CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 6, 2002

H.R. 1701
Consumer Rental Purchase Agreement Act

As ordered reported by the House Committee on the Judiciary on September 5, 2002

SUMMARY

H.R. 1701 would impose several restrictions on "rent-to-own" transactions, wherein a consumer rents an item for a short time and retains the option to buy the item at the end of the rental period. For example, sellers would be required to disclose certain information about the terms of the rent-to-own contract and would be prohibited from assessing most fees for such contracts.

Regulations to implement H.R. 1701 would be developed by the Board of Governors of the Federal Reserve System. Also, the Federal Trade Commission (FTC) would enforce the bill's provisions under the authority provided by the Federal Trade Commission Act, which allows the FTC to punish violations with civil penalties. Finally, H.R. 1701 would create new criminal penalties for merchants who knowingly fail to provide information to rent-to-own consumers as required under the bill.

Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 1701 would cost the FTC about $650,000 a year. Because the bill would create new civil and criminal penalties and would impose costs on the Federal Reserve, we also estimate that the bill would have negligible effects on both direct spending and revenues. Therefore, pay-as-you-go procedures would apply.

H.R. 1701 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that complying with the mandates would result in no costs to state, local, or tribal governments. Therefore, the threshold established by UMRA ($58 million in 2002, adjusted annually for inflation) would not be exceeded.

H.R. 1701 would impose private-sector mandates, as defined by UMRA, but CBO estimates that the direct cost of those mandates would fall below the annual threshold established by UMRA ($115 million in 2002, adjusted annually for inflation).

BASIS OF ESTIMATE

According to the FTC, the agency would need to hire about five new attorneys and investigators to enforce the restrictions that would be imposed by H.R. 1701. CBO estimates that these new hires would cost about $650,000 a year, subject to the availability of appropriated funds.

The regulations to implement this bill would be written by the Federal Reserve. Budgetary effects on the Federal Reserve are recorded in the budget as changes in revenues (governmental receipts). Based on information from the Federal Reserve, CBO estimates that enacting H.R. 1701 would reduce such revenues by less than $500,000 a year.

Because those who violate the provisions of H.R. 1701 could be subject to civil and criminal fines, the federal government might collect additional fines if the bill is enacted. Collections of civil and criminal penalties are classified in the budget as revenues. Based on information from the FTC, however, CBO estimates that any such increase in collections would be less than $500,000 per year.

Collections of criminal fines are deposited in the Crime Victims Fund and spent in subsequent years. Because any increase in direct spending would equal the amount of fines collected (with a lag), the additional direct spending also would be negligible.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Although H.R. 1701 would affect both direct spending and receipts, CBO estimates that the net effects would be insignificant.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1701 would annul state laws that are inconsistent with federal regulations for rental-purchase agreements. Merchants would be held harmless from liability under the state law in question. The bill also would supersede any state law that treats a rental-purchase agreement as a form of consumer credit or a creation of debt, and states would no longer be able to make an independent determination of the nature of the rental-purchase agreement. Such preemptions would be intergovernmental mandates as defined in UMRA. CBO estimates, however, that the preemptions would not affect the budgets of state, local, or tribal governments because they would impose no duty on states that would result in additional spending. Therefore, the threshold established by UMRA ($58 million in 2002, adjusted annually for inflation) would not be exceeded.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1701 would impose private-sector mandates, as defined by UMRA, but CBO estimates that the direct cost of those mandates would fall below the annual threshold established by UMRA ($115 million in 2002, adjusted annually for inflation).

The bill would require merchants who provide the use of property through a rental-purchase agreement to provide certain disclosures to consumers in those agreements and in advertisements. Under the bill, such merchants also would be required to provide merchandise labeling and to furnish statements of account to customers. In addition, the bill would prohibit those merchants from charging certain additional fees and from entering the premises of customers to reclaim property without the customer's permission. Currently, there are 47 states that require some type of disclosure and labeling for such merchants. According to industry representatives, the cost for all such merchants to provide the required disclosures and adhere to the prohibitions in the bill would be small. Therefore, CBO estimates that the direct cost to comply with the mandates would fall below the annual threshold established by UMRA ($115 million in 2002, adjusted annually for inflation).

PREVIOUS CBO ESTIMATE

On July 10, 2002, CBO transmitted a cost estimate for H.R. 1701 as ordered reported by the House Committee on Financial Services on June 27, 2002. The two versions of the bill are nearly identical, and the estimated costs are the same. The two versions of the bill contain the same mandates and the aggregate cost of those mandates fall below the annual thresholds established in UMRA.

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