

Written and Oral Testimony of Roy Richard Soto Before the
COMMITTEE ON FINANCIAL SERVICES
Subcommittee on Financial Institutions and Consumer Protection
Regarding H.R. 1588

July 26, 2011

Madame Chairwoman and members of the subcommittee:

Thank you for inviting me to testify today in support of H.R. 1588. My name is Roy Richard Soto. Our company operates five rental purchase stores in San Antonio, Texas. I have two equal partners in the business, Trinidad Rubio and Brian Clussman. Our business name is Premier Rental Purchase. The partners divide between them the responsibilities for store operations, human resources, payroll, accounting and finance in our company. I am in charge of marketing, advertising, training, and purchasing in the company. Today I am here representing not only myself and my company, but the Association of Progressive Rental Organizations and its 4,000 plus members.

My partners and I have each been in the rent-to-own business for over 20 years. We all started out working for Rent-A-Center, a large publicly-traded RTO company. We learned all aspects of business working for that company. Early on, we knew that we wanted to own and run our own stores. We each had a vision for our own company and a business culture we could create, drawing from all of our experience and knowledge of the business.

In 2001, we came up with a business plan for our own RTO business and began looking for financing in San Antonio to open a store. Over the course of the next four years, we showed our business plan to 12 different banks, explaining our vision and how the RTO business works. All 12 banks listened politely and then turned our loan application down flat.

We were finally able to get an SBA loan as a franchisee in the Premier organization, and we opened our first franchise store in 2005. Today our five Premier stores in San Antonio have collectively 40 employees and an annual payroll of \$1.2 million.

Quickly, let me explain my business to those of you who may not be familiar with rent to own. We rent high end quality TV's, computers, furniture and appliances—the conveniences of modern 21st century life—to consumers on a weekly, biweekly, semi-monthly, or monthly basis. The customer chooses the products he or she wants—perhaps a washer and dryer to avoid carting children and laundry to the laundromat every Saturday. The customer chooses a payment cycle such as weekly or monthly, and how long to rent. A customer is never obligated to make the next payment. The customer never goes into debt. Ours is a no-obligation rental transaction. If the customer completes a set number of the chosen rental terms or exercises the early purchase option, ownership transfers along with any unexpired manufacturer's warranty.

We also provide free delivery and installation of our products, an early purchase option, a 90-days-same-as-cash option, and full service including repair and replacement of the product on the property during the entire rental term. We provide the use of a “loaner” item if we have to pick up the unit and take it back to the store for repairs. Our company also offers “lifetime

reinstatement.” That means that if some unexpected financial emergency arises, customers can simply return the unit to us, then, if their situation changes, in a week, or 6 weeks, or a year, or 6 years, they can come back into the store and pick up the agreement right where it left off. If the customer had paid 8 months on an 18-month rental plan, for example, we will reinstate that plan without the customer losing any of the previous rental payments made toward ownership. We will redeliver the same unit if we still have it; otherwise we will deliver a unit of comparable quality and condition.

RTO is an attractive choice for a wide variety of consumers. Because the customer never goes into debt with us and there is no “credit” in the transaction, we do not run credit checks on our customers before we rent to them. If a customer tells us the truth about who they are, where they live and where they work, we are happy to do business with them without having to delve into their financial histories. Furthermore we do not report our customers to credit reporting agencies. RTO is attractive to young people who are new to the marketplace and may not have an established credit history. The transaction is attractive to the many Americans who have blemished credit. RTO is also attractive to those who want to “try it before they buy it,” and lastly, RTO is attractive to those who want an item immediately and can afford modest payments, but who do not have savings or a lump sum to purchase.

We call it rent-to-own or rental purchase, even though in our company, the percentage of customers who complete their chosen rental term or exercise the early purchase option averages about 35%. Our customers often do not purchase the goods they are renting because their plans change; their tastes change; their needs change, financial emergencies arise; people

move; and because there is no obligation ever to make that next payment, people just change their minds. RTO accommodates all such fluctuations that occur in life. That is the business we are in.

That means we make a lot of deliveries out of our stores to our customers' homes. We also spend a lot of time picking up merchandise when customers choose to end their rental agreements. Then, we have to refurbish that unit, if it comes back in rentable condition (and occasionally it does not), and then find another rental customer and make another delivery. We lower the rental rate on previously rented items. A piece of rental inventory might get rented 3 or 4 times before someone owns it or we have to take disposition steps To remove the product from inventory

Our customers have a lot of choices besides RTO. There is Craigslist on the Internet; there are used furniture stores or even yard sales. There is guidance from *Consumer Reports* which urges consumers to do without until they have saved up enough money to pay cash. That is an alternative and consumers can find all of the same things that we rent through these and other channels, but they would have to pay cash up front or incur fixed-term debt obligation. Moreover, they will not get the product delivered and installed immediately; they will not get free service or a replacement product if the item breaks; and they surely cannot change their minds and give it back if they decide that they do not like it, cannot afford it, or do not really need it after all.

H.R. 1588 is good for my business and is good for my customers. The bill would improve the image of the RTO industry by setting a floor of industry best practices, requiring all of my

RTO competitors to comply with certain disclosures and other consumer protections that are not in place everywhere today.

APRO believes bill would enhance consumer reinstatement rights in over 30 states. In addition, It would require all RTO dealers in states such as Texas where I do business to have clear price tags on their merchandise showing the rental rate—how much per week, per month, or other term,—the rental term—how long before ownership—the cash price and the total price if the item is rented to term. These kinds of price disclosures are not required in all states, and that absence could allow for some confusion until the customer sits down to sign the rental agreement. The Federal Trade Commission thinks this is too late in the transaction for consumers to be getting this information and so do I. Consumers should have this information while they are shopping. H.R. 1588 would require it.

I have a very personal interest in the passage of H.R. 1588. My partners and I would like to grow to 15 or 20 stores, which would increase our employment by another 120 or so employees. I believe that one of the chief impediments to better financing for my company is the lack of certainty regarding the regulatory treatment of my industry. Such certainty of treatment is critical to any industry, including the rent-to-own industry. My industry is supportive of the effort to provide a federal safety net of consumer protections, and it is asking that when this net is established that the Congress provide that the industry's transactions be properly characterized.

By their nature, these transactions are clearly leases, not sales. After all, a consumer can return the item and is under no obligation to pay for the item as the consumer is under a sales transaction. Thus, all the industry is asking is that the transaction be treated for what they are -- leases, not credit sales.

But I want to make one thing perfectly clear. This legislation would NOT preclude a state from adopting what it might consider to be stronger consumer protections than contained in this proposed federal safety net – whichever protection is deemed stronger would prevail. Thus, if a state's laws were considered less stringent than the federal standard in this bill, the federal standard would prevail. However, if the state law were deemed stronger, the state law would prevail. The only requirement on the states would be that whatever protections they might adopt could not mischaracterize the transaction as a sale rather than a lease. A state could in fact outlaw the entire transaction. However, it couldn't mischaracterize the transaction as something which it patently is not, namely a credit sale.

The industry, on the other hand, would gain certainty that its transactions would not be mischaracterized. Whatever states decided to do would be permitted under this bill, but the states would have to do it in the context of properly characterizing the transactions.

If H.R. 1588 were enacted, I believe that we can obtain new, additional financing beyond our SBA loans and at better rates. Then, instead of having 40 employees, we could quickly grow our business to 140 employees. This would help our company, our employees,, their families,

and, we believe, the San Antonio economy. Market demand and the quality of our product and service should determine our growth, not legal uncertainty, litigation, and its adverse consequences for our business.

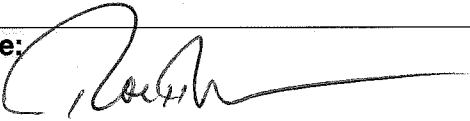
The RTO industry to which I have devoted most of my working life, my investment capital and much of my spare time for the past 20 years, has been working on both federal and state legislation for many years with a view toward modernizing and improving our ability to serve the growing number of consumers who rely on our business. We want to thank Representative Canseco, Representative Clay, Representative Jones and the other 80 legislators who have cosponsored the bill in this Congress.

Thank you for allowing me to appear today in support of this bill. I would be happy to answer your questions.

United States House of Representatives
Committee on Financial Services

“TRUTH IN TESTIMONY” DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: ROY R. SOTO	2. Organization or organizations you are representing: Alro
3. Business Address and telephone number: 	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered “yes” to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets. 	
7. Signature: 	

Please attach a copy of this form to your written testimony.