

## **Pawn Industry Talking Points**

### **36% APR Federal Cap Legislation S. 500 & H.R. 1608**

**Licensed, regulated pawnbrokers offer consumer credit secured by possessory security interests in personal goods and provide safety-net loans to approximately 30 million Americans.** Each day, pawnbrokers help families through challenging economic times by providing non-recourse, short-term loans that have no impact on a consumer's credit history. Now more than ever, Americans need access to funds for emergencies and unbudgeted expenses. Millions of Americans have become, unbanked, under-banked, or have a strained banking relationship.

**Pawn customers appreciate this unique form of credit and tend to borrow only what they need, as evidenced by the relatively low national average loan amount of \$80.** Furthermore, pawn customers repay their loans and redeem their collateral at a correspondingly high average national redemption rate of 80 percent. These parameters appear to be holding constant, despite the current downturn in the economy.

**The pawn industry is a heavily regulated provider of consumer financial services.** In addition to state licensure requirements and laws concerning the terms and conditions of pawn loans, pawnbrokers are subject to 13 federal laws. These federal, state, and, in some instances, local laws govern every aspect of pawn transactions including interest rates, loan duration, redemption methods, record-keeping and transaction reporting requirements.

**As the policy debate on enacting federal interest rate cap legislation has escalated, it is important to note that the pawn industry has not been a focus of concern.** However, recent federal legislative efforts have a one-size-fits-all approach. The application of a 36 % APR federal rate cap to pawn transactions would virtually eliminate a longstanding source of consumer credit. As recently as 2007 under the Talent Amendment, the Department of Defense studied the pawn industry and determined that the presence of pawn had no negative impact on troop readiness and the pawn industry was granted an exemption.

**It is quite evident that no other financial services would ever be able to fill the void left by the disappearance of the pawn industry.** Even with the advent of micro-lending operations that are only available to selected class members, the obligation to repay the loan remains. In addition, late or missed payment fees and a negative credit score can be incurred. While these loans are offered at lower APR's, a substantial loan processing fee is required on the front end of the loan. Pawn loans typically range from 30-90 days and involve substantial operational expense in terms of appraisal of collateral values, storage, insurance, and security infrastructure. The application of a 36% APR would be devastating in more ways than one. It would mean the loss of tens of thousands of employee jobs, corresponding license and tax revenue losses for state and local governments, and, most importantly, the loss of a convenient, trusted, and

vital credit option for consumers. There are no alternative licensed, taxed, and regulated consumer credit providers who can, or want, to make an \$80.00 non-recourse collateral loan.

**State Legislators and Regulators have been charged with the responsibility to regulate reasonable fees and rates for the pawn industry.** Since demographics differ from State to State, it has always been the responsibility of State regulators to determine reasonable charges that provide for a reasonable return while protecting constituents from usurious and predatory rates. If all financial institutions were required to reflect overdraft fees, missed payment fees, returned item fees, and service fees as an APR in relation to the amount financed, pawn rates would then appear to be very reasonable in comparison.

**America is witnessing one of the most challenging economic times in years and pawnbrokers should be allowed to continue providing a crucial financial lifeline for its citizens.**