

# Renting goods



How to make an informed  
decision about your  
consumer lease contract



Government of Western Australia  
Department of Commerce

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## Introduction

This publication provides you, the consumer, with information about consumer leases. It aims to enable you to make informed choices about this complex financial issue.

You will gain an overview of: what a consumer lease is; legal considerations; an understanding of the advantages and disadvantages of consumer leases; alternatives and an example for you to consider; a checklist; and where to go for further information and help.

## What is a consumer lease?

A consumer lease is a contract for the 'hire' or lease of goods from a retailer. It is a form of finance that allows you to pay money for the use of goods over a specific period of time rather than buying them outright.

You make regular repayments for a fixed time and at the end you may be able to buy the item or a similar one for market value or an agreed price (sometimes a nominal amount) when the lease finishes or you may be required to take out a second successive lease before you have an option to buy the item.

Consumer leases differ from other forms of purchasing such as loans or store finance in that **you do not own the goods** when the repayment period ends, the retailer retains ownership. You do not **automatically** have a right or an obligation to purchase the goods at the end of the lease period but you **may** be offered this option.

## What makes up a consumer lease?

According to the *Consumer Credit (Western Australia) Code*, a law which covers consumer lending, the following are all characteristics of a consumer lease:

- The consumer must be an individual or residential strata corporation leasing the goods for mainly personal, household or domestic use rather than a business use.
- The total cost of hiring the goods including any other charges exceeds the cash price of the goods.
- If you pay to hire goods for a specified period over four months, without having the right to buy them, your lease must be in writing and must include:
  - a description of the goods hired under the lease;

- the amount of any deposit or other item of value needed before the goods are hired;
  - the total cost of the rental as well as the amount of each payment;
  - the amount of any stamp duty, other government charge or any fees or charges not included in the normal rental charge;
  - the date of the first repayment;
  - either the date of subsequent payments or the interval between them;
  - the number of payments; and
  - the conditions under which the lease may be terminated and any subsequent liabilities.
- A copy of the lease should be provided to the consumer within 14 days of signing.

The *Consumer Credit (Western Australia) Code* covers leases for goods for personal, domestic or household purposes. Under the Code an agreement that gives you the **right or obliges you** to buy goods at the end of the repayment term isn't in fact a lease. It is a **loan** or a **sale of goods by instalment**. You own the goods and there are laws in place to protect your rights as a consumer.

Lease contracts do not have to comply with the same laws that apply to loans and therefore contain less protection for consumers. They are sometimes promoted to appear similar to loans so that leasing companies can compete with retailers' interest-free finance deals. For instance, the lease contract may invite consumers to make an offer to 'buy' the goods at the end of the contract. In this way leasing companies appear to be offering ownership from the outset, yet avoid the stricter regulations that apply to loans.

### **What is the difference between a consumer lease and an in-store interest-free finance deal?**

- A consumer lease **does not** automatically give you ownership of the goods at the end of the lease contract. Rather, you are paying for the use of the goods.
- An in-store interest-free purchase **does** give you ownership of the goods at the end of the credit contract. Once you have made all the repayments outlined in the contract, within the specified time period, you own the goods and your financial commitment ceases. However, the credit contract may continue if you have also been given a credit card with credit extending beyond the initial purchase. If you use this card for cash advances

the interest rate may be high. If you have not been able to finalise your payments for the purchase of the goods within the interest-free period then the interest rate applied to the balance of the debt may be high. A store or credit card obtained and used in this manner is considered to be a continuing credit contract and may attract additional costs which do not have to be disclosed at the time of the initial goods purchase.

### **What is the cost of an interest-free finance deal?**

The credit provider may recoup the cost of providing credit by charging the retailer a 'merchant service fee' or a 'finance retention fee'. The retailer, in turn, may recoup this cost by charging the consumer a higher cash price for the goods than similar models.

### **What are the similarities between consumer leases and in-store interest-free finance deals?**

Both consumer lease contracts and in-store interest-free deals have lower entry requirements and are therefore often easier to obtain than other forms of credit. As a consequence, they have a particular appeal to consumers who are disadvantaged by a low income, such as senior citizens on a fixed income or people receiving a disability pension and those who do not have an established credit history, such as young people. These consumers may have trouble obtaining credit elsewhere and may not be aware that there are alternatives available (see '[What are the alternatives to a consumer lease?](#)').

Although relatively easy to enter into, both consumer lease contracts and in-store interest-free finance deals may be difficult to exit if you either extend the term of the initial lease, intentionally or otherwise (see '[What happens at the end of the lease period](#)') or take up an offer of additional credit. You may find yourself with more debt than you anticipated and, in the case of a consumer lease, no guarantee of ownership of the goods you acquired.

### **If I enter into a consumer lease, are there any laws to protect my interests?**

The *Consumer Credit (Western Australia) Code* provides you with some protection in terms of consumer leases although some provisions of the Code do not apply. For instance, the Code does not cover consumer leases:

- for a fixed period of four months or less;

- for an indefinite or ongoing period;
- of goods as part of an employee's employment package or benefits, such as novated leases, where an employer agrees to pay a lease as part of a salary package.

Unlike other contracts, a consumer lease agreement involves a finance cost which does not have to be declared by the retailer or credit provider in any form. This finance cost may include hidden costs such as imputed interest (that is, charged interest) and transactional costs which are built into the rental payment and do not have to be ascertainable (that is, explained or identifiable) to the consumer. This may make it difficult to determine the real cost of the goods and to compare different lease agreements or different financing options. For further information about the provisions of the Code, visit [www.creditcode.gov.au](http://www.creditcode.gov.au)

The *Trade Practices Act* and the *Fair Trading Act* set out the ground rules for trading between businesses and consumers. Under these Acts, consumers have a right to accurate and truthful information about their purchases.

### **What are your rights and obligations regarding consumer leases?**

- You have a right not to be misled or deceived about the terms of the contract. You should be given the opportunity to properly review the contract and the terms should be made clear to you.
- You have a right not to be coerced into signing a contract or misled in entering into a contract. For instance, being asked to sign a 'delivery docket' and finding out that it is in fact a contract or being asked to enter a website, and subsequently a contract, by clicking 'I agree'.
- You must be given 30 days written notice if the credit provider intends to repossess the goods. This does not apply if the credit provider reasonably believes that you have disposed of the goods, if you are insolvent and unable to make payments or if a court authorises the repossession of the goods.
- You have a right to end the lease at any time by returning the goods to the credit provider but you still have an obligation to fulfil the termination conditions of the lease. This may mean that you have to make all the repayments and possibly an additional penalty payment even though you no longer have the goods.

It is in your interest to read the lease thoroughly before signing and to make sure you understand it before you commit yourself to a legally binding contract. Do not just rely on the word of the salesperson selling you the goods as they may not fully understand the terms of the contract themselves. In addition, they may be paid a commission so it is in their interest to promote the contract.

For further information about credit contracts and your rights and responsibilities as a consumer, visit the Department of Commerce website at:  
[www.commerce.wa.gov.au/Consumer Protection](http://www.commerce.wa.gov.au/Consumer Protection)

### **What are the advantages of a consumer lease?**

- It allows you to take the goods home straight away without having to pay the full price up front.
- If you only require the goods for a short period of time and do not want the expense of purchasing, then renting may suit you.
- Delivery, installation and servicing are often part of the deal. This can be particularly attractive when leasing larger items such as whitegoods or if you have mobility or transport problems.
- Consumer leases may be an option for those who do not qualify for other forms of credit.
- At the end of the lease you may have a number of options, including upgrading to a newer model with a new lease or of purchasing a similar model.

### **What are the disadvantages of a consumer lease?**

- A lease commits you to a contract which does not have a 'cooling off' period. Once you've signed you will be held liable for all payments as per the terms of the contract.
- It may be difficult to calculate the true cost of the lease as credit providers are only required to advertise the regular lease payment and do not have to disclose the total cost of the lease, the interest rate or the item's cash price.
- It is not purchase by instalments. At the end of the lease period you do not own the goods unless the terms of the contract allow you to make an offer to

purchase the item or a similar one at market value or an agreed price. This is an additional cost on top of the lease payments and fees.

- Defaulting can have severe consequences. If you miss a payment the goods may be taken away, you will still have to make the payments and you may also face a further penalty.
- Renting, and then taking up an offer to purchase, is an expensive way to own goods. Often you will pay 50-100 per cent more than the cash price to purchase it outright.
- You may have to insure the goods yourself.
- You may still have to pay out the lease if the goods are faulty, lost, stolen, damaged or destroyed. Even if the lender pays in these circumstances you may not be covered under an insurance policy (yours or the lender's) if you are in arrears with your payments. If you are covered you may still have to pay an excess.

### What happens at the end of the lease period?

You will not automatically own the goods but you may be offered one or more of the following options, including an option to purchase. You can:

- return the goods at the end of the lease;
- double the time of the lease by paying one additional monthly payment at the end of the contract;
- make an offer to purchase the goods, which may or may not be accepted; or
- update the goods – some leases may allow you to do this before the end of the lease period.

In the case of 'inertia rentals', the lease automatically rolls over into a new lease contract unless **you** give notice to the retailer or credit provider. The onus is on you to be aware of the lease conditions and terminate the lease prior to, or at the end of, the lease period.

### What are the alternatives to a consumer lease?

If you don't really need the goods immediately and have not been able to save up, lay-by is another way to acquire and own goods. Lay-by sales are legally binding contracts between retailers and consumers where the retailer agrees to hold goods for a fixed period, at a

fixed price, until the consumer pays off the balance of the debt. No interest is charged but there is usually a small administrative fee and a penalty if the lay-by is not finalised.

If you do need the goods now but cannot purchase outright and do not want to lease, there are alternatives:

- No interest loan scheme – there is a **no interest** loan scheme available to low income earners and those on government pensions. This can be accessed through the West Australian No Interest Loan Scheme (WANILS) and is administered through various community service agencies. No interest loans can only be used to purchase essential items such as whitegoods, furniture or computers and are paid within a set period of time. See '[Further information](#)' for contact details for WANILS.
- Low interest loan scheme – **low interest** loans, known as Step Up loans, are also available to eligible low income earners and those on government pensions. The loan allows for a slightly higher borrowing than the no interest scheme and is less restrictive. It can be used for car purchases and repairs, home repairs, medical and dental expenses as well as accredited vocational education expenses. This is a variable interest loan financed by a bank with all of the standard conditions of a bank loan. The loan is available through the West Australian Low Interest Loan Scheme (WALILS). See '[Further information](#)' for contact details for WALILS.
- Personal loan from a financial institution – these can be used to make more expensive one off purchases that require payment over a period of time. You own the goods purchased as well as the debt. Interest rates are usually lower than for credit cards and the loan does not extend to other purchases. Other fees may apply.
- Credit card from a financial institution – offers a form of finance that allows you to buy now and pay later (at a cost) and to make a range of purchases or cash advances. You own the goods and the debt which may include annual fees on the card as well as interest.
- Store cards – are credit cards offered by larger retailers and work in the same way as credit cards from a financial institution. You are able to buy now and pay later usually at a higher interest rate than cards offered by financial institutions. You own the goods purchased and also the debt.

- Interest-free deals – are offered by many retailers to purchase goods over a set period of time using finance arranged by the retailer. You take ownership of the goods and will not incur interest charges provided you make the required payments to pay off the debt within the time specified, although there may be account keeping or other fees. If the debt is not paid off within the interest free period because you are only making the minimum payment, or you miss a payment, a high interest rate is applied to the balance of the debt.

Consumer lease agreements are sometimes designed so that lease companies are able to compete with retailers' interest-free deals by allowing consumers to make an offer to buy goods at the end of the lease period. They are still structured as leases and therefore do not have to comply with the same stringent regulations as loans.

Review your financial situation carefully before entering into a consumer lease or an alternative finance option. Consider both the immediate and the long term cost when making your decision.

### **Compare different finance options**

Compare the features and the cost of similar goods closely when purchasing or renting. It is not in the interest of retailers to sell identical goods as consumers are then more easily able to shop around for the best deal.

Choice, the consumer organisation, has an online store credit calculator\* on its website: [www.choice.com.au](http://www.choice.com.au) which allows you to compare the cost of different options.

The following table shows the results of comparing the cost of four different methods of acquiring a medium sized 420 litre frost free refrigerator. The models are not identical but are similar. The first three are purchases and result in ownership of the goods, provided the terms of the respective credit contracts are met, and the last is a consumer lease which gives no guarantee of ownership of the goods at the end of the lease agreement.

\*Extract from 'Buying guide: Store finance deals' online 11/2006 - with the permission of the Australian Consumers Association (ACA).

METHOD OF BUYING OR RENTING	CASH	PERSONAL LOAN	INTEREST-FREE ** CREDIT BY INSTALMENTS	CONSUMER LEASE AGREEMENT
Amount	\$1250	\$1250	\$1250	N/A
Length of loan or lease	N/A	24 months	24 months (if paid back on time and credit not extended)	<b>24 months if lease is not extended</b>
Interest-free period	N/A	N/A	24 months	N/A
Frequency of repayment	N/A	\$59.95 monthly	\$54.40 monthly	<b>\$84.50 monthly</b>
Establishment fee	N/A	\$125	\$25	N/A
Administration or account keeping fee	N/A	\$30 quarterly	\$2.95 monthly	N/A
Interest rate (annual %)	N/A	13.90%	N/A	N/A
Interest rate if paid late (annual %)	N/A	N/A	28.0%	N/A
<b>TOTAL PAYMENTS MADE</b>	<b>\$1250</b>	<b>\$1804</b>	<b>\$1346 *** (if paid back on time)</b>	<b>\$2028</b>

\*\*The interest-free price may be higher than the cash or personal loan price unlike the example given here. This reflects the 'merchant service fee' or 'finance retention fee' which the credit provider charges the retailer.

\*\*\*The total payments assume that the recommended monthly repayment is met rather than just the minimum repayment permitted. An in-store credit card may be offered as part of the deal to extend the credit and encourage further purchases. The interest rate may be higher than average.

### Before taking out a consumer lease, consider the following:

- Think about whether you really need the goods now or whether you could wait until you have either saved enough money to purchase outright or paid off a lay-by.
- Work out whether you would be better off with an alternative form of finance to purchase the goods.
- Shop around for the best deal in terms of price and contract terms and conditions.
- **Read the contract thoroughly** – if you are unsure whether it's a good deal for you, seek legal advice before you sign.

- If the credit provider or retailer does not allow you to take a contract away to read before signing, ask yourself and the credit provider or retailer why.
- Make sure that you understand your rights and obligations.
- Try to negotiate any terms or conditions you are unhappy with **before** you sign the contract.
- Keep copies of promotional material, any particular offers made and the contract itself.
- Once the contract is signed question any changes that are made to its terms and conditions. For instance, a change to the rate of Stamp Duty or GST or an additional tax or government charge levied on the retailer or finance provider may result in an increase in your monthly rental payment.

**Ensure that you know the answers to the following questions:**

- What interest rate will be applied? This may not be disclosed at the outset and it may change during the term of the contract.
- What is the term of the lease? Make sure you know the date of the final payment particularly if your repayments are by direct debit from your bank – check with the bank to ensure that the payments cease when the lease ends.
- What are the repayments and at what intervals?
- What happens if I miss a payment?
- What fees apply?
- What is the total cost of the lease? This does not have to be disclosed in promotional material, you may need to calculate this from the contract itself before signing.
- What penalties apply for early termination? Will I have to pay transportation costs to return goods to the retailer?
- What conditions apply at the end of the lease? Can I make an offer to purchase similar goods for a nominal fee or will I have to pay market value or take out a second lease first?
- What conditions apply for defective goods? Will I be given a replacement and when?

- Whose responsibility is maintenance and what does this entail? What is fair 'wear and tear'?
- Whose responsibility is insurance?

## Resolving disputes with the lender

If you have a dispute with your lender, contact them to see if the problem can be resolved. The Department of Commerce may be able to help if you can't resolve the problem yourself. You can contact the Consumer Protection Advice Line on 1300 30 40 54.

External dispute resolution schemes are free and independent services providing consumers with an alternative to legal proceedings for resolving disputes with participating financial service providers. If you are not successful in resolving the problem with the lender, contact the appropriate external dispute resolution scheme. Put your complaint in writing, provide copies of documentation and know what corrective action you want taken.

The following schemes are approved by the Australian Securities and Investments Commission (ASIC), the government body responsible for consumer protection in financial services:

- The Financial Ombudsman Service consolidates a number of financial services ombudsman and dispute resolution schemes. It deals with disputes between consumers, some small businesses and banking, insurance and investment industry scheme members. The Ombudsman investigates disputes relating to products or services including leasing and hire purchase arrangements.
- The Credit Ombudsman Service Limited operates for the non bank credit industry to resolve credit and credit related disputes between participating financial service providers and their clients. Participants include mortgage and finance brokers, mortgage managers, residential and personal lenders, financial planners and investment advisors.
- The Financial Co-operative Dispute Resolution Scheme covers disputes between retail clients and scheme members.

These schemes can help you resolve disputes through negotiation, conciliation or determination and can make decisions which are binding on participating financial service providers but which you, as a consumer are not bound to accept.

## Checklist for consumer leases

- Have you investigated the alternatives to determine whether entering into a consumer lease is the best way to acquire these goods?
- Do you understand the advantages and disadvantages of choosing a consumer lease for this transaction?
- Have you read, understood and kept a copy of the lease contract?
- Have you kept copies of any other documentation relating to the lease including promotional material?
- Do you understand your rights and obligations?
- Have you calculated the true cost of the lease including the additional payment required to 'purchase' the goods at the end of the lease period if this is an option?
- Do you know what options are available to you at the end of the lease contract?
- Is the lessor a member of an external dispute resolution scheme which may facilitate a resolution if there is a dispute?

## Further information

Australian Competition and Consumer Commission  
[www.accc.gov.au](http://www.accc.gov.au)

Australian Consumers Association  
[www.choice.com.au](http://www.choice.com.au)

Australian Securities and Investments Commission  
**Tel: 1300 300 630 or 131 450**  
(telephone interpreter service)  
[www.asic.gov.au](http://www.asic.gov.au)

Centrelink Financial Information Service  
**Tel: 13 63 57** [www.centrelink.gov.au](http://www.centrelink.gov.au)

Consumer Credit Code  
[www.consumercredit.gov.au](http://www.consumercredit.gov.au)

Federal Interagency Databases Online (FIDO)  
[www.fido.gov.au](http://www.fido.gov.au)

WA No Interest Loans Network Scheme  
**Tel: 1300 365 301**  
[www.wanils.asn.au](http://www.wanils.asn.au)

WA Low Interest Loans Network Scheme  
**Tel: 1300 365 301**  
[www.wanils.asn.au](http://www.wanils.asn.au)

## Who can help?

Department of Commerce  
Consumer Protection Division

**Tel: 1300 30 40 54**

National Relay Service: 13 36 77

(Hearing/Speech Impaired Access)

[www.commerce.wa.gov.au/ConsumerProtection](http://www.commerce.wa.gov.au/ConsumerProtection)

Consumer Credit Legal Service

**Tel: (08) 9221 7066**

[www.cclswa.org.au](http://www.cclswa.org.au)

Credit Ombudsman Service Limited

**Tel: 1800 138 422 or 02 9273 8400**

[www.cosl.com.au](http://www.cosl.com.au)

Financial Counsellors Association of WA

**Tel: (08) 9325 1617**

[www.financialcounsellors.org.au](http://www.financialcounsellors.org.au)

Financial Counsellors Resource Project

**Tel: (08) 9221 9411**

[www.fcrp.org.au](http://www.fcrp.org.au)

Financial Ombudsman Service Limited

**Tel: 1300 78 08 08**

[www.fos.org.au](http://www.fos.org.au)

Legal Aid Western Australia

**Tel: 1300 650 579**

[www.legalaid.wa.gov.au](http://www.legalaid.wa.gov.au)

**Department of Commerce  
Consumer Protection Division**

**Consumer Protection Advice Line  
1300 30 40 54**

(for the cost of a local call statewide)  
8.30-5.00pm weekdays

Forrest Centre  
219 St Georges Terrace  
Perth Western Australia 6000  
Administration: (08) 9282 0777  
Facsimile: (08) 9282 0850  
National Relay Service: 13 36 77

Locked Bag 14 Cloisters Square  
Western Australia 6850

Website: [www.commerce.wa.gov.au](http://www.commerce.wa.gov.au)  
Email: [consumer@commerce.wa.gov.au](mailto:consumer@commerce.wa.gov.au)

Goldfields/Esperance	(08) 9026 3250
Great Southern	(08) 9842 8366
Kimberley	(08) 9169 2811
Mid-West	(08) 9964 5644
North-West	(08) 9185 0900
South-West	(08) 9722 2888