

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 411
Finance

(Senator Kramer)

Business Regulations - Pawnbrokers - Interest Rate on Pawn Transactions

This bill limits the interest rates and terms charged on pawn transactions to the small lending requirements under the Maryland Consumer Loan Law (MCLL). The bill does *not* incorporate pawn transactions into MCLL; it establishes parallel, matching requirements for rates and terms.

Fiscal Summary

State Effect: Assuming compliance, the bill does not materially affect State finances or operations.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Under MCLL small lending requirements, which apply to loans of up to \$25,000, except for limited exceptions, a lender may charge interest on a loan at a rate no more than the following amounts:

For any loan with an original principal balance of \$2,000 or less, the maximum interest rate is:

- 2.75% interest *per month* on that part of the unpaid principal balance up to \$500;
- 2.00% interest *per month* on that part of the unpaid principal balance that is more than \$500, up to \$700; and

- 1.25% interest *per month* on that part of the unpaid principal balance that is more than \$700.

For any loan with an original principal balance of more than \$2,000, up to \$3,500, the maximum interest rate is 1.75% interest *per month* on the unpaid principal balance of the loan.

For any loan with an original principal balance of more than \$3,500, up to \$5,000, the maximum interest rate is 1.5% interest *per month* on the unpaid principal balance of the loan.

For any loan with an original principal balance of more than \$5,000, the maximum interest rate is 1.35% interest *per month* on the unpaid principal balance of the loan.

If any principal balance remains unpaid six months after the loan matures as originally scheduled or deferred, the lender may not contract for, charge, or receive interest at a rate of more than 6.0% simple interest annually on the actual unpaid principal balances from time to time.

The maximum term of any loan made under MCLL may be up to:

- for any loan with an original principal balance of \$700 or less, 30 months and 15 days;
- for any loan with an original principal balance of more than \$700 but less than \$2,000, 36 months and 15 days; and
- for any loan with an original principal balance of \$2,000 or more, 72 months and 15 days.

Background: The Office of the Commissioner of Financial Regulation in the Maryland Department of Labor (MDL) advises that pawn transactions are *not* considered loans for the purposes of MCLL, and, therefore, are not regulated as such. Pawn transactions provide cash up front, in exchange for one or more objects of value as collateral. Once sufficient repayments have been made, an individual may reclaim the object. If the individual chooses not to redeem the collateral, the items are sold to other customers at retail. Generally, pawnbrokers must be licensed by MDL.

Small Business Effect: Pawnbrokers are subject to the same interest and term limits as MCLL under the bill; the effect on any particular pawnbroker depends on the rates currently charged. The Department of Legislative Services notes that 2.75% interest per month is 38.5% annually and 1.35% interest per month is 17.5% annually.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Maryland Department of Labor; Governor's Office of Crime Control and Prevention; Department of State Police; Department of Legislative Services

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