. In other words, it would be financially irrational for anyone to buy this TV from this store. However, if you don't have the money to buy the TV, but do have the first weekly rental payment, this TV could be in your home today. This targets the poorest customers who can't afford to buy, but can afford to rent, and exacts a heavy cost.

The management of the store also actively filter out any customer with the purchasing power to get these items at retail cost. If a potential customer questions their inflated price, they'll agree with their complaints and tell them to go somewhere else. As Dan candidly explained to me in an interview,

"Sometimes they'll say 'I can go to Wal-Mart and get that for less.' Then I tell them 'if you're going retail you should!' Absolutely, we're an alternative to that, I tell people. If you got the money to buy it, I very much encourage you to. That way I don't get into an argument and I'm really telling them well yeah, we're here if you can't do it."

Often, this is enough to make any potential customer with the ability to buy this TV promptly leave the store. The process of filtering out and targeting those who have very little money, bad credit and who don't question the inflated price, is the bedrock for how this business operates.

Dispossessing the Poor

This kind of interest infused price inflation is not unique to TVs. It is common whether we look at sofa's, bed sets, dining room sets, major appliances, or anything else, making this business very profitable. As Dan boasts, "You figure, we do about 70, 75 thousand revenue a month." Since many customers who enter into these kinds of agreements are low income, however, being indebted for a commodity that is eight times the original price often becomes unsustainable. This greatly reduces the chances that the poorest customers will be able pay off their contract, exacerbated by "trips" and late fees, eventually resulting in repossession. In an in-depth interview with the driver manager, Nick, who has worked for this company for 11 years, I uncovered how common repossession is. I asked him how many customers fulfill a contract, and eventually own the rented property. He revealed, "I would say about 30% to 40%, maybe." Following up, I asked why he thinks that percentage isn't higher. He responded:

> "The reality of it comes up. You know, the reality of, wow, $700 sofa and I'm going to end up paying $3000 for it. Or, they overextend themselves and we don't, we never look at a customer and say, 'Hey,

> you've already got too much. You've listed an income of $2000 and you're putting out $800 in monthly rent. What about your other bills?' Reality catches up with people."

The "reality" of these inflated prices would be overwhelming for anyone, let alone for the poor. This business turns a blind eye as to how these usurious rental prices affect their poorest customers' lives. All customers can "overextend themselves" if they have a job or consistent income. This reduces the company's risk of lending because when customers overextend themselves they are more likely to get the property back, so they can re-rent it. As Nick clearly states, "we never" tell a customer they have too much.

A story Nick disclosed to me graphically illustrates some of the realities of dispossessing the poor:

> "So, we go do a repo, again, we've over extended this family, they only make so much. They can only pay $100 and they owe $300. So, we show up early in the morning. By law we can't be out at somebody's house before 8. But, we were there about a quarter after. We catch this guy, he's out in his garage, hammering down beers. I say 'Hey, Chad, we got to pick up something.' So, out of the TV, the child's bunk bed, and the refrigerator, he had us pick up the refrigerator and the child's bunkbed. But, he kept his large screen TV. And the kid is going, (puts his hand on his head), the kid is literally freaking out. Because what's this kid going to sleep on now? He knows his bed is going. He knows the refrigerator is going. I felt really bad but there is not much I can do about it. That one will stick with me."

For further elaboration, I asked Nick if this was just an isolated incident, he said, "It's not an isolated incident. I mean, I've delivered TVs to places where there is nothing else but the TV. Or, a gaming system. Gaming system and a TV and there is no place to sit, no dining room table, nothing. The kids are sleeping on the floor but got to have that TV. Got that PS4 going on."

By facilitating purchases like these, this company often creates a perpetual rent-confiscation cycle that maximizes the bottom line of the business but increases economic inequality and poverty. However, this begs the question, what causes the most disadvantaged people to continually participate in these rental contracts? Especially for unnecessary luxuries at the expense of first-world necessities?

Conspicuously Consuming the Poor

Since Nick has such a unique and tenured perspective being in and out of customers' homes, I asked him what he thinks is going through a customer's mind when they, for example, give back a bed or refrigerator, and keep a TV? He said, "I think it's what we've become as a society. I'll keep my electronics. But, I'll sleep on the floor. Because, where is everything coming from? Boom, it's coming from that electronics." Today, the average American watches about 270 minutes of television a day (Statistica Portal, 2017), with a growing percentage of that being dedicated to just advertisements trying to persuade us to buy their product (Flint, J., 2014). Advertising inundates us even more if we count the various social media platforms, billboards, posters, displays, magazines, sponsorships, product placements and the like, all trying to convince us that what they're selling is something we need. By some estimates, this equates to an average of ten thousand advertisements a day telling us what we have now isn't good enough, and this new product will solve that problem (Saxon, J., 2017). In 2017 alone, corporations spent almost 200 billion dollars selling us on the virtues of continually buying, an amount of money the poor cannot hope to compete against (Statistica Portal, T., 2018). Additionally, a new advertising tactic that is starting to define the 21st century, is the nefarious secret mining of our personal data so our wants and desires can become targeted more directly without us knowingly giving permission (Government, 2018).

The effectiveness of this ubiquitous saturation of ads, molding the American culture into an addiction of *conspicuous consumption* (Veblen, 1899), is undeniable by the fact that corporate profits are higher today than ever before (Federal Reserve, 2018). As renowned physician and addiction expert, Dr. Gabor Mate explains in his book, *In the Realm of Hungry Ghosts,* "It's safe to say that any pursuit, natural or artificial, that induces a feeling of increased motivation and reward-shopping, driving, sex, eating, TV watching, extreme sports, and so on-will activate the same brain systems as drug addictions" (Mate, 2008, p.225). This addiction to conspicuously shopping is largely influenced by the ideas of a man named Edward Bernays. Bernays is considered "the father of public relations," who also happened to be the nephew of Sigmund Freud (Tye, 1998). He heavily borrowed from psychological understandings at the time attempting to manipulate the public into accelerating their *conspicuous consumption* patterns to fight communism. Bernays felt this was his most important civic duty as an American. He leaves no ambiguity about these intentions in his canonical text *Propaganda,* when he brazenly stated:

> "The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country. We are governed, our minds are molded, our tastes formed, our ideas suggested, largely by men we have never heard of." (Bernays, 1928, p.9)

Bernays laid the foundation for what would later be called "the American Dream." A dream that Noam Chomsky and Norman Herman call a capitalist "propaganda model" centered around increasing corporatized *conspicuous consumption* patterns by idealizing luxury materialism and masquerading it as a need (Chomsky & Herman, 1988). This has created an American culture that prioritizes culturally glorified commodities, whether they can afford them or not (Schor, 1998).

The business I work for preys on the poor by offering them the specious chance to taste the "American Dream" now, by further impoverishing them later. As Nick admits, "as a consumer nation, we don't care if you got the money. Credit card companies don't care if you have the money. Slide that card and get what you want and get it now."

Apparently, going into debt has now become a part of that "American Dream," with 80% of all Americans today having some form of debt (Pew, 2015). Deregulatory policies gradually implemented in the financial sector since the 1970's have enabled this large growth in consumer debt (Antill et al., 2014), which is higher today than it was before the 2008 financial collapse totaling over 13 trillion dollars (Federal Reserve, 2018).

Gaming the Poor

Debt can be a great thing, however, particularly if you're rich. The owner, Ken, who inherited this business from his father does not own any of the products he's renting out. He uses the business to get a low interest loan from a bank to purchase products that he leverages to the most underprivileged with high interest rental contracts. As Dan revealed to me, "They have a small percent loan. Like, a really good interest rate and then they pay on that every month." This allows the owner to increase his profits by not paying the full price of the commodities he's brokering because his customers are paying an inflated price. He makes a lead weight of high interest debt for his customers, so his profits from culturally glorified items he acquired with low interest credit can soar. This creates a rigged game of debt musical chairs, in which the poorest are always first to lose their chair, allowing for the systemic transfer of wealth from the poor to the rich.

Of course, the way the owner schemes to maximize his returns is far more cunning than simply using low interest credit to his advantage. For instance, Nick exposed that, "It is owned by the KNR corporation. The store pays KNR a $5000 a month rent for the building. KNR is Ken and another partner." This reveals how the owner uses his profits from his rental business to pay himself corporate rent on the building its run out of. By doing so, Ken can turn a large portion of his individual "earned" income as a business owner, into "unearned" income from rent by a corporation (Internal, 2018). Which lowers his overall tax obligation, thus increasing his personal profit margin (Haskins, 2018). He does this by using the profits he makes from this business to pay overhead costs to the corporate "front office." As Dan further illuminates, "There is a very big chunk that goes to the front office. Which I think covers their basic expenses, or their salaries." This enables the owner to game the tax code to further enrich himself, giving him greater credit leverage at the bank, so he can further invest in a business designed to impoverish the poor. As Dan succinctly put it, "He's real good with taxes because he's an accountant."

As an accountant, maximizing the bottom line is what the owner is solely focused on, no matter the social consequences. It's easy for him to be removed from the misery this company creates by continually renting and confiscating goods to the poorest in town. Because as Nick points out, "He's not involved in the day-to-day operations of this store." He has the privilege of not experiencing how this business increases economic inequality and poverty structurally due to the unequal advantages built into the financial game being played. If economic inequality and poverty are to be significantly reduced, businesses like this need much stronger financial regulations, or to be simply banned.

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