

# De-Risking of Main Street Pawnbrokers Hurts Local Communities

With so much attention on banks and deposit insurance lately, it is easy to lose sight of the fact most Main Street businesses need access to banking services. This need certainly applies to pawnbrokers, most of which are small businesses, that operate as essential pillars in their local communities.

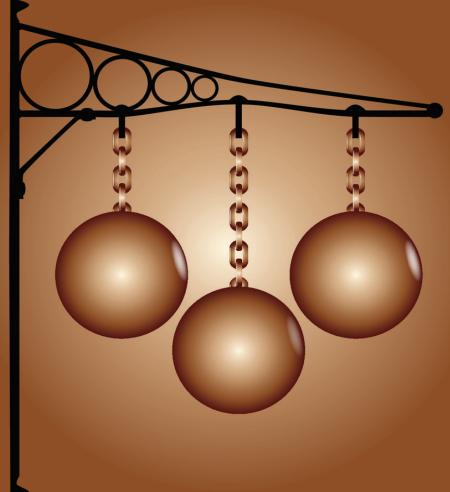
Over the past 15 years, pawnbrokers have lost banking relationships, many long-term, for reasons that often have nothing to do with how the business is operated. Pawnbrokers have had their banking privileges “discontinued” or terminated, with very little advance notice, or explanation. While the termination of a banking relationship may be for legitimate reasons such as failure to manage a deposit account properly, the pawn businesses that have reported losing these banking relationships have not had these issues.

More often, affected pawnbrokers believe these terminations relate to decisions made by bank executives with little or no knowledge of the specific customer. **This is known as “de-risking”:** Terminating relationships of wholesale categories of businesses without regard to risk assessments pertaining to individual businesses or their handling of accounts. De-risking, spawned by overzealous bank regulators’ campaigns like Operation Choke Point, began in 2013. This caused the loss of banking relationships for many otherwise legal businesses in categories mentioned in a September 2013 regulatory guidance letter to insured banks by the Federal Deposit Insurance Corporation.

*(Pawnbrokers were not on that list. However, many pawnbrokers began to lose banking relationships in the months that followed publication of that guidance letter.)*

A third source of de-risking involving pawnbrokers appears to stem from a fundamental misunderstanding of the pawn business. Pawnbrokers have reported that local bankers, including ones employed by major nationwide and large regional banks, have assumed pawnbrokers to be “money services businesses” or MSBs. Pawnbrokers are not MSBs, according to Treasury’s Financial Crimes Enforcement Network and the Internal Revenue Service’s definition. These definitions use an activity threshold of greater than \$1000 per person per day in one or more transactions. Pawn transactions in the United States average around \$180 to \$200.

Banking an MSB is more expensive for banks because of regulatory requirements. Cash handling, which pawnbrokers need to operate, likely is more expensive than processing electronic debit and credit transfers, or even processing checks. As Congress thinks about the scope of federal deposit insurance and other aspects of the bank regulatory system in the United States, we hope Congress will remember that legal Main Street businesses need banking relationships to serve customers as much as larger and more geographically diverse businesses do.



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