



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 22, 2012

H.R. 1588 **Consumer Rental Purchase Agreement Act**

As ordered reported by the House Committee on Financial Services on May 31, 2012

ESTIMATED IMPACT ON THE FEDERAL BUDGET

H.R. 1588 would require certain information to be disclosed by a merchant before a consumer finalizes a rent-to-own agreement—a contract that allows a consumer to lease certain property with the option, but not the obligation, to buy the property. The bill would require the Board of Governors of the Federal Reserve System to develop regulations as necessary to carry out the purposes of H.R. 1588. The regulations would stipulate, among other things, information that must be provided to a consumer before completing the transaction and information that must be included in advertisements for rent-to-own contracts. The bill would authorize the Federal Trade Commission (FTC) to enforce the new regulations and would provide for criminal penalties in cases of willful failure to disclose the required information.

Based on information from the FTC, CBO estimates that implementing H.R. 1588 would not significantly increase discretionary costs. The FTC expects that most affected businesses would comply with the new regulations.

Enacting H.R. 1588 would affect revenues and direct spending; therefore, pay-as-you-go procedures apply. Any increase in costs to the Federal Reserve that would result from the bill's provisions requiring the Federal Reserve to develop new regulations would be recorded as changes in revenues. However, CBO expects that any such effects would be negligible.

Because H.R. 1588 would allow for criminal fines to be collected in certain instances, the federal government might collect additional fines if the legislation is enacted. Criminal fines are recorded as revenues, deposited in the Crime Victims Fund, and later spent. CBO expects that any additional revenues and direct spending would not be significant because of the small number of cases likely to be affected.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1588 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt state laws that provide less protection to consumers that enter into rent-to-own agreements than the federal standard. The bill also would impose notification requirements and limitations on state attorneys general. Because the limits on state authority would not require the expenditure of funds and because the notification requirements would result in minimal additional spending, CBO estimates that the costs of the intergovernmental mandates would be small and would not exceed the threshold established in UMRA (\$73 million in 2012, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1588 contains private-sector mandates as defined in UMRA. The bill would require merchants who provide the use of property through a rent-to-own agreement to provide certain disclosures to consumers in those agreements and in advertisements. Under the bill, such merchants also would be required to provide specific information in merchandise labeling and to furnish statements of account to customers upon request. In addition, the bill would prohibit those merchants from charging certain fees related to acquiring ownership through a rent-to-own agreement and from entering the premises of customers to reclaim property without the customer's permission.

According to the Federal Trade Commission, 47 states and the District of Columbia currently have laws that require some type of disclosure and labeling for such merchants. Industry representatives indicate that, because most merchants already comply with similar requirements in state laws, the incremental cost to comply with the mandates in the bill would be small. Therefore, CBO estimates that the direct cost to comply with the mandates in the bill would fall below the annual threshold established in UMRA for private-sector mandates (\$146 million in 2012, adjusted annually for inflation).

STAFF CONTACTS

The CBO staff contacts for this estimate are Susan Willie (for federal costs), Barbara Edwards (for federal revenues), Elizabeth Cove Delisle (for the impact on state and local governments), and Paige Piper/Bach (for the private-sector impact). The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.